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Checklist supplement and illustrative financial statements : Investment companies, September 2010 edition

American Institute of Certified Public Accountants (AICPA)

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Investment Companies September 2010 AICPA

CHECKLIST SUPPLEMENT & ILLUSTRATIVE FINANCIAL STATEMENTS

Investment Companies

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

SEPTEMBER 2010

AICPA

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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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FSP Section 12,000

Checklist Supplement and Illustrative Financial Statements for Investment Companies

Introduction

.01 An *investment company*, as described in Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 946-10-05-2 and as used in this checklist, generally is an entity that pools shareholders' funds to provide the shareholders with professional investment management. This term does not match the legal definition of an investment company in the federal securities laws. Typically, an investment company sells its capital shares to the public, invests the proceeds, mostly in securities, to achieve its investment objectives, and distributes to its shareholders the net income earned on its investments and net gains realized on the sale of its investments.

.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 FASB ASC 946-10-05-3 explains that several kinds of investment companies exist: management investment companies, unit investment trusts, common (collective) trust funds, investment partnerships, certain separate accounts of life insurance companies, and offshore funds. Management investment companies may be open-end funds, usually known as mutual funds, closed-end funds, special purpose funds, venture capital investment companies, small business investment companies (SBICs), and business development companies. Investment companies are organized as corporations (in the case of mutual funds, under the laws of certain states that authorize the issuance of common shares redeemable on demand of individual shareholders), common law trusts (sometimes called business trusts), limited partnerships, limited liability investment partnerships and companies, and other more specialized entities, such as separate accounts of insurance companies that are not in themselves entities at all except in the technical definition of the Investment Company Act of 1940 (1940 Act).

.04 The checklist has been designed primarily for auditors of mutual funds and closed-end investment companies that register with the SEC under the 1940 Act. However, the checklist would generally apply to all types of investment companies. Certain disclosures that would apply to investment companies other than mutual funds and closed-end investment companies are also presented.

.05 Investment companies covered by the checklist are required to report their investment assets at fair value, as stated by FASB ASC 946-10-15-2, and have the following attributes:

a. *Investment activity.* The investment company's 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 investment company's 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 the following:

a. FASB ASC 946, *Financial Services—Investment Companies*

b. AICPA Audit and Accounting Guide *Investment Companies*

c. Articles 6 and 12 of Regulation S-X of the SEC

d. The Securities Act of 1933

e. The 1940 Act

General

.07 This publication includes the following information:

- Financial Statements and Notes Checklist (FSP section 12,100)—For use by preparers of financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures
- Auditor's Report, Illustrative Financial Statements, and Notes (FSP section 12,200)

.08 This checklist is to be used in conjunction with the *Checklists and Illustrative Financial Statements: Corporations* (product no. 0089310 [paperback] or WCP-CL [online]).

.09 This checklist is intended to be used in connection with engagements of nonpublic companies and is not intended to be used in connection with audits of public entities that are required to be audited under standards established by the Public Company Accounting Oversight Board.

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

.11 This checklist and illustrative financial statements have been developed by the AICPA Accounting and Auditing Publications Staff to serve as nonauthoritative technical practice aids for use by preparers of financial statements and by practitioners who audit them. Readers should be aware of the following:

- The checklist includes disclosures commonly encountered in investment company financial statements; it does not include all disclosures required by generally accepted accounting principles in the United States (U.S. 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 U.S. GAAP or by SEC regulation, nor do they illustrate all of the disclosures covered in the checklist. Another important item of note is that the illustrative financial statements are not necessarily updated annually.
- The checklist and illustrative financial statements are tools and in no way represent official positions or pronouncements of the AICPA.

.12 Note that the *Checklist and Illustrative Financial Statements: Corporations* contains auditor's and accountant's report checklists which address those requirements most likely to be encountered when reporting on financial statements of a commercial corporation prepared in conformity with U.S. GAAP. They do not include reporting requirements relating to other matters such as internal control or agreed-upon procedures.

.13 Users of the financial statements and notes checklist should remember that it is a disclosure checklist only and not a comprehensive U.S. GAAP application or measurement checklist. Accordingly, application and measurement issues related to preparing financial statements in conformity with U.S. GAAP are not included in the checklist.

.14 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 U.S. GAAP, generally accepted auditing standards, and other relevant technical guidance.

.15 In some cases, this checklist uses the term "Common Practice" or provides additional "Practice Tips" to describe a disclosure item. In such cases, although there is no authoritative guidance to support such a disclosure for nonpublic companies, it has become a common practice that such disclosures are made. Companies should evaluate whether such items warrant disclosure in their financial statements.

.16 Relevant financial statement reporting and disclosure guidance issued through September 30, 2010, has been considered in the development of this edition of the checklist. This includes relevant guidance issued up to and including the following:

- FASB Accounting Standards Updates issued through September 30, 2010
- Statement on Auditing Standards No. 120, *Required Supplementary Information* (AICPA, *Professional Standards*, vol. 1, AU sec. 558)
- Interpretation No. 4, "Appropriateness of Identifying No Significant Deficiencies or No Material Weaknesses in an Interim Communication," of AU section 325, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 9325 par. .11–.13)
- SOP 09-1, *Performing Agreed-Upon Procedures Engagements That Address the Completeness, Accuracy, or Consistency of XBRL-Tagged Data* (AICPA, *Technical Practice Aids*, AUD sec. 14,440).

.17 On June 11, 2007, SOP 07-1, *Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies*, was issued. The intent of SOP 07-1 was to provide guidance for determining whether an entity was within the scope of investment company accounting guidance. In response to the SOP, FASB issued FASB Staff Position (FSP) SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1*, which delayed the effective date of SOP 07-1 indefinitely. FSP SOP 07-1-1 amends paragraph 56 of SOP 07-1 to (*a*) delay the effective date of the SOP and (*b*) prohibit adoption of the SOP for an entity that has not early adopted the SOP before issuance of the final FSP, which occurred on February 14, 2008. An entity that early adopted SOP 07-1 before issuance of the final FSP would be permitted, but not required, to continue to apply the provisions of the SOP. An entity that did not early adopt SOP 07-1 would not be permitted to adopt the SOP. The effective date of FSP SOP 07-1-1 is December 15, 2007.

