Checklist supplement and illustrative financial statements for investment companies: a financial accounting and reporting practice aid, December 2004 edition

American Institute of Certified Public Accountants. Accounting and Auditing Publications

Maryann Kasica

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CHECKLIST
SUPPLEMENT AND
ILLUSTRATIVE
FINANCIAL STATEMENTS
FOR INVESTMENT
COMPANIES

A Financial Accounting and
Reporting Practice Aid

To be used in conjunction with Checklists and
Illustrative Financial Statements for Corporations

Prepared By
Maryann Kasica, CPA
Technical Manager,
Accounting and Auditing Publications
Checklist Supplement and Illustrative Financial Statements for Investment Companies has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

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1 2 3 4 5 6 7 8 9 0 AAP 0 9 8 7 6 5

FSP Section 12,000

Checklist Supplement and Illustrative Financial Statements for Investment Companies

.01 The checklist and illustrative financial statements included in this section have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- These checklists include disclosures commonly encountered in investment company financial statements; they do not include all disclosures required by GAAP or by SEC regulation. Further, the illustrative financial statements are intended to provide sample financial statement formats and disclosures for a hypothetical investment company; they are not intended to illustrate all disclosures required by GAAP or by SEC regulation, nor do they illustrate all of the disclosures covered in the checklist.

- The checklist and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.

The checklist and illustrative financial statements are to be used in conjunction with the “Checklists and Illustrative Financial Statements for Corporations” (FSP sections 6000-6500). The checklists have been updated to include relevant accounting pronouncements through:

  - FASB Statement No. 123 (revised 2004), Share-Based Payment
- FASB Interpretation (FASBI) No. 46, Consolidation of Variable Interest Entities (revised December 2003)
- FASB Emerging Issues Task Force (EITF) consensuses adopted through the November 2004 EITF meeting
- FASB Staff Positions (FSP) issued through December 31, 2004
- AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions
- AICPA Practice Bulletin (PB) No. 15, Accounting by the Issuer of Surplus Notes
- AICPA Audit and Accounting Guide Investment Companies (with conforming changes as of May 1, 2004)
- Public Company Accounting Oversight Board (PCAOB) through Auditing Standard No. 3, Audit Documentation (and Amendment to Interim Standards)

The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
• The checklist and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles, generally accepted auditing standards, and statements on standards for accounting and review services.

.02 Users of the checklist and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline at 1-888-777-7077 (AICPA members only).

Note: This publication was extracted from sections 12,000 through 12,400 of the AICPA Financial Statement Preparation Manual (FSP).
FSP Section 12,100

Introduction

.01 Investment companies generally are companies that pool shareholders' funds and invest the proceeds for the benefits of shareholders under the supervision of professional investment management. The investments are generally in securities that are intended to meet the investment objectives of the entity. The entity distributes the net income and realized net gains to its shareholders.

.02 The industry is subject to extensive governmental regulation by the Securities and Exchange Commission ("SEC"). The industry is also the subject of special tax treatment. The investment company industry usually is categorized by the type of security or the investment objective.

.03 There are many types of investment companies: management investment companies, unit investment trusts, collective trust funds, investment partnerships, certain separate accounts of life insurance companies, and offshore funds. Management investment companies are further divided into many subclassifications, the most predominant of which is open-end funds, also called mutual funds. There are also closed-end funds and Small Business Investment Companies (SBICs) among others.

.04 The checklist has been designed primarily for auditors of mutual funds and closed-end investment companies that register with the SEC under the Investment Company Act of 1940. However, the checklist would generally apply to all types of investment companies.

.05 Investment companies covered by the checklist are required to report their investment assets at fair value and have the following attributes (not applicable to real estate investment trusts):

a. Investment activity. The primary business activity involves investing its assets, usually in the securities of other entities not under common management for current income, appreciation, or both.

b. Unit ownership. Ownership in the investment company is represented by units of investments, such as shares of stock or partnership interests to which proportionate shares of net assets can be attributed.

c. Pooling-of-funds. The funds of the owners are pooled to avail owners of professional investment management.

d. Reporting entity. The investment company is the primary reporting entity.

.06 The major accounting and auditing literature and applicable regulations for investment companies include:

a. AICPA Audit and Accounting Guide Investment Companies.

b. SOP 89-2, Reports on Audited Financial Statements of Investment Companies.

c. SOP 93-1, Financial Accounting and Reporting for High-Yield Debt Securities by Investment Companies.


e. SOP 95-2, Financial Reporting by Nonpublic Investment Partnerships, as amended.

f. SOP 95-3, Accounting for Certain Distribution Costs of Investment Companies.

g. SOP 01-1, Amendment to Scope of Statement of Position 95-2, Financial Reporting by Nonpublic Investment Partnerships, to Include Commodity Pools.

i. SOP 03-5, *Financial Highlights of Separate Accounts: An Amendment to the Audit and Accounting Guide Audits of Investment Companies*.

j. Articles 6 and 12 of Regulation S-X of the Securities and Exchange Commission.

k. The Securities Act of 1933.

l. Investment Company Act of 1940.
FSP Section 12,200

Checklists—General

.01 AICPA disclosure checklists have been designed as practice aids to assist accountants in the preparation of financial statements and to assist auditors in their evaluation of the adequacy of disclosures in the financial statements they audit. Authoritative literature does not require the use of checklists, nor does it prescribe their format or content.

.02 This checklist consists of a number of questions or statements that are accompanied by references to the established sources of GAAP in which the disclosure requirements are found. These sources include Statements of Financial Accounting Standards, FASB Interpretations, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Audit and Accounting Guides, AICPA Statements of Position, and EITF consensuses. Checklists are designed to serve as convenient memory aids but should not be used as a substitute for direct reference to authoritative literature.

.03 To use this checklist, simply check "yes," "no," or "not applicable" for each question. If additional information needs to be documented, include separate cross-referenced memoranda.

.04 As you use this checklist, please remember that:

- The exercise of sound professional judgment is of paramount importance in applying the checklist provisions.
- The checklist may require modification based on the engagement circumstances.
- The checklist may not be all-inclusive.
- Users need to modify the checklist for any pronouncements issued subsequent to those mentioned in the checklist.
FSP Section 12,300
Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid and is to be used in conjunction with the "Checklists and Illustrative Financial Statements for Corporations" (FSP sections 6000–6500).

.02 The form and content of the investment companies' financial statements required in SEC filings are governed by Regulation S-X, Articles 6 and 12 that deal specifically with investment companies (SBIC's are covered in Article 5).

.03 Explanation of references:

AAG-INV = AICPA Audit and Accounting Guide Investment Companies (with conforming changes as of May 1, 2004)
Form N-1A = SEC Form N-1A
Reg. S-X = SEC Regulation S-X
SOP = AICPA Statement of Position
FSP = FASB Staff Position

.04 Checklist Questionnaire:

This checklist is organized into the sections listed below. Carefully review the topics listed and consider whether they represent potential disclosure items for the investment company. Place a check mark by the topics or sections considered not applicable; these sections need not be completed.

Place ✓ by Sections Not Applicable

- General
  A. Financial Statements Presented
  B. Reporting Financial Position

- Schedule of Investments

- Statement of Assets and Liabilities
  A. Assets
  B. Liabilities
  C. Net Assets

- Statement of Operations
  A. Income
  B. Expenses
  C. Net Investment Income
  D. Realized and Unrealized Gain or Loss From Investments and Foreign Currency Transactions
  E. Net Realized and Unrealized Gain or Loss From Investments and Foreign Currency
  F. Net Increase or Decrease in Net Assets From Operations

FSP §12,300.04
### General

**A. Financial Statements Presented**

1. For nonregistered investment companies, are the following financial statements presented:
   
   a. A statement of assets and liabilities with a schedule of investments or a statement of net assets, which includes a schedule of investments therein, as of the close of the latest period? [At a minimum, a condensed schedule of investments should be provided for each statement of assets and liabilities.]

   b. A statement of operations for the latest period?

   c. A statement of cash flows for the latest period (if not exempted by SFAS 102, Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale)?

   d. A statement of changes in net assets for the latest period?

   e. Financial highlights for the latest period consisting of:
      
      (1) Per share operating performance, net investment income, and expense ratios and total return for investment companies organized in a manner using unitized net asset value?

      (2) Net investment income and expense ratios and total return for investment companies not using unitized net asset value, or the internal rate of return since inception (IRR) if applicable?

      [AAG-INV, par. 7.01]

2. For registered investment companies, are the following financial statements presented:

   a. A statement of assets and liabilities with a schedule of investments or a statement of net assets, which includes a schedule of investments therein, (a detailed list of investments in securities, options written, securities sold short and other investments) as of the close of the latest period? [A schedule of investments should be provided for each statement of assets and liabilities in conformity with rule 12-12 or 12-12C of Regulation S-X.]

   b. A statement of operations for the latest period?

   c. A statement of cash flows for the latest year (if not exempted by SFAS 102)?

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**FSP §12,300.04**
Financial Statements and Notes Checklist

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<th>Yes</th>
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<td>d. A statement of changes in net assets for the latest two years (for semiannual reports, the most recent semiannual period and preceding fiscal year)?</td>
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<td>e. Financial highlights for the latest five fiscal years¹ (for semiannual reports, the semiannual period and generally the preceding five fiscal years)?</td>
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[AAG-INV, par. 7.01]

3. Are financial statements and related disclosures presented for each series in a series fund (one or more series may be presented in a separate document)?

[AAG-INV, par. 7.03]

4. For public investment companies organized pursuant to master feeder arrangements, as defined by the SEC, are master financial statements with each feeder financial statement provided, pursuant to SEC requirements?

[AAG-INV, par. 7.07]

5. For nonpublic investment companies, are the provisions of SOP 95-2, Financial Reporting by Nonpublic Investment Partnerships, as amended, followed, or are a complete set of master financial statements with each feeder financial statement, in a manner consistent with the requirements for public investment companies, presented?

[AAG-INV, par. 7.07]

B. Reporting Financial Position

1. If a statement of net assets is presented, is the amount of investments in securities of unaffiliated issuers greater than 95 percent of total assets?

[AAG-INV, par. 7.08; Reg. S-X, 6-05]

2. Does the statement of assets and liabilities present a list of assets and liabilities and an amount for net assets equal to the difference between the totals?

[AAG-INV, par. 7.09]

3. Does the statement of net assets include a schedule of investments?

[AAG-INV, par. 7.10]

4. If a statement of net assets is presented, are details of related-party balances and other assets and liabilities presented in the statement of net assets or in the notes to the financial statements?

[AAG-INV, par. 7.10]

5. Are additional disclosures prescribed for a statement of net assets in rule 6.05 of Regulation S-X presented?

[AAG-INV, par. 7.10; Reg. S-X, 6.05]

6. Is the net asset value per share for each class of shares of capital stock outstanding presented?

[AAG-INV, par. 7.10]

¹ Item 8(a) of Form N-1A requires financial highlights be presented for the latest five years in the funds prospectus. Item 4 of Form N-2 requires financial highlights be presented for the latest ten years in the fund’s prospectus. Form N-1A is the registration statement of open-end management investment companies under the Investment Company Act of 1940 and the Securities Act of 1933. Form N-2 is the comparable registration statement for closed-end management investment companies.

[AAG-INV, pars. 1.24 and 7.01]

FSP §12.300.04
Schedule of Investments

Note: See SEC Release No. 33-8393, Shareholder Reports and Quarterly Portfolio Disclosure of Registered Management Investment Companies, for effective date and compliance date information for amendments to Regulation S-X.

1. In the absence of regulatory requirements, does the schedule of investments:
   a. Disclose the name, share or principal amount of:
      (1) Each investment whose fair value constitutes more than one percent of net assets? 
      (2) All investments in any one issuer whose fair values aggregate more than one percent of net assets?
      (3) At a minimum, the fifty largest investments?
   b. Categorize investments by:
      (1) Type?
      (2) Related industry, country, or geographic region of the investment?
   c. Disclose the aggregate other investments, (each of which are not required to be disclosed by Question 1a above) without specifically identifying the issuers of such investments, and categorize as required by Question 1b above—
      (1) The percent of net assets that each such category represents?
      (2) The total value for category in Question 1b(1) and Question 1b(2) above?

2. For public registrants, do disclosures relating to repurchase agreements include:
   a. Parties to the agreement?
   b. Date of the agreement to repurchase?
   c. Interest rate?
   d. Total amount to be received upon repurchase?
   e. Brief description of the nature and terms of collateral?