Given the possibility of early adopters continuing to follow the guidance provided in SOP 07-1, SOP 07-1 was included in FASB ASC 946, but has been labeled as indefinitely delayed "Pending Content." FASB ASC 946-10-65-1 explains the circumstances and all indefinitely delayed "Pending Content" from SOP 07-1 is linked to this paragraph. This checklist does not include disclosures required by SOP 07-1.

.18 Any guidance issued subsequent to September 30, 2010, has not been included in this checklist; therefore, if your company has a fiscal year-end after September 30, 2010, you need to consider the applicability of such guidance.

.19 This checklist contains numerous references to authoritative accounting guidance. Abbreviations and acronyms used in such references include the following:

AAG-INV =	AICPA Audit and Accounting Guide *Investment Companies* (with conforming changes as of May 1, 2010)
1940 Act =	Securities and Exchange Commission (SEC) Investment Company Act of 1940
FASB ASC=	Reference to a topic, subtopic, section, or paragraph in Financial Accounting Standards Board *Accounting Standards Codification™*
Form N-1A =	SEC Form N-1A
Form N-2 =	SEC Form N-2
Reg. S-X =	SEC Regulation S-X

.20 The accounting guidance in this checklist has been conformed to reflect reference to FASB ASC as it existed on September 30, 2010.

Instructions

.21 Within this checklist is a number of questions or statements that are accompanied by references to applicable authoritative guidance. The checklist provides spaces for checking off or initialing each question or for indicating that it has been addressed. Carefully review the topics listed and consider whether they represent potential disclosure items for the reporting company for which you are preparing financial statements or auditing them. Users should check or initial

- ***Yes*—**If the disclosure is required and has been made appropriately.
- ***No*—**If the disclosure is required but has not been made.
- ***N/A (Not Applicable)*—**If the disclosure is not applicable to the company.

.22 It is important that the effect of any "No" response be considered on the auditor's report. For audited financial statements, a "No" response that is material to the financial statements may warrant a departure from an unqualified opinion as discussed in paragraphs .20–.64 of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1). If a "No" response is indicated, the authors recommend that a notation be made in the margin to explain why the disclosure was not made (for example, because the item was not considered to be material to the financial statements).

.23 Users may find it helpful to use the right margin for certain other remarks and comments as appropriate, including the following:

a. For each disclosure for which a "Yes" is indicated, a notation regarding where the disclosure is located in the financial statements and a cross-reference to applicable working papers where the support to a disclosure may be found

b. For items marked as "N/A," the reasons for which they do not apply in the circumstances of the particular report

c. For each disclosure for which a "No" response is indicated, a notation regarding why the disclosure was not made (for example, because the item was not considered to be material to the financial statements)

.24 The checklist and illustrative financial statements have been prepared by the AICPA staff. They have not been reviewed, approved, disapproved, or otherwise acted on by any senior technical committee of the AICPA and do not represent official positions or pronouncements of the AICPA.

.25 The use of this or any other checklist requires the exercise of individual professional judgment. This checklist is not a substitute for the original authoritative guidance. Users of the checklist and illustrative financial statements should refer directly to applicable authoritative guidance when appropriate. The checklist and illustrative materials may not include all disclosures and presentation items promulgated, nor do they represent minimum standards or requirements. Additionally, users of the checklist and illustrative materials should tailor them as required to meet specific circumstances. As an additional resource, members may call the AICPA Technical Hotline at (877) 242-7212.

Recognition

.26 The AICPA gratefully appreciates the invaluable assistance Keira A. Kraft provided in updating and maintaining the guidance in this checklist.

.27 We hope you find this checklist helpful as you perform your audit. We would greatly appreciate your feedback on this checklist. You may email these comments to kkraft@aicpa.org or write to:

Keira A. Kraft, CPA
AICPA
220 Leigh Farm Road
Durham, NC 27707-8110

Note: This publication was extracted from sections 12,000–12,200 of the AICPA *Financial Statement Preparation Manual*.

FSP Section 12,100
Financial Statements and Notes Checklist

.01 Checklist Questionnaire:

This checklist is organized into the sections listed in the following table. 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
I.	General		
	A.	Financial Statements Presented	________
	B.	Reporting Financial Position	________
II.	Schedule of Investments		________
III.	Statement of Assets and Liabilities		
	A.	Assets	________
	B.	Liabilities	________
	C.	Net Assets	________
	D.	Reporting Fully Benefit-Responsive Investment Contracts	________
IV.	Statement of Operations		
	A.	Income	________
	B.	Expenses	________
	C.	Net Investment Income	________
	D.	Gain or Loss From Investments and Foreign Currency Transactions	________
	E.	Net Increase or Decrease in Net Assets From Operations	________
	F.	Reporting Fully Benefit-Responsive Investment Contracts	________
V.	Statement of Changes in Net Assets		________
VI.	Statement of Cash Flows		________
VII.	Financial Highlights		________
VIII.	Fully Benefit-Responsive Investment Contract Disclosures		________
IX.	Other Disclosure Requirements		________
X.	Interim Financial Statements		________
XI.	Funds With Multiple Classes of Shares or Master-Feeder Structures		________

I. General

	Yes	No	N/A

Practice Tips

The AICPA has released several nonauthoritative Technical Questions and Answers (TIS) sections that answer questions accountants and auditors may have regarding investment companies. These questions and answers are located in TIS section 6910, *Investment Companies* (AICPA, *Technical Practice Aids*).