3. For public registrants that prepare a summary schedule of investments, are fully collateralized repurchase agreements aggregated and treated as a single issue, with a footnote that indicates the range of

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2 Rules 6-03, 6-04, 6-05, 12-12, 12-12A, 12-12B, 12-12C, 12-13, and 12-14 of Regulation S-X apply to registered investment companies. [AAG-INV, par. 7.11]

3 Additionally, as contemplated by the requirement to disclose certain significant estimates in SOP 94-6, Disclosure of Certain Significant Risks and Uncertainties, the use of estimates by directors, general partners, or others in an equivalent capacity to value securities, should be reported in a summarized manner. [AAG-INV, par. 7.11]

4 Rule 12-12 of Regulation S-X requires that each issue shall be listed separately. [AAG-INV, par. 7.12]
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<th>Question</th>
<th>Yes</th>
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<td>dates of the repurchase agreements, the total purchase price of the</td>
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<td>securities, the total amount to be received upon repurchase, the range</td>
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<td>of repurchase dates, and a description of securities subject to the</td>
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<td>repurchase agreements without regard to percentage of net assets or</td>
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| issuer?  
[AAG-INV, par. 7.12; Reg. S-X, 12-12C]                                 |     |    |     |
| 4. For public registrants, are investments in restricted securities,     |     |    |     |
| affiliated companies, securities subject to call options, and when-issued |     |    |     |
| securities disclosed?  
[AAG-INV, par. 7.12]                                                      |     |    |     |
| 5. For public companies, are non-income producing securities identified? |     |    |     |
| [AAG-INV, par. 7.12; Reg. S-X, 12-12 and 12-12C]                         |     |    |     |
| 6. Are securities pledged as collateral identified?  
[AAG-INV, par. 7.12; Reg. S-X, 4-08(b)]                                  |     |    |     |
| 7. Where a detailed list of short-term investments is presented, has    |     |    |     |
| consideration been given to summarizing such investments by issuer,    |     |    |     |
| and disclosing their ranges of interest rates and maturity dates?  
[AAG-INV, par. 7.12]                                                      |     |    |     |
| 8. For public registrants that prepare a summary schedule of            |     |    |     |
| investments, are short term debt instruments of the same issuer         |     |    |     |
| aggregated and treated as a single issue, with disclosure indicating    |     |    |     |
| the range of interest rates and maturity dates?  
[AAG-INV, par. 7.12; Reg. S-X, 12-12C]                                  |     |    |     |

**Note:** In April 2003, the AICPA Auditing Standards Board issued Auditing Interpretation 16 of SAS 58 entitled “Effect on Auditor’s Report of Omission of Schedule of Investments by Investment Partnerships That Are Exempt From Securities and Exchange Commission Registration Under the Investment Company Act of 1940.” According to this Interpretation, if financial statements of an investment partnership that are exempt from SEC registration do not include the required Schedule of Investments disclosures that are listed in AAG-INV, paragraph 7.13, and it is practicable for the auditor to determine them or any portion thereof, the auditor should include the information in his or her report expressing the qualified or adverse opinion.  
[AAG-INV, par. 7.13]

9. Have investment partnerships that are exempt from SEC registration under the Investment Company Act of 1940:
   a. Categorized investments by:
      (1) Type?  
      (2) Country or geographic region?  
      (3) Industry?  
   b. Reported the percent of net assets that each category represents?  

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5 Disclosure of specific information in the notes to the financial statements may also be required by other authoritative pronouncements. For specific requirements concerning disclosures of information relating to restricted securities and affiliated companies, see SEC’s Codification of Financial Reporting Policies, sections 404.03 and 404.04, and rule 12-14 of Regulation S-X.  
[AAG-INV, par. 7.12]
c. Reported the total value and cost for each category in Question 9a(1) and Question 9a(2) above?

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d. Categorized derivatives for which the underlying is not a security by broad category of underlying in place of the categories in Question 9a(2) and Question 9a(3) above?

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e. Disclosed the name, shares or principal amount, value, and type for:

(1) Each investment (including short sales) constituting more than 5 percent of net assets, except for derivative instruments as discussed in Question 9g and Question 9h below?

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(2) All investments in any one issuer aggregating more than 5 percent of net assets, except for derivative instruments as discussed in Question 9g and Question 9h below?

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f. Aggregated other investments (each of which is 5 percent or less of net assets):

(1) Without specifically identifying the issuers?

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(2) Categorize them by (1) type, (2) country or geographic region, and (3) industry?

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g. Disclosed the number of contracts, range of expiration dates, and cumulative appreciation (depreciation) for open futures contracts of a particular underlying, regardless of exchange, delivery location, or delivery date, if cumulative appreciation (depreciation) on the open contracts exceeds 5 percent of net assets?

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h. Disclosed the range of expiration dates and fair value for all other derivatives of a particular underlying, regardless of counterparty, exchange, or delivery date, if fair value exceeds 5 percent of net assets?

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i. Provided the following qualitative description for each investment in another nonregistered investment partnership whose fair value constitutes more than 5 percent of net assets:

(1) The investment objective?

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(2) Restrictions on redemption?

[AAG-INV, par. 7.13, as amended by SOP 03-4, par. 10]

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Note: AAG-INV, paragraph 7.94, provides an illustration of a condensed schedule of investments.

10. If the reporting investment company's proportional share of any investment owned by any individual investee exceeds five percent of the reporting company's net assets at the reporting date, has each such investment been named and categorized as discussed in Question 9 above?

[AAG-INV, par. 7.14]

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11. If information about the investee's portfolio is not available, is that fact disclosed?

[AAG-INV, par. 7.14]

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12. Are credit enhancements shown as a component of the security description in the schedule of investments?

[AAG-INV, par. 7.15]

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FSP §12,300.04
13. Is separate disclosure of credit enhancements provided on the face of the schedule of investments, complying, where applicable, with Rules 6-04.1 and 6-04.3 of Reg. S-X?  
[AAG-INV, par. 7.15]  
[ ] Yes  [ ] No  [ ] N/A

14. Are the terms, conditions and other arrangements relating to credit enhancements disclosed?  
[AAG-INV, par. 7.15]  
[ ] Yes  [ ] No  [ ] N/A

15. For a letter of credit, is the name of the institution issuing the letter of credit disclosed separately?  
[AAG-INV, par. 7.15]  
[ ] Yes  [ ] No  [ ] N/A

16. Are put options provided by an affiliate described as from an affiliate in the schedule of investments, and the name and relationship of the affiliate included in the notes to the financial statements?  
[AAG-INV, par. 7.15]  
[ ] Yes  [ ] No  [ ] N/A

17. Is the aggregate cost of securities for federal income tax purposes disclosed?  
[Reg. S-X, 12-12, Note 8 and 12-12C, Note 11]  
[ ] Yes  [ ] No  [ ] N/A

18. Are additional disclosures made in accordance with Reg. S-X, Rule 12-12 or 12-12C pertaining to gross unrealized appreciation for all securities in which there is an excess of value over tax cost and gross unrealized depreciation for all securities in which there is an excess of tax cost over value, as well as net unrealized appreciation or depreciation (on a tax basis)?  
[AAG-INV, par. 7.80; Reg. S-X, 12-12, Note 8 and 12-12C, Note 11]  
[ ] Yes  [ ] No  [ ] N/A

19. Are additional disclosures made about restricted securities, in accordance with SEC Codification of Financial Reporting Policies, section 404 and Reg. S-X, Rule 12-12 (Note 6) or 12-12C (Note 9)?  
[AAG-INV, par. 7.80; Reg. S-X, 12-12, Note 6 and 12-12C, Note 9]  
[ ] Yes  [ ] No  [ ] N/A

20. If any securities are listed as "Miscellaneous securities" does a footnote briefly explain what the term represents?  
[Reg. S-X, 12-12]  
[ ] Yes  [ ] No  [ ] N/A

21. If any securities are listed as "Miscellaneous securities" or "Other securities" does a footnote briefly explain what the terms represent?  
[Reg. S-X, 12-12C]  
[ ] Yes  [ ] No  [ ] N/A

Statement of Assets and Liabilities

A. Assets

1. Investments in Securities

a. Are investments in securities reported as the first asset?  
[AAG-INV, par. 7.17]  
[ ] Yes  [ ] No  [ ] N/A

b. If considered material, are the circumstances surrounding the substitution of good-faith estimates of fair value for market quotations or pricing service valuations disclosed in the notes to the financial statements?  
[AAG-INV, par. 2.39]  
[ ] Yes  [ ] No  [ ] N/A

FSP §12.300.04
c. Does that disclosure include the circumstances surrounding the use of a blockage factor for an unrestricted investment that has a quoted market price in an active market? [See AAG-INV, footnote 27 to paragraph 2.39.]
   [AAG-INV, par. 2.39]  
   \[Yes \quad No \quad N/A\]
   ___ ___ ___

d. For investments in foreign securities, have liquidity, size, and valuation been considered for disclosure if such factors exist in the markets in which the fund has material investments?  
   [AAG-INV, pars. 2.72 and 2.73]  
   ___ ___ ___

e. Are appropriate disclosures about the method(s) and significant assumptions used to determine the value of investments stated in the notes to the financial statements?  
   [Reg. S-X, 6-03(d); AAG-INV, par. 2.177]  
   ___ ___ ___

f. Are investments in securities of unaffiliated issuers shown on the statement and reflected at value, with aggregate cost shown parenthetically?  
   [Reg. S-X, 6-03(d) and 6-04(1)]  
   ___ ___ ___

g. Are of investments in and advances to affiliates reflected at value, and with aggregate cost shown parenthetically?  
   [Reg. S-X, 6-03(d) and 6-04(2)]  
   ___ ___ ___

h. Are of investments in and advances to affiliates stated separately for:
   (1) Controlled companies?  
   [Reg. S-X, 6-04.2]  
   ___ ___ ___
   (2) Other affiliates?  
   ___ ___ ___

i. Are investments, other than securities, stated separately by major category and at value, with the aggregate cost shown parenthetically?  
   [Reg. S-X, 6-04.3 and 6-03(d)]  
   ___ ___ ___

j. Is an amount for total investments shown on the statement and at value, with the aggregate cost shown parenthetically?  
   [Reg. S-X, 6-04.4 and 6-03(d)]  
   ___ ___ ___

2. Cash  
   a. Are cash on hand and demand deposits included under the general caption "Cash"?  
   ___ ___ ___
   b. Are amounts held in foreign currencies disclosed separately at value, with acquisition cost shown parenthetically?  
   ___ ___ ___
   c. Are time deposits and other funds subject to withdrawal or usage restrictions presented separately from other cash amounts, with disclosure of applicable interest rates and maturity dates?  
   [AAG-INV, par. 7.19]  
   ___ ___ ___

3. Receivables  
   a. Are receivables listed separately for each of the following categories, among others:  
      (1) Dividends and interest?  
      ___ ___ ___  
      (2) Investment securities sold?  
      ___ ___ ___  
      (3) Capital stock sold?  
      ___ ___ ___
Financial Statements and Notes Checklist

(4) Other accounts receivable, such as receivables from related parties, including expense reimbursement receivables from affiliates, and variation margin on open futures contracts?

[AAG-INV, par. 7.20]

(5) Directors and officers?

[Reg. S-X, 6-04.6]

(6) Notes receivable, if the aggregate amount exceeds ten percent of the aggregate amount of the receivables?

[Reg. S-X, 6-04.6]

4. Other Assets

a. Are deferred offering costs, prepaid taxes, and prepaid insurance included under this caption, with amounts not reported separately unless significant?

[AAG-INV, par. 7.21]

b. For public registrants, are amounts held by others in connection with short sales, option contracts, financial futures contracts, and collateral received for securities loaned stated separately?

[AAG-INV, par. 7.21; Reg. S-X, 6-04.7 and 6-04.11]

c. Are prepaid and deferred expenses, pension and other special funds, organization expenses, and other significant items not classified in another asset caption stated separately?

[Reg. S-X, 6-04.8]

5. Total Assets

a. Is the amount of total assets shown on the statement?

[Reg. S-X, 6-04.9]

B. Liabilities

1. Accounts Payable

a. Are accounts payable listed separately for investment securities purchased, capital stock reacquired, dividends or other distributions on capital shares, and other items?

[AAG-INV, par. 7.23; Reg. S-X, 6-04.10]

2. Call or Put Options Written, Futures Contracts Sold, and Securities Sold Short

a. Are call or put options written and securities sold short at the close of the period presented separately, with premiums received on written options and proceeds from short sales disclosed parenthetically?

[AAG-INV, par. 7.24; Reg. S-X, 6-04.10]

b. Is variation margin due to a broker on futures contracts disclosed separately, if significant?

[AAG-INV, par. 7.24]

c. Do details of securities sold short, options written, and futures contracts sold include information about quantities, fair values, and proceeds and are they presented within the schedule of investments?

[AAG-INV, par. 7.24]
AAG-INV, par. 7.24

3. Accrued Liabilities

a. Do accrued liabilities include liabilities for management fees, distribution fees, interest, compensation, taxes, and other expenses incurred in the normal course of operations, with separate disclosure for related-party payables?

AAG-INV, par. 7.25

4. Notes Payable and Other Debt

a. Are notes payable to banks, including bank overdrafts, and to others, and other debt reported separately?

AAG-INV, par. 7.26

b. Is information related to unused lines of credit, conditions of credit agreements, and long-term debt maturities disclosed in the notes to the financial statements?

AAG-INV, par. 7.26

c. Are amounts payable to (1) banks or other financial institutions for borrowings, (2) controlled companies, (3) other affiliates, and (4) others, stated separately, showing for each category amounts payable within one year and amounts payable after one year?

Reg. S-X, 6-04.13a

d. Is disclosure made regarding unused lines of credit for short-term financing and unused commitments for long-term financing arrangements?

Reg. S-X, 6-04.13b

5. Other Liabilities

a. Are amounts due to counterparties for collateral on return of securities loaned, deferred income, and dividends and distributions payable included in other liabilities?

AAG-INV, par. 7.27

b. For funds with a 12b-1 plan, do the financial statements disclose:

   (1) The principle terms of the plan (traditional and enhanced plans)?

   (2) Any plan provisions permitting or requiring payments of excess costs after plan termination (traditional and enhanced plans)?

   (3) The aggregate amount of distribution costs subject to recovery through future payments by the fund pursuant to the plan and future contingent deferred sales load payments by current shareholders (board-contingent and enhanced plans)?

   (4) The methodology used to estimate future contingent deferred sales load payments by current shareholders (enhanced plans)?

Reg. S-X, 6-04.13b

[AAG-INV, par. 8.14]

FSP §12,300.04
c. Are (1) amounts payable for investment advisory, management and service fees, (2) the total amount payable to (a) officers and directors, (b) controlled companies, and (c) other affiliates, excluding any amounts owing to noncontrolled affiliates which arose in the ordinary course of business and which are subject to usual trade terms, stated separately?
[Reg. S-X, 6-04.12]  

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d. Are the value of securities loaned and the nature of any collateral received as security for the loan stated?
[Reg. S-X, 6-04.11]  

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6. Total Liabilities
   a. Is the amount of total liabilities shown on the statement?
   [Reg. S-X, 6-04.14]  

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   b. Are commitments and contingent liabilities disclosed?
   [Reg. S-X, 6-04.15]  

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C. Net Assets

1. Are the following disclosed either on the face of the statement or in the notes:6
   a. Units of capital, including the title and par value of each class of capital shares or other capital units, the number authorized, the number outstanding and the dollar amount?

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   b. Paid-in capital, which includes the net proceeds received on the sale of capital shares less the cost of reacquired shares and return of capital distributions (that is, tax return of capital distributions)?
   [In addition, certain differences between GAAP-basis income or gain amounts and tax-basis amounts distributed from income or gain are reclassified to paid-in capital in the period in which such differences become permanent differences.]

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c. Distributable earnings (accumulated losses), which includes cumulative net investment income or loss, cumulative amounts of gains and losses realized from investment and foreign currency transactions, and net unrealized appreciation or depreciation of investments and foreign currencies, and distributions paid to shareholders other than tax return of capital distributions?
   [AAG-INV, par. 7.30]  

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2. Are the tax-basis components of distributable earnings as of the most recent tax year end: undistributed ordinary income, undistributed long-term capital gains, capital loss carryforwards, and unrealized appreciation (depreciation), disclosed in the notes to the financial statements?
   [AAG-INV, par. 7.30]  

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3. Are explanations provided for the differences between the total of these amounts and distributable earnings (accumulated losses)?
   [AAG-INV, par. 7.30]  

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6 Rules 6-04.16 and 6-04.17 of Regulation S-X require such information to be included on the face of the statement of assets and liabilities, if such statement is presented. In addition, components of distributable earnings are required to be presented separately.
[AAG-INV, par. 7.30]
4. Is net asset value per share disclosed for each class of shares? [AAG-INV, par. 7.32]  
Yes  No  N/A

5. Are any other elements of capital or residual interests appropriate to the capital structure of the reporting entity disclosed? [Reg. S-X, 6-04.18]  
Yes  No  N/A

6. Is the amount of net assets shown? [Reg. S-X, 6-04.19]  
Yes  No  N/A

7. For a registered investment company, consistent with SEC staff announcement published under EITF D-98, *Classification and Measurement of Redeemable Securities*, is preferred stock not included under the caption “Net assets” if the investment company may be required to redeem all or part of the preferred stock upon failure to satisfy statistical coverage requirements imposed by its governing documents or a rating agency? [AAG-INV, par. 7.33]  
Yes  No  N/A

*Note:* Under SFAS 150, financial instruments which are mandatorily redeemable on a fixed date or upon the occurrence of an event certain to occur should be classified initially as liabilities. Contingently redeemable securities, such as those described in AAG-INV, paragraph 7.33, are not within the scope of SFAS 150 unless and until the contingency occurs, at which time the instruments should be reclassified as liabilities. Therefore, with respect to contingently redeemable securities for which the contingency has not occurred, the guidance in AAG-INV, paragraph 7.33 should continue to be followed by registered investment companies. The FASB deferred the effective date of SFAS 150 for mandatorily redeemable financial instruments issued by certain nonpublic entities and for certain mandatorily redeemable noncontrolling financial interests (see FSP 150-3). [AAG-INV, par. 7.34]

8. For closed-end funds, are distributions to preferred stockholders presented as a component of the net increase (decrease) in net assets resulting from investment operations, below net investment income on the statement of operations, the statement of changes in net assets and financial highlights? [AAG-INV, par. 7.33]  
Yes  No  N/A

**Statement of Operations**

**A. Income**

1. Are dividends from affiliates and controlled companies disclosed? [AAG-INV, par. 7.36; Reg. S-X, 6-07.1]  
Yes  No  N/A

2. Is interest earned on securities of affiliates and controlled companies disclosed separately? [AAG-INV, par. 7.37]  
Yes  No  N/A

3. Are individual items in other income, if material, disclosed separately? [AAG-INV, par. 7.38]  
Yes  No  N/A

4. Is fee income from securities loaned and from miscellaneous sources included in other income? [AAG-INV, par. 7.38]  
Yes  No  N/A
5. Are taxes withheld that are not reclaimable on foreign source income deducted from the relevant income item and shown either parenthetically or as a separate contra item in the income section?
   [AAG-INV, par. 2.96]

6. If noncash dividends are included in income, are the bases of recognition and measurement used disclosed?
   [Reg. S-X, 6-07.1]

7. Are income from dividends, interest on securities, and other income that exceeds five percent of total income stated separately?
   [Reg. S-X, 6-07.1]

B. Expenses

1. Are the following expenses reported separately:
   a. Investment advisory (management) fees (or compensation)?
   b. Administration fees payable to an affiliate (if accrued under a separate agreement)?
   c. Shareholder service costs, including fees and expenses for the transfer agent and dividend disbursing agent?
   d. Distribution (12b-1) expenses?
   e. Custodian fees?
   f. Costs of reports to shareholders?
   g. Federal and state income taxes, shown separately after the income category to which they apply, such as investment income and realized or unrealized gains?
   h. Other taxes (foreign withholding taxes deducted from the relevant income item and disclosed parenthetically or shown as a separate contra item in the income section)?
   i. Interest, including interest on debt, bank borrowings, and reverse repurchase agreements?
   j. Dividends on securities sold short?
   k. Professional fees?
   l. Directors' or trustees' fees?
   m. Registration fees and expenses?
   [AAG-INV, par. 7.39]

2. Are amounts paid to affiliates or related parties, (such as advisory fees, administrative fees, distribution fees, brokerage commissions, and sales charges) disclosed?
   [AAG-INV, par. 7.40; Reg. S-X, 6-07.2(e)]

3. Are significant provisions of related-party agreements, including the basis for determining management, advisory, administration, or distribution fees, and other amounts paid to affiliates or related parties, described in a note to the financial statements?
   [AAG-INV, par. 7.40]
4. Are all voluntary and involuntary waivers disclosed on the face of the statement of operations as a reduction of total expenses?  
[AAG-INV, par. 7.41]

5. Are the terms of all voluntary and involuntary waivers disclosed in the notes to the financial statements?  
[AAG-INV, par. 7.41]

6. If a 12b-1 distribution reimbursement plan provides for the carryover of unreimbursed costs to subsequent periods, are the terms of reimbursement and the unreimbursed amount disclosed?  
[AAG-INV, pars. 7.42 and 8.07]

7. If the investment company has a brokerage service arrangement with a broker-dealer or an affiliate of a broker-dealer under which the broker-dealer (or its affiliate), in connection with the investment company's brokerage transactions directed to the broker-dealer, provides or pays for services to the investment company (other than brokerage and research services as those terms are used in section 28(e) of the Securities Exchange Act of 1934):

   a. Does the relevant expense caption on the statement of operations and the expense ratio in the financial highlights include the amount that would have been incurred by the investment company for such services had it paid for the services directly in an arms-length transaction?  
   [AAG-INV, par. 7.43; Reg. S-X, 6-07.2(g)]

   b. Are such amounts also shown as a corresponding reduction in total expenses, captioned as "Fees paid indirectly"?  
   [AAG-INV, par. 7.44]

   c. For registered investment companies, do the notes to the financial statements include the total amounts by which expenses are increased, and list each category that is increased by at least 5 percent of total expenses?  
   [AAG-INV, par. 7.45]

8. Are expense offset arrangements, under which a third party explicitly reduces its fees by a specified or readily ascertainable amount for services provided to the investment company in exchange for use of the investment company's assets, presented in the statement of operations, the expense ratio in the financial highlights, and notes to the financial statements in the same manner as brokerage service arrangements?  
[AAG-INV, par. 7.46]

9. For investment companies organized as limited partnerships that receive advisory services from the general partner (many partnerships pay fees for such services; others allocate net income from the limited partners' capital accounts to the general partner's capital account; others employ a combination of the two methods):

   a. Are the amounts of any such payments or allocations presented in either the statement of operations or the statement of changes in partners' capital in accordance with the partnership agreement?  
   [AAG-INV, par. 7.47]
10. Is the existence of reimbursement agreements and, if material, the carryover of excess expenses potentially reimbursable to the adviser but not recorded as a liability disclosed in the notes to the financial statements?
   [AAG-INV, par. 8.05]

11. Is deferred income tax expense presented separately?
   [AAG-INV, par. 6.08]

12. Is the total amount of investment advisory, management and service fees, and expenses in connection with research, selection, supervision and custody of investments stated separately, with reductions or reimbursements of management or service fees shown as a negative amount or reduction of the total expenses shown under this caption?
   [Reg. S-X, 6-07.2(a)]

13. Are amounts of expenses incurred from transactions with affiliated persons disclosed together with the identity of the related amount applicable to each such person accounting for five percent or more of the total expenses shown together with a description of the nature of the affiliation?
   [Reg. S-X, 6-07.2(a)]

14. Are expenses incurred within the person’s own organization in connection with research, selection, and supervision of investments stated separately?
   [Reg. S-X, 6-07.2(a)]

15. Based on SEC requirements are expenses exceeding five percent of total expenses separately disclosed?
   [AAG-INV, par. 7.39; Reg. S-X, 6-07.2(b)]

16. Is information concerning management and service fees, the rate of the fee, and the base and method of computation disclosed?
   [Reg. S-X, 6-07.2(c)]

17. Are a description and the amount of any fee reductions or reimbursements representing expense limitation agreements or commitments stated separately?
   [Reg. S-X, 6-07.2(c)]

18. Is a description and the amount of any fee reductions or reimbursements representing offsets received from broker-dealers showing separately for each amount received or due from (a) unaffiliated persons, and (b) affiliated persons stated separately?
   [Reg. S-X, 6-07.2(c)]

19. If no management or service fees are incurred, have the reasons therefore been disclosed?
   [Reg. S-X, 6-07.2(c)]

20. If expenses are paid other than in cash, are the details disclosed?
   [Reg. S-X, 6-07.2(d)]

21. Are the net amounts of sales charges deducted from the proceeds of sale of capital shares that were retained by any affiliated principal underwriter or other affiliated broker-dealer disclosed?
   [Reg. S-X, 6-07.2(e)]
22. Is the company's status as "regulated investment company" (as described in the Internal Revenue Code) disclosed, including a description of the principal assumptions on which the company relied in making or not making provisions for income taxes? [Reg. S-X, 6-03(h)]