TIS section 6910.33, "Certain Financial Reporting, Disclosure, Regulatory, and Tax Considerations When Preparing Financial Statements of Investment Companies Involved in a Business Combination," was recently released.

Technical Practice Aids are nonauthoritative and are not sources of established accounting principles as described in Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 105, *Generally Accepted Accounting Principles*.

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 FASB ASC 230-10)? ____ ____ ____

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

   e. Financial highlights for the latest period consisting of

      i. 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 (NAV)? ____ ____ ____

      ii. net investment income and expense ratios and total return, or the internal rate of return (IRR) since inception if applicable, for investment companies not using unitized NAV? ____ ____ ____
      [FASB ASC 946-205-45-1]

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 Rule 12-12C of Regulation S-X.) ____ ____ ____

	Yes	No	N/A
b. A statement of operations for the latest year?	_____	_____	_____
c. A statement of cash flows for the latest year (if not exempted by FASB ASC 230-10)?	_____	_____	_____
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)?	_____	_____	_____
e. Financial highlights for the latest five fiscal years (for semiannual reports, the semiannual period and generally the preceding five fiscal years)? [FASB ASC 946-205-45-1]	_____	_____	_____
3. For investment companies not using unitized NAV, are financial highlights (which consist of net investment income and expense ratios and total return or the IRR since inception) presented? [FASB ASC 946-205-45-2]	_____	_____	_____
4. 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)? [Reg. S-X Rule 6.03(j)]	_____	_____	_____
5. For nonpublic investment companies involving master-feeder arrangements, 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 (*not required*)? [FASB ASC 946-205-45-6]	_____	_____	_____

Note: The financial statements of unit investment trusts (UITs) are similar to those of management investment companies. When a trust is formed, the financial statements filed with the Securities and Exchange Commission (SEC) on Form S-6 include a statement of assets and liabilities and a schedule of investments. Subsequently, if the sponsor repurchases and re-offers trust units in the secondary market, a posteffective amendment to Form S-6 must be filed periodically with the SEC. The financial statements included in the posteffective amendment, which are prepared in accordance with Regulation S-X, include a statement of assets and liabilities, a schedule of investments, statements of operations, and statements of changes in net assets.
[AAG-INV 9.16]

B. Reporting Financial Position

	Yes	No	N/A
1. If a statement of net assets is presented in lieu of a balance sheet, is the amount of investments in securities of unaffiliated issuers at least 95 percent of total assets? [Reg. S-X 6-05]	_____	_____	_____

	Yes	No	N/A
2. Does the statement of net assets present a schedule of investments in securities of unaffiliated issuers, the excess (deficiency) of other assets over (under) total liabilities stated in one amount (except amounts due from or to officers, directors, controlled persons, or other affiliates, excluding any amounts owing to noncontrolled affiliates, which arose in the ordinary course of business and are subject to usual trade terms), and the balance of the amounts captioned as net assets (the number of outstanding shares and NAV per share should be shown parenthetically)? [Reg. S-X 6-05]	____	____	____
3. Are additional disclosures prescribed for a statement of net assets in Rule 6-05 of Regulation S-X presented? [Reg. S-X 6-05]	____	____	____
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? [FASB ASC 946-210-45-2]	____	____	____
5. Does the statement of net assets include a schedule of investments? [FASB ASC 946-210-45-2]	____	____	____
6. For management investment companies that have multiple classes of shares or master-feeder structures, is the NAV per share and shares outstanding presented for each class? [FASB ASC 946-210-45-4]	____	____	____
7. For management investment companies that have multiple classes of shares or master-feeder structures, is the composition of net assets for multiple-class funds reported in total? [FASB ASC 946-210-45-4]	____	____	____

II. Schedule of Investments

Practice Tip

As discussed in FASB ASC 946-210-50-8, investments in other investment companies (investees), such as investment partnerships, limited liability companies, and funds of funds, should be considered investments for purposes of applying the guidance in (*a*) and (*b*) in question 1.

	Yes	No	N/A
1. Do investment companies other than nonregistered investment partnerships, in the absence of regulatory requirements,			
a. disclose the name, share, or principal amount of			
i. each investment (including short sales, written options, futures contracts, forward contracts, and other investment-related liabilities) whose fair value constitutes more than one percent of net assets? In applying the one percent test, total long and total short positions in any one issuer should be considered separately.	____	____	____

Yes No N/A

ii. all investments in any one issuer whose fair values aggregate more than one percent of net assets? In applying the one percent test, total long and total short positions in any one issuer should be considered separately. _____ _____ _____

iii. at a minimum, the 50 largest investments? _____ _____ _____

b. categorize investments by both of the following characteristics:

i. Type (such as common stocks, preferred stocks, convertible securities, fixed income securities, government securities, options purchased, options written, warrants, futures contracts, loan participations and assignments, short-term securities, repurchase agreements, short sales, forward contracts, other investment companies, and so forth)? _____ _____ _____

ii. Related industry, country, or geographic region of the investment? _____ _____ _____

c. disclose the aggregate other investments (each of which is not required to be disclosed by question 1[*a*] preceding) without specifically identifying the issuers of such investments and categorize as required by question 1(*b*) preceding:

i. The percent of net assets that each such category represents? _____ _____ _____

ii. The total value for each category in question 1(*b*) (i)–(ii)? _____ _____ _____
[FASB ASC 946-210-50-1]

2. For public registrants, do disclosures relating to repurchase agreements include (Rule 12-12[1] of Regulation S-X requires that each issue shall be listed separately)

a. parties to the agreement? _____ _____ _____

b. date of the agreement to repurchase? _____ _____ _____

c. repurchase date? _____ _____ _____

d. total amount to be received upon repurchase? _____ _____ _____

e. description of securities subject to the repurchase agreement? _____ _____ _____
[Reg. S-X 12-12(2)]