23. Is the aggregate renumeration paid to the following people disclosed:
   
   a. To all officers?

   b. To directors and members of any advisory board for regular compensation?

   c. To each director and members of any advisory board for special compensation?

   d. To each person of whom an officer or director is an affiliated person? [Form N-1A, Item 22(b)(3)]

24. Is the average dollar amount of borrowings and the average interest rate disclosed in the statement of operations or in the footnotes to the financial statements? [Reg. S-X, 6-07.3]

25. Have appropriate expenses been increased for amounts under brokerage/service arrangements and expense offset arrangements and total expenses reduced by the total amount of such arrangements? [Reg. S-X, 6-07.2(g)]

26. Have required disclosures been made in the notes to the financial statements related to brokerage/service arrangements and expense offset arrangements? [Reg. S-X, 6-07.2(g)]

C. Net Investment Income

1. Is any income tax provision relating to net investment income disclosed separately? [AAG-INV, par. 7.46]

2. Is the excess of investment income over total expenses shown as net investment income (loss)? [AAG-INV, par. 7.46]

D. Realized and Unrealized Gain or Loss From Investments and Foreign Currency Transactions

1. For net realized gain or loss from investments:
   
   a. Are net realized gains or losses disclosed in the statement of operations?

   b. For registered investment companies, are major kinds of investment transactions disclosed as required by rule 6.07.7 of Regulation S-X?
Financial Statements and Notes Checklist

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<td>c. Are net realized gains or losses resulting from sales or other disposals reported net of brokerage commissions?</td>
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<tr>
<td>d. Is the income tax provision charged against realized gains disclosed separately?</td>
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<td>e. Are gains or losses from in-kind redemptions disclosed?</td>
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<td>f. Do the notes to the financial statements state the entity’s practice of either including or excluding that portion of realized and unrealized gains and losses from investments that result from foreign currency changes with or from other foreign currency gains and losses? [AAG-INV, par. 7.47]</td>
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2. For net realized gains or losses from foreign currency transactions:

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<tr>
<td>a. Are net gains or losses from assets or liabilities denominated in foreign currencies during the period reported separately? [AAG-INV, par. 7.48]</td>
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<td>b. Are proceeds from sales and maturities of securities and the cost of securities purchased disclosed (exclusion of short-term securities from this disclosure is permitted, and information about common stocks, bonds, and preferred stocks may be combined or disclosed separately)? [AAG-INV, par. 7.49]</td>
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3. For net increase (decrease) in unrealized appreciation or depreciation on investments:

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<th>Yes</th>
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<tr>
<td>a. Are changes in net unrealized appreciation or depreciation during the period reported in the statement of operations? [AAG-INV, par. 7.50]</td>
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<td>b. Are major components of unrealized appreciation or depreciation on investments disclosed in a manner that is consistent with Question 1 above (the guidance in AAG-INV, paragraph 7.47)? [AAG-INV, par. 7.50]</td>
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<td>c. Is any provision for deferred taxes reported separately? [AAG-INV, par. 7.50]</td>
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<td>d. If a provision for deferred income taxes on unrealized appreciation exists, is it charged against the unrealized gains account and disclosed as such in the statement of operations? [AAG-INV, par. 7.50]</td>
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4. Are net changes during the period from translating assets and liabilities denominated in foreign currencies reported as “Net Increase (Decrease) in Unrealized Appreciation or Depreciation on Translation of Assets and Liabilities in Foreign Currencies”? [AAG-INV, par. 7.51]  

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5. Are payments made by affiliates for the reasons described in AAG-INV, paragraph 7.52, combined and reported as a separate line item entitled “net increase from payments by affiliates and net gains (losses) realized on the disposal of investments in violation of restrictions” in the statement of operations as part of net realized and unrealized gains (losses) from investments and foreign currency? [AAG-INV, par. 7.53]  

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FSP §12,300.04
6. Are amounts and circumstances of payments by affiliates to reimburse the fund for losses on investment transactions described in the notes to the financial statements? [AAG-INV, par. 7.53]  
   Yes  No  N/A

7. Are gains and losses on investments not meeting investment guidelines of the fund also disclosed in the notes to the financial statements?  
   Yes  No  N/A

8. Are the following stated separately:
   a. Net realized gain or loss on transactions in:
      (1) Investment securities of unaffiliated issuers?  
      Yes  No  N/A
      [Reg. S-X, 6-07.7(a)]
      (2) Investment securities of affiliated issuers?  
      Yes  No  N/A
      (3) Investments other than securities?  
      Yes  No  N/A

   b. Gain or loss from expiration or closing of option contracts written?  
      Yes  No  N/A
      [Reg. S-X, 6-07.7(c)]

   c. Gain or loss on closed short positions in securities?  
      Yes  No  N/A
      [Reg. S-X, 6-07.7(c)]

   d. Other realized gain or loss?  
      Yes  No  N/A
      [Reg. S-X, 6-07.7(c)]

   e. Federal income taxes and other income taxes applicable to realized and unrealized gain (loss) on investments, distinguishing taxes payable currently from deferred income taxes?  
      Yes  No  N/A
      [Reg. S-X, 6-07.7(e)]

9. Do the notes to the financial statements disclose the number and associated dollar amounts as to option contracts written:
   a. At the beginning of the period?  
      Yes  No  N/A

   b. During the period?  
      Yes  No  N/A

   c. Expired during the period?  
      Yes  No  N/A

   d. Closed during the period?  
      Yes  No  N/A

   e. Exercised during the period?  
      Yes  No  N/A

   f. Balance at end of the period?  
      Yes  No  N/A
      [Reg. S-X, 6-07.7(c)]

10. Are distributions of realized gains by other investment companies disclosed separately?  
    [Reg. S-X, 6-07.7(b)]  
    Yes  No  N/A

E. Net Realized and Unrealized Gain or Loss From Investments and Foreign Currency

1. Is the sum of the net realized gain or loss and change in unrealized gain or loss on investments and foreign-currency-denominated assets and liabilities presented in the statement of operations as a net gain or loss on investments and foreign currency?  
   Yes  No  N/A
   [AAG-INV, par. 7.55]

F. Net Increase or Decrease in Net Assets From Operations

1. Is the sum of net investment income or loss and net realized and unrealized gain or loss on investments and foreign currency shown as a net increase or decrease in net assets resulting from operations?  
   Yes  No  N/A
   [AAG-INV, par. 7.56]

FSP §12,300.04
Statement of Changes in Net Assets

1. Does the increase or decrease in net assets of a registered investment company comprise the following categories:
   
   a. Operations, with separate presentation of:
      
      (1) Net investment income or loss?
      
      (2) Net realized gains or losses from investments and foreign currency transactions?
      
      (3) Changes in unrealized appreciation or depreciation on investments and translation of assets and liabilities in foreign currencies?
      
   b. Net equalization debits or credits:
      
      (1) If equalization accounting is used, is undistributed investment income included in the price of capital shares issued or reacquired shown as a separate line item?
      
   c. Distributions to shareholders:
      
      (1) Are distributions disclosed as a single line item, except for tax return of capital distributions, which should be disclosed separately?
      
      (2) Are the tax-basis components of dividends paid disclosed in the notes?
      
      (3) Are the primary reasons for any significant difference between total GAAP-basis net investment income and net realized gain and actual distributions disclosed in the notes to the financial statements?
      
      (4) If the investment company distributes, after year end, a portion of undistributed investment income and security gains realized in the preceding year, are per share amounts relating to those distributions, if declared before the audit opinion date, disclosed in the notes to the financial statements?
      
   d. Capital share transactions:
      
      (1) Is the net change in net assets (excluding amounts shown separately if equalization accounting is used) arising from capital share transactions disclosed for each class of shares, and are the components of the change disclosed on the face of the statement or in the notes to the financial statements for each class of shares as follows:
         
         (a) The number and value of shares sold?
         
         (b) The number and value of shares issued in reinvestment of distributions?
         
         (c) The number and cost of shares reacquired?
         
         (d) The net change?
      
   e. Capital contributions?
      
      [AAG-INV, par. 7.58]
      
2. Are net assets at the beginning of the year and at the end of the year disclosed?
      
      [AAG-INV, par. 7.58]
3. For registered investment companies that use equalization accounting, are net equalization debits or credits disclosed as required by Reg. S-X, Rule 6-09.2?

[AAG-INV, par. 4.29; Reg. S-X, 6-09.2]

Statement of Cash Flows

1. If a statement of cash flows is required, and presented using the direct method, is the following information disclosed:
   
   a. For cash flows from operating activities (cash flows from operating activities should include the fund’s investing activities):
      
      (1) Interest and dividends received? ___ ___ ___
      (2) Operating expenses paid? ___ ___ ___
      (3) Purchases of long-term investments (at cost)? ___ ___ ___
      (4) Sales of long-term investments (proceeds)? ___ ___ ___
      (5) Net sales or purchases of short-term investments? ___ ___ ___
      (6) Cash flows for other types of investing activities related to changes in margin accounts and collateral status, such as written options, financial futures contracts, securities lending and so forth? ___ ___ ___
      [AAG-INV, par. 7.63]

   b. For cash flows from financing activities:
      
      (1) Issuance and redemption of fund shares, including both common and preferred shares (excluding reinvestment of dividends and distributions)? ___ ___ ___
      (2) Proceeds from and repayments of debt? ___ ___ ___
      (3) Dividends and distributions to shareholders (not including stock or reinvested dividends and distributions)? ___ ___ ___
      (4) Bank overdrafts? ___ ___ ___
      [AAG-INV, par. 7.64]

2. Does the reconciliation of net cash provided by or used for operating activities to net increase or decrease in net assets from operating activities include the following:
   
   a. Changes in noninvestment asset and liability accounts? ___ ___ ___
   b. Noncash income and expense items? ___ ___ ___
   c. Realized and unrealized gains and losses on investment and foreign currency transactions? ___ ___ ___
      [AAG-INV, par. 7.65]

3. Is the effect of any foreign exchange fluctuations on cash balances disclosed as a separate line item?
   [AAG-INV, par. 7.66]

4. Is information about noncash investing and financing activities, such as reinvestments of dividends and distributions, disclosed?
   [AAG-INV, par. 7.67]

Financial Highlights

1. Are financial highlights presented either as a separate schedule or within the notes to the financial statements for each class of common shares outstanding?
   [AAG-INV, par. 7.68]
2. Are per share amounts presented based on a share outstanding throughout each period presented?  
[AAG-INV, par. 7.68]  

<table>
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<tr>
<th>Yes</th>
<th>No</th>
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3. For investment companies with multiple classes of shares, are financial highlights presented only for those classes of shares that are included in reports to such shareholders?  
[AAG-INV, par. 7.68]  

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<tr>
<th>Yes</th>
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4. In such cases, does the investment company include appropriate disclosures related all classes so as to ensure that the financial statements are complete?  
[AAG-INV, par. 7.68]  

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<th>Yes</th>
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5. For nonregistered investment partnerships, is per share data disclosed for all common classes in general-purpose financial statements (it is permissible for financial highlights to be presented only for those classes of shares that are included in reports to those classes)?  
[AAG-INV, par. 7.68, as amended by SOP 03-4, par. 11]  

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<tr>
<th>Yes</th>
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6. For nonregistered investment partnerships, when disclosing financial highlights, are the terms classes, units, and theoretical investments interpreted as required in AAG-INV, paragraph 7.68?  
[AAG-INV, par. 7.68, as amended by SOP 03-4, par. 11]  

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<th>Yes</th>
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7. Is the following per share information presented for registered investment companies and investment companies that compute unitized net asset value:  

   a. Net asset value at the beginning of the period?  
   b. Per share net investment income or loss, calculated for registered investment companies in accordance with the requirements of Form N-1A or N-2, or other acceptable method?  
   c. If used by a registered investment company, is the method employed disclosed in a note to the table in conformity with SEC requirements?  
   d. Realized and unrealized gains and losses per share, and if applicable, the reasons why the amount in this caption does not agree with the change in aggregate gains and losses for the period?  
   e. Total from investment operations?  
   f. Distributions to shareholders as a single line item, except that tax return of capital distributions is disclosed separately?  
   g. Purchase premiums, redemption fees, and other capital items?  
   h. Payments by affiliates?  
   i. Net asset value at the end of the period?  
   j. Market value at the end of the period (Form N-2 registrants only)?  
   [AAG-INV, par. 7.69]  

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<th>Yes</th>
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*Note: The information required in Questions 7b through 7h is not required for separate accounts that represent an ownership interest in the underlying separate account portfolios or mutual funds.  
[AAG-INV, par. 7.69, as amended by SOP 03-5, par. 5]  

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FSP §12,300.04
8. For nonregistered investment partnerships that compute unitized net asset value:
   a. Is information for each reporting share class related to nonmanaging investors disclosed?
   ______ Yes ______ No ______ N/A
   b. Is the information disclosed for each major category affecting net asset value per share (as shown in the statement of operations and statement of changes in net assets of the fund)?
   ______ Yes ______ No ______ N/A
   c. Are caption descriptions in the per share data the same captions used in the statement of operations and statement of changes in net assets?
   [AAG-INV, par. 7.69, as amended by SOP 03-4, par. 12]
   ______ Yes ______ No ______ N/A

9. For nonregistered investment partnerships, is adequate disclosure made to indicate that the net investment income ratio does not reflect the effects of any incentive allocation?
   [AAG-INV, par. 7.70, as amended by SOP 03-4, par. 13]
   ______ Yes ______ No ______ N/A

10. For nonregistered investment partnerships, is disclosure made of the expenses that have not been annualized when determining the expense ratio?
    [AAG-INV, par. 7.70, as amended by SOP 03-4, par. 13]
    ______ Yes ______ No ______ N/A

11. For nonregistered investment partnerships, are all incentives reflected in the disclosure of financial highlights, to avoid potentially significant inconsistencies in ratio presentations based solely on the structuring of incentives as fees or allocations?
    [AAG-INV, par. 7.70, as amended by SOP 03-4, par. 13]
    ______ Yes ______ No ______ N/A

12. For nonregistered investment partnerships, for the expense ratio, is disclosure made of the effect of any agreement to waive or reimburse fees and expenses to each reporting class as a whole, as described in AAG-INV, paragraph 7.41, and of expense offsets, as described in AAG-INV, paragraph 7.43 and paragraph 7.44?
    [AAG-INV, par. 7.70, as amended by SOP 03-4, par. 13]
    ______ Yes ______ No ______ N/A

13. For nonregistered investment partnerships, as ratios are calculated for each common class taken as a whole, do the financial statements disclose that an individual investor's ratio may vary from those ratios?
    [AAG-INV, par. 7.70, as amended by SOP 03-4, par. 13]
    ______ Yes ______ No ______ N/A

14. For investment companies that obtain capital commitments from investors and periodically call capital under those commitments to make investments (principally limited-life, nonregistered investment partnerships), is the total committed capital of the partnership (including general partner), the year of formation of the entity and the ratio of total contributed capital to total committed capital disclosed in the financial highlights or in a note to the financial statements?
    [AAG-INV, par. 7.70, as amended by SOP 03-4, par. 13]
    ______ Yes ______ No ______ N/A

15. For funds-of-funds, is adequate disclosure made so that it is clear to users that the expense and net investment income ratios do not reflect the funds-of-funds' proportionate share of income and expenses of the underlying investee funds?
    [AAG-INV, par. 7.70, as amended by SOP 03-4, par. 13]
    ______ Yes ______ No ______ N/A

16. In a master feeder structure, if an incentive is levied as an allocation at the master level, does the feeder present its share of the incentive allocation as a separate line item in the statement of operations?
    [AAG-INV, par. 7.70, as amended by SOP 03-4, par. 13]
    ______ Yes ______ No ______ N/A
Financial Statements and Notes Checklist

17. Is the total return presented for all investment companies?
   [AAG-INV, par. 7.71]  

18. For interim periods, does the disclosure include whether or not total return is annualized?
   [AAG-INV, par. 7.71]  

19. For nonregistered investment partnerships, does the presentation of total return for reporting classes subject to an incentive allocation or fee report total return before and after the incentive allocation or fee for each reporting class taken as a whole?
   [AAG-INV, par. 7.71, as amended by SOP 03-4, par. 14]  

20. For investment companies, as defined in AAG-INV, paragraphs 1.03 through 1.06, that by the terms of their offering documents (1) have limited lives, (2) do not continuously raise capital and are not required to redeem their interests upon investor request, (3) have as a predominant operating strategy the return of the proceeds from disposition of investments to investors, (4) have limited opportunities, if any, for investors to withdraw prior to termination of the entity, and do not routinely acquire (directly or indirectly) as part of their investment strategy market-traded securities and derivatives:
   
   a. Is the IRR of the investment company's cash flows and ending net assets at the end of the period (residual values) as presented in the financial statements, net of all incentive allocations or fees, to each investor class, as of the beginning and end of the period, disclosed?
   
   b. Does a footnote to the financial statements disclose that the IRR is net of all incentives?
   
   c. Are all significant assumptions disclosed in the footnotes to the financial highlights?
   [AAG-INV, par. 7.71, as amended by SOP 03-4, par. 14]  

Note: AAG-INV, paragraphs 7.91 through 7.93, provide illustrative examples for calculating and disclosing certain financial highlights by nonregistered investment partnerships.

21. Does the information filed on Forms N-1A and N-2 include:
   
   a. Net assets, end of period?
   
   b. Portfolio turnover rate?
   
   c. If the investment company filing on Form N-2 has debt outstanding, the average amount of borrowings outstanding during the period, the weighted average number of the fund’s shares outstanding during the period, and the average amount of debt per share during the period?
   [AAG-INV, par. 7.72]  

22. Is the effect on total return of payments by affiliates related to investment losses, as described in AAG-INV, paragraph 7.52, as well as any gains or losses on investments not meeting investment guidelines of the fund, quantified and disclosed in the financial highlights in a manner similar to disclosure of the effect of voluntary waivers of fees and expenses on expense ratios?
   [AAG-INV, par. 7.53]  

FSP §12,300.04
23. Is the effect of voluntary waivers on the expense ratio disclosed, either as the basis point effect on the ratio or as the gross expense ratio, in a note to or as part of the financial highlights?  
[AAG-INV, par. 7.41]  

Yes  No  N/A

24. Is the expense ratio in the financial highlights shown net of voluntary and involuntary waivers?  
[AAG-INV, par. 7.41]

Other Disclosure Requirements

1. Are the amounts and expiration dates of capital loss carryforwards and the amounts of any post-October capital and currency loss deferrals (see footnote 29 to AAG-INV, paragraph 7.74) disclosed, if significant?  
[AAG-INV, par. 7.74]

2. Is the fact that the fund is not subject to income taxes disclosed, if applicable?  
[AAG-INV, par. 7.74]

3. If the fund is not subject to income taxes, is the net difference between the tax bases and the reported amounts of the fund’s assets and liabilities disclosed?  
[AAG-INV, par. 7.74]

4. For tax-free business combinations of investment companies:
   a. Is the amount of unrealized appreciation or depreciation and the amount of undistributed investment company income of the acquired fund at the date of acquisition disclosed, if significant?  
   [AAG-INV, par. 8.37]  
   
   Yes  No  N/A

5. For all business combinations:
   a. Is a summary of the essential elements of the combination disclosed (effective date; number and fair value of shares issued by the surviving company; the exchange ratio; tax status; tax attributes)?  
   [AAG-INV, par. 8.40]  
   
   Yes  No  N/A

6. Are additional disclosures made as required by Rule 4-08(m) of Regulation S-X if the carrying amounts of repurchase or reverse repurchase agreements that exceed 10 percent of total assets or the amount at risk (as defined) under such agreements exceeds 10 percent of net asset value?  
   [AAG-INV, par. 7.80; Reg. S-X, Rule 4-08(m)]  
   
   Yes  No  N/A

7. Are additional disclosures made in accordance with Reg. S-X, Rule 6-06 pertaining to special provisions applicable to the balance sheets of issuers of face-amount certificates?  
   [Reg. S-X, Rule 6-06]  
   
   Yes  No  N/A
8. Are additional disclosures made in accordance with Reg. S-X, Rule 6-08 pertaining to special provisions applicable to the statements of operations of issuers of face-amount certificates? [Reg. S-X, Rule 6-08]

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<th>Yes</th>
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Note: FASBI 46 and FASBI 46(R) require a variable interest entity (VIE) to be consolidated when the investment company is subject to a majority of the risk of loss from the VIE’s activities or entitled to receive a majority of the entity’s residual returns or both. Those Interpretations also require disclosures about VIEs that the investment company is not required to consolidate but in which it has a significant variable interest. Registered investment companies are not required to consolidate a VIE unless the VIE is a registered investment company. See paragraph 36 of FASBI 46(R) for information for investment companies regarding the application of the provisions of FASBI 46 and FASBI 46(R).

Interim Financial Statements

1. Are semiannual reports to shareholders for registered investment companies complete, based on GAAP, and conform to principles used in preparing annual financial statements? [AAG-INV, par. 7.75]

<table>
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<tr>
<th>Yes</th>
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2. Does the statement of changes in net assets for registered investment companies present information on the latest interim period and the preceding fiscal year? [AAG-INV, par. 7.75]

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<tr>
<th>Yes</th>
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3. Are financial highlights presented, at a minimum, for similar periods? [AAG-INV, par. 7.75]

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<tr>
<th>Yes</th>
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4. If management of a fund determines that a tax return of capital is likely to occur for the fund’s fiscal year, although the exact amount may not be estimable, is that fact disclosed in a note to the interim financial statements? [AAG-INV, par. 7.76]

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5. Is unaudited interim financial data marked accordingly? [AAG-INV, par. 7.77]

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<th>Yes</th>
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6. Is data summarized in condensed form also labeled? [AAG-INV, par. 7.77]

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<th>Yes</th>
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7. If the auditor is named or identified in interim reports on which he or she has performed no audit or review procedures, has the auditor insisted that the reference be deleted or that a notation be included that the auditor does not express an opinion? [AAG-INV, par. 7.77]

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<th>Yes</th>
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Note: Form N-SAR is the semiannual and annual report filed with the SEC by all registered management investment companies, small business investment companies, and unit investment trusts. In 2003, the SEC adopted new Form N-CSR under which a registered investment company files its annual and semiannual shareholder reports. [AAG-INV, par. 8.27]
Funds With Multiple Classes of Shares or Master-Feeder Structures

Note: Also consider Question 9 in the Section “Schedule of Investments,” and Questions 15 and 16 in the Section “Financial Highlights.”

1. For multiple-class funds:
   a. In the statement of assets and liabilities, is the composition of net assets reported in total and net asset value per share, shares outstanding and maximum public offering price per share reported for each class?
   [AAG-INV, par. 5.28]  
   b. In the statement of operations, are class-specific expenses reported for each class, or disclosed in the notes to the financial statements?
   [AAG-INV, par. 5.29]  
   c. In the statement of changes in net assets, are dividends and distributions paid to shareholders and capital share transactions for each class presented or disclosed in the notes to the financial statements?
   [AAG-INV, par. 5.30]  
   d. Do the notes to the financial statements:
      (1) Describe each class of shares, including sales charges, shareholder servicing fees, and distribution fees?
      (2) Disclose the method used to allocate income and expenses, and realized and unrealized capital gains and losses, to each class?
      (3) Describe fee arrangements for class-specific distribution plans and for any other class-level expenses paid to affiliates?
      (4) Disclose capital share transactions (if not disclosed separately in the statement of changes in net assets) for each class?
      (5) Disclose total sales charges paid to any affiliates for each class?
      [AAG-INV, par. 5.31]  
   e. Are financial highlights, including total return, presented by class, except for portfolio turnover (portfolio turnover is required for registered investment companies only)?
   [AAG-INV, par. 5.32]  

2. For master-feeder funds:
   a. Do the annual and semiannual reports for feeder funds contain two sets of financial statements, one for the master fund and the other for the specific feeder fund?
   [AAG-INV, par. 5.33]  
   b. In the statement of assets and liabilities:
      (1) Is an investment in the master fund shown in each feeder fund’s statement of assets and liabilities?
(2) Is the total of all feeder funds' investments in the master fund equal to the total net assets of the master fund?  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(3) Is the net asset value per share, total shares outstanding, and the components of net assets reported?  
   [AAG-INV, par. 5.34]  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(4) Is the portfolio of investments included only in the master fund’s financial statements?  
   [AAG-INV, par. 5.36]  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |

### c. In the statement of operations:

(1) Are the details of the feeder fund's allocated share of net investment income from the master fund reported?  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(2) Is the feeder's allocated share of the master fund's realized and unrealized gains and losses reported?  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(3) Does the total of all feeders' income, expense, and realized and unrealized gain or loss components agree to the corresponding totals of the master fund?  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(4) Do the feeder funds disclose their fund-specific expenses?  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(5) Are fee waivers or reimbursements at the feeder-fund level reported?  
   [AAG-INV, par. 5.37]  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(6) For master funds, is the standard reporting format for investment companies with simple capital structures used?  
   [AAG-INV, par. 5.38]  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |