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 dates of the repurchase agreements, the total purchase price of the securities, the total amount to be received upon repurchase, the range of repurchase dates, and a description of securities subject to the repurchase agreements? _____ _____ _____
[Reg. S-X 12-12C(3)]

		Yes	*No*	*N/A*
4.	For public registrants, are investments in restricted securities disclosed? [Reg. S-X 12-12 and 12-12C]	_____	_____	_____
5.	For public registrants, are securities subject to call options, disclosed separately from puts? [Reg. S-X 12-12 and 12-12C]	_____	_____	_____
6.	For public registrants, are nonincome-producing securities identified? [Reg. S-X 12-12(5) and 12-12C(8)]	_____	_____	_____
7.	For public registrants, are assets pledged as collateral identified? [Reg. S-X 4-08(b)]	_____	_____	_____
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? [Reg. S-X 12-12C(3)]	_____	_____	_____

Note: 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 paragraphs 4–6 of FASB ASC 946-210-50 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 7.28]

Practice Tip

As discussed in FASB ASC 946-210-50-6(c)(1), in applying the 5 percent test, total long and total short positions in any one issuer should be considered separately. TIS section 6910.18, "Disclosure of an Investment in an Issuer When One or More Securities or One or More Derivative Contracts Are Held—Nonregistered Investment Partnerships" (AICPA, *Technical Practice Aids*), provides guidance on applying the requirements in FASB ASC 946-210-50-6.

Further, as discussed in FASB ASC 946-210-50-8, investments in other investment companies (investees), such as investment partnerships, limited liability companies, and funds of funds, should be considered investments for purposes of applying the guidance in question 9, which follows.

9. Do the financial statements of investment partnerships that are exempt from SEC registration under the Investment Company Act of 1940 include, at a minimum, a condensed schedule of investments in securities owned by the partnership at the close of the most recent period that does the following:

   a. Categorize investments by all of the following:

	Yes	No	N/A
i. Type (such as common stocks, preferred stocks, convertible securities, fixed income securities, government securities, options purchased, options written, warrants, futures contracts, loan participations and assignments, short-term securities, repurchase agreements, short sales, forward contracts, other investment companies, and so forth)?	____	____	____
ii. Country or geographic region, except for derivative instruments for which the underlying is not a security?	____	____	____
iii. Industry, except for derivative instruments for which the underlying is not a security?	____	____	____
iv. For derivative instruments for which the underlying is not a security, by broad category of underlying in place of the categories in question 9(*a*)(ii)–(iii)?	____	____	____
b. Report the percent of net assets that each category represents in question 9(*a*)(i)–(ii) and the total value and cost for each?	____	____	____
c. Disclose the name, shares or principal amount, value, and type for both of the following:			
i. Each investment (including short sales) constituting more than 5 percent of net assets, except for derivative instruments as discussed in question 9(*e*)–(*f*) ?	____	____	____
ii. All investments in any one issuer aggregating more than 5 percent of net assets, except for derivative instruments as discussed in question 9(*e*)–(*f*)?	____	____	____
d. Aggregate other investments (each of which is 5 percent or less of net assets)			
i. without specifically identifying the issuers of such investments?	____	____	____
ii. and categorize them in accordance with question 9(*a*)?	____	____	____
e. Disclose 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?	____	____	____
f. Disclose 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?	____	____	____

	Yes	No	N/A
g. Provide both of the following additional qualitative descriptions for each investment in another nonregistered investment partnership whose fair value constitutes more than 5 percent of net assets:			
i. The investment objective?	____	____	____
ii. Restrictions on redemption (that is, liquidity provisions)? [FASB ASC 946-210-50-6]	____	____	____

Notes: The following TIS sections address application of the guidance in FASB ASC 946-210-50-6:

- TIS section 6910.16, "Presentation of Boxed Investment Positions in the Condensed Schedule of Investments of Nonregistered Investment Partnerships"
- TIS section 6910.17, "Disclosure of Long and Short Positions"
- TIS section 6910.18

TIS sections are nonauthoritative and are not sources of established accounting principles as described in FASB ASC 105.

******

AAG-INV paragraph 7.182 provides an illustration of a condensed schedule of investments.

	Yes	No	N/A
10. Investments in Other Investment Companies			
a. If the reporting investment company's proportional share of any investment owned by any individual investee exceeds 5 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?	____	____	____
b. Are these investee disclosures made either in the condensed schedule of investments (as components of the investment in the investee) or in a note to that schedule?	____	____	____
c. If information about the investee's portfolio is not available, is that fact disclosed? [FASB ASC 946-210-50 par. 9–10]	____	____	____
11. Are credit enhancements shown as a component of the security description in the schedule of investments? [FASB ASC 946-210-45-8]	____	____	____
12. 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? [Rule 6.04 of Reg. S-X]	____	____	____
13. Are the terms, conditions, and other arrangements relating to credit enhancements disclosed in the notes to the financial statements? [FASB ASC 946-210-50-11]	____	____	____

	Yes	No	N/A
14. For a letter of credit, is the name of the entity issuing the letter of credit disclosed separately? [FASB ASC 946-210-50-13]	_____	_____	_____
15. 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? [FASB ASC 946-210-50-12]	_____	_____	_____
16. If the investment company is required by FASB ASC 946-210-50-1 to present a Schedule of Investments, is the following information disclosed and reconciled to the corresponding line items on the statement of assets and liabilities:			
a. The fair value of each investment contract, including separate disclosure of both of the following:			
i. The fair value of the wrapper contract?	_____	_____	_____
ii. The fair value of each of the corresponding underlying investments, if held by the fund, included in that investment contract?	_____	_____	_____
b. Adjustment from fair value to contract value for each investment contract (if the investment contract is fully benefit-responsive)?	_____	_____	_____
c. Major credit ratings of the issuer or wrapper provider for each investment contract? [FASB ASC 946-210-45-18]	_____	_____	_____
17. Is the aggregate cost of securities for federal income tax purposes disclosed? [Reg. S-X 12-12(8) and 12-12C(11)]	_____	_____	_____
18. Are additional disclosures made in accordance with Reg. S-X Rule 12-12 or Rule 12-12C pertaining to aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost, aggregate, aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value, and net unrealized appreciation or depreciation (on a tax basis)? [Reg. S-X 12-12(8) and 12-12C(11)]	_____	_____	_____
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 Rule 12-12C (note 9)? [Reg. S-X 12-12(6) and 12-12C(9)]	_____	_____	_____
20. If any securities are listed as "miscellaneous securities" does a footnote briefly explain what the term represents? [Reg. S-X 12-12(1)]	_____	_____	_____
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(6)]	_____	_____	_____