### d. In the statement of changes in net assets:

(1) For feeder funds, is the standard reporting format for investment companies with simple capital structures used?  
   [AAG-INV, par. 5.39]  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(2) Do master funds report capital transactions from or to feeder funds as contributions and withdrawals, respectively?  
   [AAG-INV, par. 5.40]  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |

### e. Do the notes to the financial statements of each feeder fund include:

(1) A general description of the master and feeder structure?  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(2) The feeder’s percentage ownership share of the particular master fund at the reporting date?  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(3) A statement that the feeder invests all of its investable assets in a corresponding open-end management investment company having the same investment objectives as the feeder?  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(4) A reference to the financial statements of the master fund, including the portfolio of investments?  
   [AAG-INV, par. 5.41]  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
(5) Disclosure or reference to the accounting policies of the master fund that affect the feeders?  
   [AAG-INV, par. 5.42]  

   | Yes | No | N/A |
---|-----|----|-----|
   |     |    |     |
f. Do the financial highlights:
   (1) Include expenses of both the feeder and the master fund in the feeder fund’s ratios of expenses and net investment income to average net assets?
   (2) Reflect balance credits earned by the master fund in the feeder fund ratios as if they had been earned by the feeder fund directly?
   (3) To the extent the financial highlights table conforms to the instructions of Form N-1A, report the portfolio turnover rate experienced by the master? [The financial highlights of feeder funds that are registered investment companies should comply with the same requirements as for registered investment companies not organized in a master-feeder structure].
   [AAG-INV, par. 5.43]

   g. Does the master fund financial highlights section:
      (1) Include the total return, ratios of expenses, and net investment income to average net assets and portfolio turnover rate if the master fund is organized as a partnership (portfolio turnover is required for registered investment companies only)?
      [AAG-INV, par. 5.44]
      (2) Report normal per share data if the master fund is not organized as a partnership?
      [AAG-INV, par. 5.44]

3. For funds of funds:
   a. In the statement of assets and liabilities:
      (1) Have additional disclosures been considered for funds that hold a mixture of investments in other investment companies and direct investments in securities?
      [AAG-INV, par. 5.47]
      (2) Has consideration been given to whether an investment in a single underlying fund is so significant to the fund of funds as to make the presentation of financial statements in a manner similar to a master-feeder fund more appropriate?
      [AAG-INV, par. 5.48]

   b. In the statement of operations:
      (1) Does income represent the net earnings received from investee funds?
      [AAG-INV, par. 5.49]
      (2) Are agreements for investee funds to assume certain of the investor fund expenses disclosed in the notes?
      [AAG-INV, par. 5.49]
      (3) When investing in registered investment companies, are distributions received from long-term capital gains reported as realized gains together with gains realized on disposition of shares of investee companies?
      [AAG-INV, par. 5.50]

FSP §12,300.04
c. In the financial highlights:

(1) Are net investment income and expense ratios computed based upon amounts reported in the statement of operations?  

(2) Is portfolio turnover measured based on the turnover of investments made by the reporting fund in investee funds?  

[AAG-INV, par. 5.52]

d. Do the notes to the financial statements include:

(1) A general description of the fund of funds structure?  

(2) Disclosure of valuation policy-values, generally based on information reported by investee funds?  

(3) Has consideration been given to whether, and to what extent, disclosure of the investee funds' investment policies is appropriate?  

[AAG-INV, par. 5.53]

4. Have significant transactions of the master fund been properly disclosed in the feeder fund's financial statements?  

[AAG-INV, par. 5.71]
FSP Section 12,400

Illustrative Financial Statements

.01 The following illustrative auditor’s report and financial statements demonstrate one form of currently acceptable practice. The illustrative financial statements in this section are reproduced from the AICPA Audit and Accounting Guide Investment Companies with conforming changes as of May 1, 2004. The illustrative financial statements are intended to provide sample financial statement formats and disclosures, and are not intended to illustrate all disclosures required by GAAP or all of the disclosures covered in the financial statement checklist. Other forms of financial statements are acceptable. More or less detail should appear either in the financial statements or in the notes, depending on the circumstances. The illustrative financial statements presented are those of a registered investment company and therefore include certain, but not all disclosures required by SEC regulation in addition to requirements under GAAP.
Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of

XYZ Investment Company:

We have audited the accompanying statement of assets and liabilities of XYZ Investment Company, including the schedule of investments, as of December 31, 20X4, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 20X4, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of XYZ Investment Company as of December 31, 20X4, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor

Anytown, USA

January 21, 20X5
The checklist and illustrative financial statements do not include all disclosures and presentation items promulgated.

XYZ Management Investment Company
Statement of Assets and Liabilities
December 31, 20X4

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in securities, at fair value</td>
<td></td>
</tr>
<tr>
<td>(cost $19,292,000)—including</td>
<td></td>
</tr>
<tr>
<td>$570,000 of securities loaned (Note 8)</td>
<td>21,721,000</td>
</tr>
<tr>
<td>Cash denominated in foreign currencies</td>
<td>139,000</td>
</tr>
<tr>
<td>(cost $141,000)</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>60,000</td>
</tr>
<tr>
<td>Deposits with brokers for securities sold</td>
<td>1,555,000</td>
</tr>
<tr>
<td>short</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
</tr>
<tr>
<td>Dividends and interest</td>
<td>46,000</td>
</tr>
<tr>
<td>Investment securities sold</td>
<td>24,000</td>
</tr>
<tr>
<td>Capital stock sold</td>
<td>54,000</td>
</tr>
<tr>
<td>Unrealized gain on foreign currency exchange contract (Note 8)</td>
<td>419,000</td>
</tr>
<tr>
<td>Other assets</td>
<td>26,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>24,044,000</td>
</tr>
</tbody>
</table>

| Liabilities                                |   |
| Call options written, at fair value        | 230,000 |
| (premiums received $110,000)               |   |
| Securities sold short, at fair value       | 1,673,000 |
| (proceeds $1,555,000)                      |   |
| Demand loan payable to bank (Note 5)      | 2,000,000 |
| Payable upon return of securities loaned  | 620,000 |
| (Note 8)                                  |   |
| Unrealized loss on foreign currency exchange contract (Note 8) | 108,000 |
| Due to broker—variation margin             | 10,000 |
| Payables                                  |   |
| Investment securities purchased            | 52,000 |
| Capital stock reacquired                   | 8,000 |
| Other                                     | 4,000 |
| Accrued expenses                          | 8,000 |
| Distribution payable                      | 158,000 |
| Total liabilities                         | 4,871,000 |

| Net assets                                | $19,173,000 |

| Analysis of Net Assets:                   |   |
| Net capital paid in on shares of capital stock | $15,184,000 |
| Distributable earnings                     | 3,989,000 |
| Net assets (equivalent to $4.55 per share based on 4,216,000 shares of capital stock outstanding) (Note 6) | $19,173,000 |

1 Investments in securities include securities purchased with cash proceeds from securities loans.
When cash is received as collateral in secured borrowings, the cash received should be recognized as the investment company’s asset along with the obligation to return the cash. If the investment company makes investments with the cash, even if made by agents or in pools with other securities lenders, the investment company should reflect the investments as part of its holdings in the schedule of investments and should footnote any restrictions associated with the investment because of the collateral arrangements.

With regard to collateral received in the form of securities in secured borrowings, if the securities received may be sold or repledged, the investment company should account for those securities in the same way as it would account for cash received. That is, the investment company should record the securities received as the investment company’s asset along with the obligation to return the securities. However, if the investment company does not have the right to sell or repledge the securities received as collateral, then the investment company should not record the securities or the related liability on its books.

The accompanying notes are an integral part of these financial statements.
XYZ Management Investment Company
Schedule (or Portfolio) of Investments in Securities

December 31, 20X4

Note: Securities may be arranged by industry groupings or other groupings (showing percentage of total portfolio or of net assets invested in each grouping) that the Company believes are most meaningful to users. The basis of the computation of percentages shown (which in this illustration is the ratio of the specific category of securities to the total portfolio owned) should be disclosed.

<table>
<thead>
<tr>
<th>Principal Amount or Shares</th>
<th>Fair Value</th>
</tr>
</thead>
</table>

**Common stocks—29%**

Consumer durable goods—5%
- Allied Manufacturing Corporation* 25,000 $ 620,000
- Baker Industries, Inc.† 15,000 150,000
- Consumer Goods Company* 8,000 300,000
- Other 16,000

**Consumer nondurable goods—16%**
- Amalgamated Buggy Whips, Inc. (Note 2) 10,000 3,280,000
- American Company 4,000 100,000
- Other 55,000

**Service industries—4%**
- Service Company, Inc. 10,000 465,000
- Cannon Sales 13,000 400,000
- Other 4,000

**Other industry groupings—4%**

[Additional industry groupings and details of the fifty largest holdings are not included in this illustration]

Total common stocks 6,311,000

**Convertible bonds—25%**
- American Retailing Inc.—5.5% debenture due 20XX $ 500,000 525,000
- Paper Airplane Corporation—6.25% debenture due 20XX 4,500,000 4,875,000

Total convertible securities 5,400,000

**Indexed securities—10%**
- American Trust Co. (principal linked to deutsche mark yield curve)—10% due 20XX 2,000,000 2,100,000

**Mortgage-backed securities—12%**
- FNMA 8% due 20XX $2,000,000 1,950,000
- FNMA strip, principal only, zero coupon, due 20XX 1,000,000 760,000

Total mortgage-backed securities 2,710,000

**U.S. government obligations—16%**
- U.S. Treasury 6% notes due 20XX 500,000 490,000
- U.S. Treasury 8% notes due 20XX 3,000,000 2,985,000

Total U.S. government obligations 3,475,000

(continued)
Illustrative Financial Statements

<table>
<thead>
<tr>
<th>Principal Amount or Shares</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term notes—6%</td>
<td></td>
</tr>
<tr>
<td>Commercial Paper, Inc., 5.5% due 2/5/X5</td>
<td>505,000</td>
</tr>
<tr>
<td>U.S. Treasury bills, 5.2% due 1/20/X5†</td>
<td>725,000</td>
</tr>
<tr>
<td>Total short-term notes</td>
<td></td>
</tr>
<tr>
<td>Repurchase agreements—2%</td>
<td></td>
</tr>
<tr>
<td>Money Center Bank of Large City, 4% dated 12/29/X4, due 1/3/X5, repurchase price $500,274, collateralized by U.S. Treasury bonds</td>
<td>500,000</td>
</tr>
<tr>
<td>Total—100% (cost $19,292,000)</td>
<td></td>
</tr>
</tbody>
</table>

Note—Aggregate value of segregated securities—$372,000.

† Portion of the security is pledged as collateral for call options written.
† Non-income producing security.
† Portion of the security is purchased with the cash proceeds from securities loans. (The investment company should also footnote any restrictions associated with the investment because of the collateral arrangements.)

The accompanying notes are an integral part of these financial statements.
XYZ Management Investment Company
Call Options Written
December 31, 20X4

<table>
<thead>
<tr>
<th>Common Stocks/Expiration Date/Exercise Price</th>
<th>Shares Subject to Call</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allied Manufacturing Corporation/July/25</td>
<td>10,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Allied Manufacturing Corporation/October/30</td>
<td>5,000</td>
<td>2,500</td>
</tr>
<tr>
<td>Consumer Goods Company September/45</td>
<td>7,000</td>
<td>177,500</td>
</tr>
<tr>
<td>Total (premiums received $110,000) (Note 3)</td>
<td></td>
<td>$230,000</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
XYZ Management Investment Company

Securities Sold Short

December 31, 20X4

<table>
<thead>
<tr>
<th>Common Stocks</th>
<th>Shares</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Widgets, Inc.</td>
<td>40,000</td>
<td>$425,000</td>
</tr>
<tr>
<td>Paper Airplane Corporation</td>
<td>25,000</td>
<td>265,000</td>
</tr>
<tr>
<td>Amber Company</td>
<td>100,000</td>
<td>983,000</td>
</tr>
<tr>
<td><strong>Total (proceeds $1,555,000)</strong></td>
<td></td>
<td><strong>$1,673,000</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
### XYZ Management Investment Company

**Statement of Net Assets**

**December 31, 20X4**

*Note:* Securities may be arranged by industry or other groupings (showing percentage of total portfolio or of net assets invested in each grouping) that the Company believes will be most meaningful to users.

<table>
<thead>
<tr>
<th>Shares or Principal Amount</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Investment in securities—113% of net assets</td>
<td></td>
</tr>
<tr>
<td>Common stocks—33%</td>
<td></td>
</tr>
<tr>
<td>Consumer durable goods—6%</td>
<td></td>
</tr>
<tr>
<td>Allied Manufacturing Corporation'</td>
<td>25,000</td>
</tr>
<tr>
<td>Baker Industries, Inc.*</td>
<td>15,000</td>
</tr>
<tr>
<td>Consumer Goods Company'</td>
<td>8,000</td>
</tr>
<tr>
<td>Other</td>
<td>600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
<tr>
<td>Consumer nondurable goods—18%</td>
<td></td>
</tr>
<tr>
<td>Amalgamated Buggy Whips, Inc. (Note 2)</td>
<td>10,000</td>
</tr>
<tr>
<td>American Company</td>
<td>4,000</td>
</tr>
<tr>
<td>Other</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
<tr>
<td>Service industries—4%</td>
<td></td>
</tr>
<tr>
<td>Service Company, Inc.</td>
<td>10,000</td>
</tr>
<tr>
<td>Cannon Sales</td>
<td>13,000</td>
</tr>
<tr>
<td>Other</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
<tr>
<td>Other industry groupings—5%</td>
<td></td>
</tr>
<tr>
<td>[Additional industry groupings and details of the fifty largest holdings are not included in this illustration.]</td>
<td></td>
</tr>
<tr>
<td>Total common stocks</td>
<td>6,311,000</td>
</tr>
<tr>
<td>Convertible bonds—28%</td>
<td></td>
</tr>
<tr>
<td>American Retailing Inc.—5.5% debenture due 20XX</td>
<td>$ 500,000</td>
</tr>
<tr>
<td>Paper Airplane Corporation—6.25% debenture due 20XX</td>
<td>4,500,000</td>
</tr>
<tr>
<td><strong>Total convertible bonds</strong></td>
<td>5,400,000</td>
</tr>
<tr>
<td>Indexed securities—11%</td>
<td></td>
</tr>
<tr>
<td>American Trust Co. (principal linked to deutsche mark yield curve)—10% due 20XX</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Mortgage-backed securities—14%</td>
<td></td>
</tr>
<tr>
<td>FNMA, 8% due 20XX</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>FNMA strip, principal only, zero coupon, due 20XX</td>
<td>1,000,000</td>
</tr>
<tr>
<td><strong>Total mortgage-backed securities</strong></td>
<td>2,710,000</td>
</tr>
<tr>
<td>U.S. government obligations—18%</td>
<td></td>
</tr>
<tr>
<td>U.S. Treasury 6% notes due 20XX</td>
<td>500,000</td>
</tr>
<tr>
<td>U.S. Treasury 8% notes due 20XX</td>
<td>3,000,000</td>
</tr>
<tr>
<td><strong>Total U.S. government obligations</strong></td>
<td>3,475,000</td>
</tr>
<tr>
<td>Short-term notes—6%</td>
<td></td>
</tr>
<tr>
<td>Commercial Paper, Inc., 5.5% due 2/5/X5</td>
<td>505,000</td>
</tr>
<tr>
<td>U.S. Treasury bills, 5.2% due 1/20/X5‡</td>
<td>725,000</td>
</tr>
<tr>
<td><strong>Total short-term notes</strong></td>
<td></td>
</tr>
</tbody>
</table>

(continued)
Illustrative Financial Statements

<table>
<thead>
<tr>
<th>Shares or Principal Amount</th>
<th>Fair Value</th>
</tr>
</thead>
</table>

**Repurchase agreements—3%**
Money Center Bank of Large City, 4%, dated 12/29/X4 due 1/3/X5, repurchase price $500,274, collateralized by U.S. Treasury bonds 500,000 500,000

Total investments in securities (cost $19,292,000)—including $570,000 of securities loaned (Note 8)

Cash denominated in foreign currencies (cost $141,000) 139,000
Cash 60,000
Deposits with brokers for securities sold short 1,555,000
Receivables
  - Dividends and interest 46,000
  - Investment securities sold 24,000
  - Capital stock sold 54,000
Unrealized gain on foreign currency exchange contract (Note 8) 419,000
Other assets 26,000
Total assets 24,044,000

**Liabilities**

Call options written, at fair value (premiums received $110,000) 230,000
Securities sold short, at fair value (proceeds $1,555,000) 1,673,000
Demand loan payable to bank (Note 5) 2,000,000
Payable upon return of securities loaned (Note 8) 620,000
Unrealized loss on foreign currency exchange contract (Note 8) 108,000
Due to broker—variation margin 10,000

**Payables**

  - Investment securities purchased $ 52,000
  - Capital stock reacquired 8,000
  - Other 4,000
  - Accrued expenses 8,000
  - Distribution payable 158,000
Total liabilities 4,871,000

**Net assets**
$19,173,000

**Analysis of Net Assets:**

Net capital paid in on shares of capital stock $15,184,000
Distributable earnings 3,989,000
Net assets (equivalent to $4.55 per share based on 4,216,000 shares of capital stock outstanding) (Note 6) $19,173,000

**Note—Aggregate value of segregated securities—$372,000.**

---

* Portion of the security is pledged as collateral for call options written.
† Non-income producing security.
‡ Portion of the security is purchased with the cash proceeds from securities loans. (The investment company should also footnote any restrictions associated with the investment because of the collateral arrangements.)
§ Investments in securities include securities purchased with cash proceeds from securities loans.

When cash is received as collateral in secured borrowings, the cash received should be recognized as the investment company’s asset along with the obligation to return the cash. If the investment company makes investments with the cash, even if made by agents or in pools with other securities lenders, the investment company should reflect the investments as part of its holdings in the schedule of investments and should footnote any restrictions associated with the investment because of the collateral arrangements.

With regard to collateral received in the form of securities in secured borrowings, if the securities received may be sold or repledged, the investment company should account for those securities in the same way as it would account for cash received. That is, the investment company should record the securities received as the investment company’s asset along with the obligation to return the securities. However, if the investment company does not have the right to sell or repledge the securities received as collateral, then the investment company should not record the securities or the related liability on its books.

The accompanying notes are an integral part of these financial statements.
XYZ Management Investment Company
Statement of Operations
Year Ended December 31, 20X4

Investment income
Dividends (net of foreign withholding taxes of $20,000) $ 742,000
Interest 209,000
Income from securities loaned—net 50,000
Total income $ 1,001,000

Expenses
Investment advisory fee 135,000
Interest 55,000
Professional fees (Note 9) 29,000
Custodian and transfer agent fees 16,000
Distribution expenses (Note 9) 4,000
State and local taxes other than income taxes 15,000
Directors’ fees 12,000
Dividends on securities sold short 9,000
Total expenses 275,000
Fees paid indirectly (Note 9) (4,000)
Fees waived (Note 9) (45,000)
Net expenses 226,000
Net investment income 775,000

Realized and unrealized gain (loss) from investments and foreign currency:
Net realized gain (loss) from—
Investments 1,089,000
Foreign currency transactions\(^{1}\) (44,000)
—— 1,045,000

Net increase (decrease) in unrealized appreciation (depreciation) on—
Investments (1,647,000)
Translation of assets and liabilities in foreign currencies\(^{1}\) 353,000
—— (1,294,000)

Net realized and unrealized loss from investments and foreign currency (249,000)
Net increase in net assets resulting from operations $ 526,000

\(^{1}\) If separate reporting is adopted, these captions would also include foreign currency effects of realized and unrealized gains and losses on investments. If separate reporting is not adopted, such foreign currency effects would be included in the investments captions.

The accompanying notes are an integral part of these financial statements.
XYZ Management Investment Company

Statements of Changes in Net Assets

Years Ended December 31, 20X4 and 20X3

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase (decrease) in net assets from operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income—net</td>
<td>$ 775,000</td>
<td>$ 492,000</td>
</tr>
<tr>
<td>Net realized gain from investments and foreign currency**</td>
<td>1,045,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Unrealized appreciation (depreciation) on investments and translation of assets and liabilities in foreign currencies&quot;</td>
<td>(1,294,000)</td>
<td>1,551,000</td>
</tr>
<tr>
<td>Net increase in net assets resulting from operations</td>
<td>526,000</td>
<td>3,043,000</td>
</tr>
<tr>
<td>Distributions to shareholders</td>
<td>(1,875,000)</td>
<td>(1,350,000)</td>
</tr>
<tr>
<td>Tax return of capital to shareholders</td>
<td>—</td>
<td>(66,000)</td>
</tr>
<tr>
<td>Capital share transactions (Note 6)</td>
<td>2,730,000</td>
<td>1,755,000</td>
</tr>
<tr>
<td>Total increase</td>
<td>1,381,000</td>
<td>3,382,000</td>
</tr>
<tr>
<td>Net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>17,792,000</td>
<td>14,410,000</td>
</tr>
<tr>
<td>End of year</td>
<td>$19,173,000</td>
<td>$17,792,000</td>
</tr>
</tbody>
</table>

* It is also acceptable to present each of these items as a separate line item: net realized gains from investments; net realized gains (losses) from foreign currency transactions.

** It is also acceptable to present each of these items as a separate line item: unrealized appreciation of investments; unrealized appreciation on translation of assets and liabilities in foreign currencies.

The accompanying notes are an integral part of these financial statements.
XYZ Management Investment Company
Statement of Cash Flows
Year Ended December 31, 20X4

Increase (decrease) in cash—

Cash flows from operating activities:

Net increase in net assets from operations $ 526,000

Adjustments to reconcile net increase in net assets from operations

to net cash used in operating activities:

Purchase of investment securities (26,720,000)
Proceeds from disposition of investment securities 26,030,000
Sale of short-term investment securities, net (921,000)
Increase in deposits with brokers for short sales (555,000)
Increase in collateral for securities loaned (270,000)
Increase in dividends and interest receivable (18,000)
Decrease in receivables for securities sold 306,000
Increase in equity on foreign currency contracts (363,000)
Increase in other assets (2,000)
Increase in call options written 50,000
Increase in securities sold short 823,000
Increase in payable upon return of securities loaned 270,000
Decrease in variation margin payable (4,000)
Decrease in payable for securities purchased (77,000)
Increase in accrued expenses 1,000
Unrealized appreciation on securities and currencies 1,647,000
Net realized gain from investments and currencies (1,089,000)

Net cash used in operating activities (366,000)

Cash flows from financing activities:

Decrease in loan payable (400,000)
Proceeds from shares sold 2,143,000
Payment on shares redeemed (450,000)
Cash distributions paid (841,000)

Net cash provided by financing activities 452,000

Net increase in cash 86,000

Cash:

Beginning balance

Ending balance $ 199,000

Supplemental disclosure of cash flow information:

Noncash financing activities not included herein consist of reinvestment of dividends and distributions of $1,000,000.

The accompanying notes are an integral part of these financial statements.
1. Significant Accounting Policies

XYZ Management Investment Company (the Company) is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The investment objective of the Company is to seek a high total return consisting of both current income and realized and unrealized gains from equity and debt securities.

Security valuation. Investments in securities traded on a national securities exchange (or reported on the NASDAQ national market) are stated at the last reported sales price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short positions and call options written, for which the last quoted asked price is used. Short-term notes are stated at amortized cost, which approximates fair value. Restricted securities and other securities for which quotations are not readily available are valued at fair value as determined by the board of directors. The ability of issuers of debt securities held by the Company to meet their obligations may be affected by economic and political developments in a specific country or region.

Repurchase agreements. In connection with transactions in repurchase agreements, it is the Company's policy that its custodian take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction, including accrued interest, at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral by the Company may be delayed or limited.

Foreign currency. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities at fiscal period end, resulting from changes in exchange rates.

[The following paragraphs illustrate disclosures for a fund that chooses to report the foreign currency elements of realized and unrealized gains and losses on investments.]

The Company isolates that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held.

Reported net realized foreign exchange gains or losses arise from sales of portfolio securities, sales and maturities of short-term securities, sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the
Company's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, including investments in securities at fiscal period end, resulting from changes in the exchange rate.

Option writing. When the Company writes an option, an amount equal to the premium received by the Company is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Company on the expiration date as realized gains from investments. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security or currency in determining whether the Company has realized a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased by the Company. The Company as writer of an option bears the market risk of an unfavorable change in the price of the security underlying the written option.

Security loans. The Company receives compensation in the form of fees, or it retains a portion of interest on the investment of any cash received as collateral. The Company also continues to receive interest or dividends on the securities loaned. The loans are secured by collateral at least equal, at all times, to the fair value of the securities loaned plus accrued interest. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Company. The Company has the right under the lending agreement to recover the securities from the borrower on demand.