Yes No N/A

III. Statement of Assets and Liabilities

Practice Tips

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines *fair value*, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The AICPA practice aid *Alternative Investments—Audit Considerations* discusses investments in financial instruments that do not have a readily determinable market value. The nonauthoritative practice aid is designed to assist auditors in auditing alternative investments and includes guidance on the following topics:

1. General considerations pertaining to auditing alternative investments
2. Addressing management's financial statement existence assertion
3. Addressing management's financial statement valuation assertion
4. Management representations
5. Disclosure of certain significant risks and uncertainties
6. Reporting

The guidance contained in Accounting Standards Update (ASU) No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, also discusses fair value measurement of alternative investments and was incorporated into FASB ASC 820-10. It is applicable to all reporting entities that hold an investment that is required or permitted to be measured or disclosed at fair value on a recurring or nonrecurring basis, and, as of the reporting entity's measurement date, if the investment both does not have a readily determinable fair value and is in an entity that has all of the attributes specified in FASB ASC 946-10-15-2 or, if one of those attributes is not met, is in an entity for which it is industry practice to issue financial statements using guidance that is consistent with the measurement principles in FASB ASC 946, *Financial Services—Investment Companies*. As a practical expedient, this ASU permits a reporting entity to measure the fair value of an investment within its scope on the basis of the NAV per share of the investment (or its equivalent) if the NAV is calculated in a manner consistent with the measurement principles of FASB ASC 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with FASB ASC 820.

Another useful source of information related to auditing fair value is the Public Company Accounting Oversight Board (PCAOB) issued release, *Report on Observations of PCAOB Inspectors Related to Audit Risk Areas Affected by the Economic Crisis*. This report was issued to discuss the audit risks and challenges that resulted from the economic crisis the PCAOB identified through its inspection program. This report covers inspections from the 2007, 2008, and 2009 inspection cycles, which generally involved reviews of audits of issuers' fiscal years ending in 2006–2008. One of the heightened risk factors identified by the PCAOB that is of particular importance to investment companies is in the audit area of fair value measurements. The report can be accessed at http://pcaobus.org/Inspections/Documents/4010_Report_Economic_Crisis.pdf.

The PCAOB also issued Staff Audit Practice Alert No. 4, *Auditor Considerations Regarding Fair Value Measurements, Disclosures, and Other-Than-Temporary Impairments* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Staff Guidance, sec. 400.04), which discusses, among other topics, considerations for auditors when estimating fair value when the volume and activity for an asset or liability have significantly decreased plus disclosures on fair value. This alert can be accessed at http://pcaobus.org/Standards/QandA/04-21-2009_APA_4.pdf.

See the "Fair Value Measurements and Disclosures" disclosure section under "Broad Transactions" in *Checklists and Illustrative Financial Statements: Corporations* for a complete list of disclosure questions related to FASB ASC 820.

	Yes	No	N/A

A. Assets

1. Investments in Securities

a. Is consideration given to reporting investments in securities as the first asset (***common practice***)? [AAG-INV 7.40] ____ ____ ____

b. If material, is consideration given to disclosing in the notes to the financial statements the circumstances surrounding the substitution of good-faith estimates of fair value for market quotations or pricing service valuations (***common practice***)? [AAG-INV 2.50] ____ ____ ____

c. 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? [FASB ASC 946-830-50-2] ____ ____ ____

d. Are appropriate disclosures about the method(s) used to determine the value of investments stated in the notes to the financial statements? [Reg. S-X 6-03(d)] ____ ____ ____

e. Are investments in securities of unaffiliated issuers shown in the balance sheet and reflected at value, with aggregate cost shown parenthetically? [Reg. S-X 6-03(d) and 6-04.1] ____ ____ ____

f. Are investments in and advances to affiliates shown in the balance sheet and reflected at value, with aggregate cost shown parenthetically? [Reg. S-X 6-03(d) and 6-04.2] ____ ____ ____

g. Are investments in and advances to affiliates stated separately for

i. controlled companies? ____ ____ ____

ii. other affiliates? ____ ____ ____
[Reg. S-X 6-04.2]

h. 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)] ____ ____ ____

i. Is an amount for total investments shown in the balance sheet 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?" [FASB ASC 946-305-45-1] ____ ____ ____