Financial futures contracts. The Company invests in financial futures contracts solely for the purpose of hedging its existing portfolio securities, or securities that the Company intends to purchase, against fluctuations in fair value caused by changes in prevailing market interest rates. Upon entering into a financial futures contract, the Company is required to pledge to the broker an amount of cash, U.S. government securities, or other assets, equal to a certain percentage of the contract amount (initial margin deposit). Subsequent payments, known as “variation margin,” are made or received by the Company each day, depending on the daily fluctuations in the fair value of the underlying security. The Company recognizes a gain or loss equal to the daily variation margin. Should market conditions move unexpectedly, the Company may not achieve the anticipated benefits of the financial futures contracts and may realize a loss. The use of futures transactions involves the risk of imperfect correlation in movements in the price of futures contracts, interest rates, and the underlying hedged assets.

Short sales. The Company may sell a security it does not own in anticipation of a decline in the fair value of that security. When the Company sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited in size, will be recognized upon the termination of a short sale.

Foreign currency contracts. The Company may enter into forward foreign currency exchange contracts primarily to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities. When entering into a forward currency contract, the Company agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are valued daily, and the Company's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statement of assets and liabilities. Realized and unrealized gains and losses are included in the statement of operations. These instruments involve market risk, credit risk, or both kinds of risks, in excess of the amount recognized in the statement of assets.
and liabilities. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

*Federal income taxes.* The Company’s policy is to continue to comply with the requirements of the Internal Revenue Code that are applicable to regulated investment companies and to distribute all its taxable income to its shareholders. Therefore, no federal income tax provision is required.

*Distributions to shareholders.* Distributions to shareholders, which are determined in accordance with income tax regulations, are recorded on the ex-dividend date.

*Use of estimates.* The preparation of financial statements in conformity with generally accepted accounting principles 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 the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

*Other.* The Company records security transactions based on a trade date. Dividend income is recognized on the ex-dividend date, and interest income is recognized on an accrual basis. Discounts and premiums on securities purchased are amortized, over the lives of the respective securities. Withholding taxes on foreign dividends have been provided for in accordance with the Company’s understanding of the applicable country’s tax rules and rates.

2. **Restricted Securities**

The investment in 10,000 shares of Amalgamated Buggy Whips, Inc. common stock, the sale of which is restricted, has been valued by the board of directors at $328 per share after considering certain pertinent factors, including the results of operations of Amalgamated since the date of purchase on March 15, 20X1, for $1,580,000 and the sales price of recent private placements in its common stock. No quoted market price exists for Amalgamated shares. It is possible that the estimated value may differ significantly from the amount that might ultimately be realized in the near term, and the difference could be material.

3. **Call Options Written**

As of December 31, 20X4, portfolio securities valued at $372,000 were held in escrow by the custodian as cover for call options written by the Company.

Transactions in options written during the year ended December 31, 20X4, were as follows:

<table>
<thead>
<tr>
<th>Number of Contracts</th>
<th>Premiums Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options outstanding at December 31, 20X3</td>
<td>100</td>
</tr>
<tr>
<td>Options written</td>
<td>500</td>
</tr>
<tr>
<td>Options terminated in closing purchase transactions</td>
<td>(150)</td>
</tr>
<tr>
<td>Options expired</td>
<td>(80)</td>
</tr>
<tr>
<td>Options exercised</td>
<td>(150)</td>
</tr>
<tr>
<td>Options outstanding at December 31, 20X4</td>
<td>220</td>
</tr>
</tbody>
</table>

3 If several restricted security investments are held, a general statement on the valuation methods may be given rather than individual description, as well as the aggregate value of such securities.

4 Practitioners should consider all of the disclosure requirements of SFAS 133 and related amendments, which may not be necessarily reflected in these financial statements and notes to the financial statements.
4. Distributions to Shareholders

On January 3, 20X5, a distribution of $0.20 per share was declared. The dividend was paid on January 20, 20X5, to shareholders of record on January 10, 20X5.

The tax character of distributions paid during 20X4 and 20X3 was as follows:

<table>
<thead>
<tr>
<th>Distributions paid from:</th>
<th>20X4</th>
<th>20X3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary income</td>
<td>$755,000</td>
<td>$550,000</td>
</tr>
<tr>
<td>Long-term capital gain</td>
<td>1,120,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Return of capital</td>
<td>1,875,000</td>
<td>1,350,000</td>
</tr>
<tr>
<td></td>
<td>$1,875,000</td>
<td>$1,416,000</td>
</tr>
</tbody>
</table>

As of December 31, 20X4, the components of distributable earnings on a tax basis were as follows:

- Undistributed ordinary income: $1,304,000
- Undistributed long-term gain: $1,145,000
- Unrealized appreciation: $1,540,000

The difference between book basis and tax-basis unrealized appreciation is attributable primarily to the tax deferral of losses on wash sales and the realization for tax purposes of unrealized gains on certain forward foreign currency contracts and on investments in passive foreign investment companies.

5. Bank Loans

The Company has an unsecured $3,000,000 bank line of credit; borrowings under this arrangement bear interest at 110 percent of the bank’s prime rate. As of December 31, 20X4, the Company was paying interest at 8 percent per year on its outstanding borrowings. No compensating balances are required.

6. Capital Share Transactions

As of December 31, 20X4, 25,000,000 shares of $0.50 par value capital stock were authorized.

Transactions in capital stock were as follows:

<table>
<thead>
<tr>
<th>Shares</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20X4</td>
</tr>
<tr>
<td>Shares sold</td>
<td>452,000</td>
</tr>
<tr>
<td>Shares issued in reinvestment of distributions</td>
<td>222,000</td>
</tr>
<tr>
<td>Shares redeemed</td>
<td>674,000</td>
</tr>
<tr>
<td>Net increase</td>
<td>104,000</td>
</tr>
<tr>
<td></td>
<td>570,000</td>
</tr>
</tbody>
</table>

7. Investment Transactions

Purchases and sales of investment securities (excluding short-term securities and U.S. government obligations) were $23,420,000 and $24,030,000, respectively.

The U.S. federal income tax basis of the Company’s investments at December 31, 20X4, was $19,321,000, and net unrealized appreciation for U.S. federal income tax purposes was $1,780,000 (gross unrealized appreciation $2,380,000; gross unrealized depreciation $600,000).

FSP §12,400.11
8. **Portfolio Securities Loaned, Financial Futures Contracts, and Forward Currency Contracts**

As of December 31, 20X4, the Company loaned common stocks having a fair value of approximately $570,000 and received $620,000 of cash collateral for the loan. This cash was invested in U.S. Treasury bills with maturities ranging from January to April 20X5.

As of December 31, 20X4, the Company sold ten financial futures contracts on ten-year U.S. Treasury notes for delivery in March 20X5. The Company has recorded a realized loss of $50,000 as of December 31, 20X4.

At December 31, 20X4, the Company sold the following foreign currency exchange contracts:

<table>
<thead>
<tr>
<th>Unrealized Gain</th>
<th>Unrealized Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,407,900,000 Japanese yen vs. $14,588,000</td>
<td>$ 419,000</td>
</tr>
<tr>
<td>for settlement January 25, 20X5</td>
<td></td>
</tr>
<tr>
<td>14,394,000 Euro vs. $13,206,000</td>
<td>$(108,000)</td>
</tr>
<tr>
<td>for settlement March 7, 20X5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$419,000</td>
</tr>
<tr>
<td></td>
<td>$(108,000)</td>
</tr>
</tbody>
</table>

9. **Investment Advisory Fees and Other Transactions With Affiliates**

The Company receives investment management and advisory services under a management agreement (Agreement) that provides for fees to be paid at an annual rate of 0.65 percent of the Company’s average daily net assets. Certain officers and directors of the Company are also officers and directors of the investment adviser. The Agreement provides for an expense reimbursement from the investment adviser if the Company’s total expenses, exclusive of taxes, interest on borrowings, dividends on securities sold short, brokerage commissions, and extraordinary expenses, exceed 1.5 percent of the Company’s average daily net assets for any full fiscal year. During the year ended December 31, 20X4, the investment adviser voluntarily waived $45,000 of its fee.

The investment adviser also received $5,000 in 20X4 from brokerage fees on executions of purchases and sales of the Company’s portfolio investments.

During 20X4, the Company incurred legal fees of $7,000 to Brown and Smith, counsel for the Company. A partner of the firm is a director of the Company.

MNO Service Company (MNO), an affiliate of the investment adviser, is the distributor of the Company’s shares, and received $10,000 in 20X4 from commissions earned on sales of the Company’s capital stock. The Company has entered into a distribution agreement and plan of distribution pursuant to which the Company pays MNO a fee, accrued daily and payable monthly, at an annual rate of 0.75 percent of average daily net assets of the Company. During the year ended December 31, 20X4, MNO received contingent deferred sales charges of $18,000 from redeeming shareholders. Also, the amount of distribution expenses incurred by MNO and not yet reimbursed was approximately $187,000. This amount may be recovered from future payments under the plan or contingent deferred sales charges.

Included in the statement of operations under the caption “custodian and transfer agent fees” are expense offsets of $4,000 arising from credits on cash balances maintained on deposit.

---

* Practitioners should consider all of the disclosure requirements of SFAS 133 and related amendments, which may not be necessarily reflected in these financial statements and notes to the financial statements.
### Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X3</th>
<th>20X2</th>
<th>20X1</th>
<th>20X0‡‡</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Per Share Operating Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(For a share of capital stock outstanding throughout the period):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net asset value, beginning of period</td>
<td>$4.88</td>
<td>$4.46</td>
<td>$4.16</td>
<td>$4.81</td>
<td>$4.53</td>
</tr>
<tr>
<td><strong>Income from investment operations:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment income</td>
<td>0.21</td>
<td>0.15</td>
<td>0.19</td>
<td>0.17</td>
<td>0.15</td>
</tr>
<tr>
<td>Net realized and unrealized gain (loss) on investment transactions</td>
<td>(0.04)</td>
<td>0.76</td>
<td>0.52</td>
<td>(0.42)</td>
<td>0.48</td>
</tr>
<tr>
<td>Total from investment operations</td>
<td>0.17</td>
<td>0.91</td>
<td>0.71</td>
<td>(0.25)</td>
<td>0.63</td>
</tr>
<tr>
<td>Less distributions</td>
<td>(0.50)</td>
<td>(0.47)</td>
<td>(0.41)</td>
<td>(0.40)</td>
<td>(0.35)</td>
</tr>
<tr>
<td>Tax return of capital distribution</td>
<td>—</td>
<td>(0.02)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total distributions</td>
<td>(0.50)</td>
<td>(0.49)</td>
<td>(0.41)</td>
<td>(0.40)</td>
<td>(0.35)</td>
</tr>
<tr>
<td>Net asset value, end of period</td>
<td>$4.55</td>
<td>$4.88</td>
<td>$4.46</td>
<td>$4.16</td>
<td>$4.81</td>
</tr>
<tr>
<td><strong>Total Return:</strong></td>
<td>3.48%</td>
<td>20.40%</td>
<td>17.07%</td>
<td>(5.02)%</td>
<td>3.91%</td>
</tr>
</tbody>
</table>

### Supplemental Data:

<p>| | | | | | |</p>
<table>
<thead>
<tr>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets, end of period (000)</td>
<td>$19,173</td>
<td>$17,792</td>
<td>$14,410</td>
<td>$15,000</td>
<td>$14,000</td>
</tr>
<tr>
<td><strong>Ratio to average net assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses##</td>
<td>1.33%***</td>
<td>1.31%</td>
<td>.99%</td>
<td>.82%</td>
<td>.84%***</td>
</tr>
<tr>
<td>Net investment income##</td>
<td>4.56%***</td>
<td>2.82%</td>
<td>4.22%</td>
<td>5.42%</td>
<td>5.10%***</td>
</tr>
<tr>
<td>Portfolio turnover rate</td>
<td>92%</td>
<td>80%</td>
<td>108%</td>
<td>75%</td>
<td>62%</td>
</tr>
</tbody>
</table>

### Notes:

- ‡‡ Period from March 1, 20X0 (inception) to December 31, 20X0.
- 11**1 Not annualized for periods less than a year.
- ** Annualized for periods less than one year.
- *** Such percentages are after advisory fee waivers and expense subsidies. The adviser voluntarily waived a portion of its investment advisory fee (equal to 0.22% of average net assets) in 20X4 and subsidized certain operating expenses (equal to 0.21% of average net assets) in 20X0.

The accompanying notes are an integral part of these financial statements.
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<th>Description</th>
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## Supplements to Corporations Checklist

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## Post Binder

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*With conforming changes as of May 1, 2005*

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<td>State and Local Governments</td>
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