	Yes	No	N/A
b. Are amounts held in foreign currencies disclosed separately at value, with acquisition cost shown parenthetically? [FASB ASC 946-305-45-2]	____	____	____
c. Is separate disclosure made of time deposits and other funds subject to withdrawal or usage restrictions, including the provisions of any restrictions? [Reg. S-X 5-02.1]	____	____	____
3. Receivables			
a. Are receivables listed separately for each of the following categories at net realizable value, among others:			
i. Dividends and interest?	____	____	____
ii. Investment securities sold?	____	____	____
iii. Capital stock sold?	____	____	____
iv. Other accounts receivable, such as receivables from related parties, including expense reimbursement receivables from affiliates, and variation margin on open futures contracts? [FASB ASC 946-310-45-1]	____	____	____
v. Directors and officers (for registrants)? [Reg. S-X 6-04.6]	____	____	____
vi. Notes receivable, if the aggregate amount exceeds 10 percent of the aggregate amount of the receivables (for registrants)? [Reg. S-X 6-04.6(b)]	____	____	____
vii. Others (for registrants)? [Reg. S-X 6-04.6]	____	____	____
b. Are receivables in foreign currencies converted into the functional currency at current exchange rates? [FASB ASC 946-310-45-2]	____	____	____
4. Other Assets			
a. Are deferred offering costs, prepaid taxes, and prepaid insurance considered for inclusion under this caption, with amounts not reported separately unless significant (***common practice***)? [AAG-INV 7.48]	____	____	____
b. For registrants, are amounts held by others in connection with short sales and option contracts stated separately? [Reg. S-X 6-04.7]	____	____	____
c. For registrants, are prepaid and deferred expenses, pension and other special funds, organization expenses, and other significant items not properly classified in another asset caption stated separately? [Reg. S-X 6-04.8]	____	____	____

	Yes	No	N/A

5. Total Assets

   a. For registrants, is the amount of total assets shown in the balance sheet? _____ _____ _____
   [Reg. S-X 6-04.9]

B. Liabilities

1. Accounts Payable

   a. Are accounts payable listed separately for investment securities purchased and capital stock reacquired? _____ _____ _____
   [FASB ASC 946-405-45-1]

   b. For registrants, are amounts payable for securities sold short, open options contracts written, other purchases of securities, capital shares redeemed, dividends or other distributions on capital shares, and other items stated separately? _____ _____ _____
   [Reg. S-X 6-04.10]

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

   a. For registrants, are call or put options written and securities sold short at the close of the period presented separately? _____ _____ _____
   [Reg. S-X 6-04.10]

   b. Is consideration given to disclosing the premiums received on written options and proceeds from short sales parenthetically (***common practice***)? _____ _____ _____
   [AAG-INV 7.63]

   c. If significant, is consideration given to separately disclosing the variation margin due to a broker on futures contracts (***common practice***)? _____ _____ _____
   [AAG-INV 7.63]

   d. Is consideration given to providing details of securities sold short, options written, and futures contracts, including information about quantities, fair values, and proceeds? _____ _____ _____
   [AAG-INV 7.63]

   e. If information is presented for options written, is consideration given to including the number of shares or principal amount, the fair value of each option, the strike price, and the exercise date (***common practice***)? _____ _____ _____
   [AAG-INV 7.63]

3. Accrued Liabilities

   a. Is consideration given to having accrued liabilities include liabilities for management fees, performance fees, distribution fees, interest, compensation, taxes, and other expenses incurred in the normal course of operations (***common practice***)? _____ _____ _____
   [AAG-INV 7.64]

	Yes	No	N/A
4. Notes Payable and Other Debt			
a. Is consideration given to separately reporting notes payable to banks, including bank overdrafts, and to others, and other debt being stated at amounts payable, net of unamortized premium or discount, unless the fair value option, which is permitted under FASB ASC 825, *Financial Instruments*, is elected (***common practice***)? [AAG-INV 7.65]	____	____	____
b. Has information related to unused lines of credit, conditions of credit agreements, and long-term debt maturities been considered for disclosure in the notes to the financial statements (***common practice***)? [AAG-INV 7.65]	____	____	____
c. For registrants, are amounts payable to (i) banks or other financial institutions for borrowings, (ii) controlled companies, (iii) other affiliates, and (iv) 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. For registrants, 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?	____	____	____
b. Are payables denominated in foreign currencies converted into the functional currency at current exchange rates? [FASB ASC 946-405-45-2]	____	____	____
c. For funds with a 12b-1 plan, do the financial statements disclose			
i. the principal terms of the plan (board-contingent and enhanced plans)?	____	____	____
ii. any plan provisions permitting or requiring payments of excess costs after plan termination (board-contingent and enhanced plans)?	____	____	____
iii. the aggregate amount of distribution costs subject to recovery through future payments by the fund pursuant to the plan and through future contingent-deferred sales load payments by current shareholders (board-contingent and enhanced plans)?	____	____	____

	Yes	No	N/A
iv. the methodology used to estimate future contingent-deferred sales load payments by current shareholders (enhanced plans)? [FASB ASC 946-20-50-3]	____	____	____
d. For registrants, are amounts payable for (i) investment advisory, management, and service fees and (ii) the total amount payable to officers and directors, controlled companies, and other affiliates, excluding any amounts owing to noncontrolled affiliates, which arose in the ordinary course of business and are subject to usual trade terms, stated separately? [Reg. S-X 6-04.12]	____	____	____
e. For registrants, are the value of securities loaned and the nature of any collateral received as security for the loan, including the amount of any cash received, stated? [Reg. S-X 6-04.11]	____	____	____
6. Total Liabilities (for registrants)			
a. Is the amount of total liabilities shown in the balance sheet? [Reg. S-X 6-04.14]	____	____	____
b. Are commitments and contingent liabilities disclosed? [Reg. S-X 6-04.15]	____	____	____
C. Net Assets			
1. Are the following disclosed either on the face of the statement or in the notes:			
a. Units of capital, including the title of each class of capital shares or other capital units, the number authorized, the number outstanding and the dollar amount (for registrants)? [Reg. S-X 6-04.16a]	____	____	____
b. Shareholder capital?	____	____	____
c. Distributable earnings? [FASB ASC 946-20-50-11]	____	____	____
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? [FASB ASC 946-20-50-12]	____	____	____
3. 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? [FASB ASC 946-20-50-13]	____	____	____
4. Are explanations provided for the differences between the total of these amounts and distributable earnings (accumulated losses)? [FASB ASC 946-20-50-13]	____	____	____

	Yes	No	N/A
5. Is NAV per share disclosed for each class of shares? [FASB ASC 946-505-50-1]	____	____	____
6. For registrants, 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]	____	____	____
7. For registrants, is the NAV per share shown? [Reg. S-X 6-04.19]	____	____	____
8. For a registered investment company, consistent with SEC staff announcement "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 7.84]	____	____	____

Note: Under "Pending Content" in FASB ASC 480-10-25, financial instruments that 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 are not within the scope of FASB ASC 480-10-25 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 7.84 (and included in question 8) should continue to be followed by registered investment companies. FASB deferred the effective date of portions of the guidance in FASB ASC 480, *Distinguishing Liabilities from Equity*. See FASB ASC 480-10-65-1 for a complete discussion of the deferral.
[AAG-INV 7.87]

	Yes	No	N/A
9. 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 7.84]	____	____	____
10. For investment partnerships and other pass-through entities, have all elements of equity been aggregated into partners' capital because the results from operations are deemed distributed to each partner? [FASB ASC 946-20-50-14]	____	____	____

D. Reporting Fully Benefit-Responsive Investment Contracts

	Yes	No	N/A
1. Are investments (including traditional guaranteed investment contracts) and wrapper contracts separately reported on the statement of assets and liabilities, with parenthetical reference that such amounts are being reported at fair value? [FASB ASC 946-210-45-15]	____	____	____

	Yes	No	N/A
2. Does the statement of assets and liabilities present			
a. total assets?	____	____	____
b. total liabilities?	____	____	____
c. net assets reflecting all investments at fair value?	____	____	____
d. net assets? [FASB ASC 946-210-45-16]	____	____	____
3. Is the difference between net assets reflecting all investments at fair value (from question 2[*c*]) and net assets (from question 2[*d*]) presented as a single amount on the face of the statement of assets and liabilities (calculated as the sum of the amounts necessary to adjust the portion of net assets attributable to each fully benefit-responsive investment contract from fair value to contract value)? [FASB ASC 946-210-45-16]	____	____	____
4. Is net assets used for purposes of preparing per-share disclosures required by FASB ASC 946-205-50 and as the beginning and ending balance in the statement of changes in net assets of the fund? [FASB ASC 946-210-45-16]	____	____	____

IV. Statement of Operations

A. Income

	Yes	No	N/A
1. Are dividends from affiliates and controlled companies disclosed? [FASB ASC 946-20-50-9]	____	____	____
2. Is consideration given to separately disclosing interest earned on securities of affiliates and controlled companies (***common practice***)? [AAG-INV 7.91]	____	____	____
3. Is consideration given to disclosing individual items in other income, if material, separately (***common practice***)? [AAG-INV 7.92]	____	____	____
4. Is consideration given to including fee income from securities loaned and from miscellaneous sources in other income (***common practice***)? [AAG-INV 7.92]	____	____	____
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 of the statement of operations? [FASB ASC 946-830-45-39]	____	____	____
6. For registrants, if noncash dividends are included in income, are the bases of recognition and measurement used disclosed? [Reg. S-X 6-07.1]	____	____	____

	Yes	No	N/A
7. For registrants, are income from dividends, interest on securities, and other income stated separately under the caption "Investment Income?" [Reg. S-X 6-07.1]	____	____	____
8. For registrants, if income from investments in or indebtedness of affiliates is included in other income, is such income segregated under an appropriate caption subdivided to show separately income from controlled companies and other affiliates? [Reg. S-X 6-07.1]	____	____	____
9. For registrants, is any other category of income which exceeds 5 percent of the total shown under the caption "Investment 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 are 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? [FASB ASC 946-225-45-3]	____	____	____
2. Is income tax expense presented under the separate income categories to which it applies (such as investment income or realized and unrealized gains)? [FASB ASC 946-225-45-4]	____	____	____

	Yes	No	N/A
3. Are all voluntary and involuntary waivers disclosed on the face of the statement of operations as a reduction of total expenses? [FASB ASC 946-20-50-7]	_____	_____	_____
4. Are the terms of all voluntary and involuntary waivers disclosed in the notes to the financial statements? [FASB ASC 946-20-50-7]	_____	_____	_____
5. 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? [FASB ASC 946-20-50-4]	_____	_____	_____
6. If the investment company has a brokerage service arrangement with a broker-dealer or an affiliate of a broker-dealer			
a. does the relevant expense caption on the statement of operations 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?	_____	_____	_____
b. are such amounts also shown as a corresponding reduction in total expenses, captioned as "Fees paid indirectly?" [FASB ASC 946-20-45-3]	_____	_____	_____
c. for registrants, 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? [Reg. S-X 6-07.2(g.3)]	_____	_____	_____
7. For registrants, have required disclosures been made in the notes to the financial statements related to brokerage and service arrangements and expense offset arrangements? [Reg. S-X 6-07.2(g)]	_____	_____	_____
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, and notes to the financial statements in the same manner as brokerage service arrangements? [FASB ASC 946-20-45-5]	_____	_____	_____
9. As discussed in FASB ASC 946-20-05-10, 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):			

	Yes	No	N/A
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? [FASB ASC 946-20-45-4]	____	____	____
b. Is the method of computing such payments or allocations described in the notes to the financial statements? [FASB ASC 946-20-50-5]	____	____	____
10. Is the existence of reimbursement agreements and the carryover of excess expenses potentially reimbursable to the adviser but not recorded as a liability disclosed in the notes to the financial statements? [FASB ASC 946-20-50-6]	____	____	____
11. For registrants, under the caption "Expenses," 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)]	____	____	____
12. For registrants, 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 5 percent or more of the total expenses shown under the caption "Expenses" together with a description of the nature of the affiliation? [Reg. S-X 6-07.2(a)]	____	____	____
13. For registrants, 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)]	____	____	____
14. For registrants, based on SEC requirements are expenses exceeding 5 percent of total expenses separately disclosed? [Reg. S-X 6-07.2(b)]	____	____	____
15. For registrants, is information concerning management and service fees, the rate of the fee, and the base and method of computation disclosed in a note to the financial statements? [Reg. S-X 6-07.2(c)]	____	____	____
16. For registrants, do disclosures separately state the amount and a description of any fee reductions or reimbursements representing (*a*) expense limitation agreements or commitments and (*b*) offsets received from broker-dealers showing separately for each amount received or due from (i) unaffiliated persons, and (ii) affiliated persons? [Reg. S-X 6-07.2(c)]	____	____	____
17. For registrants, if no management or service fees are incurred, have the reasons therefor been disclosed? [Reg. S-X 6-07.2(c)]	____	____	____

	Yes	No	N/A
18. For registrants, if expenses are paid other than in cash, are the details disclosed in a note? [Reg. S-X 6-07.2(d)]			
19. For open-end registered management companies, 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 in a note? [Reg. S-X 6-07.2(e)]			
20. For registrants, is the company's status as a *regulated investment company* (as defined 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)]			
21. For registrants, is the aggregate remuneration paid to the following people disclosed:			
a. All directors and all members of any advisory board for regular compensation?			
b. Each director and each member of any advisory board for special compensation?			
c. All officers?			
d. Each person of whom any officer or director is an affiliated person? [Form N-1A Item 27(b)(3)]			
22. For registrants, 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]			
C. Net Investment Income			
1. Is any income tax provision relating to net investment income disclosed separately? [FASB ASC 946-225-50-1]			
2. Is the excess of investment income over total expenses shown as net investment income (loss)? [FASB ASC 946-225-45-5]			
D. Gain or Loss From Investments and Foreign Currency Transactions			

Notes: As stated by FASB ASC 946-225-45-6, the net realized gains or losses from investments and net realized gains or losses from foreign currency transactions may be reported separately or may be combined. Additionally, either combining the net unrealized gains or losses from investments with net unrealized gains or losses from foreign currency transactions or reporting them separately is acceptable. FASB ASC 946-830-50-1 goes on to explain that an entity should disclose its practice of either including or excluding that portion of realized and unrealized

(continued)

	Yes	No	N/A

gains and losses on investments that results from foreign currency changes with or from other foreign currency gains and losses.

Further, as discussed in FASB ASC 946-830-45-36, an investment company is not required to separately disclose that portion of unrealized and realized gains and losses on investments that results from foreign currency changes. All other foreign currency gains and losses should be reported under the realized and unrealized gain or loss on investments and foreign currency section in the statement of operations.

As FASB ASC 946-830-45-37 states, all unrealized foreign currency gain or loss, other than those on investments, should be reported as unrealized appreciation or depreciation on translation of assets and liabilities in foreign currencies. The statement of changes in net assets and the statement of assets and liabilities should reflect the same realized and unrealized gain and loss components. It is permissible to report each of the following items as single components in those statements: (*a*) the combination of the net realized gains or losses from investments with net realized gains or losses from foreign currency transactions and (*b*) the combination of the net unrealized appreciation (depreciation) on investments with the net unrealized appreciation (depreciation) on translation of assets and liabilities in foreign currencies. FASB ASC 946-830-45-38 clarifies that if separate reporting of the unrealized and realized foreign currency gains or losses on investments is chosen, such gains and losses should be aggregated with all other foreign currency gains and losses and reported as described in FASB ASC 946-830-45-37.

1. Net Realized Gain or Loss From Investments and Foreign Currency Transactions

   a. *Investments*. Are net realized gains or losses resulting from sales or other disposals of investments reported net of brokerage commissions? ____ ____ ____

   b. *Foreign currency transactions*. Are net gains and losses from assets or liabilities denominated in foreign currencies during the period reported separately? ____ ____ ____

   c. *Foreign currency transactions*. If separate reporting of foreign currency effects on realized gains or losses from investments is elected, are those effects included in the caption described in question 1(*b*)? ____ ____ ____
   [FASB ASC 946-225-45-6(a)]

2. Net Increase (Decrease) in Unrealized Appreciation or Depreciation on Investments and Translation of Assets and Liabilities in Foreign Currencies

   a. *Investments*. Are changes in net unrealized appreciation or depreciation during the period reported in the statement of operations? ____ ____ ____

   b. *Investments*. Are the major components of unrealized appreciation or depreciation disclosed in a manner that is consistent with question 1 (the guidance in FASB ASC 946-225-45-6[a])? ____ ____ ____

	Yes	No	N/A
c. *Investments*. Is any provision for deferred taxes presented separately?			
d. *Translations of assets and liabilities in foreign currencies*. Is the net change during the period from translating assets and liabilities denominated in foreign currencies reported under the caption "Net Increase (Decrease) in Unrealized Appreciation or Depreciation on Translation of Assets and Liabilities in Foreign Currencies?" [FASB ASC 946-225-45-6(b)]			
3. Net Realized and Unrealized Gain or Loss from Investments and Foreign Currency			
a. Is the sum of net realized gains or losses and changes in unrealized gains or losses 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? [FASB ASC 946-225-45-6(c)]			
4. Net Realized Gain or Loss from Investments			
a. Are net realized gains or losses disclosed in the statement of operations?			
b. Are gains or losses arising from in-kind redemptions disclosed?			
c. Do the notes to the financial statements state the company'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? [FASB ASC 946-225-50-2]			
5. For registrants, are net realized gains or losses on investment transactions (investment securities of unaffiliated issuers, investment securities of affiliated issuers, and investments other than securities) stated separately? [Reg. S-X 6-077.7(a)]			
6. For registrants, in accordance with the Investment Company Act of 1940, is a statement of the aggregate dollar amounts of purchases and sales of investment securities, other than government securities, made during the period covered by the report? [1940 Act Section 30(e)(6)]			
7. Are payments made by affiliates to a fund related to investment losses as described in FASB ASC 946-20-05-2, 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? [FASB ASC 946-20-45-1]			

	Yes	No	N/A
8. 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? [FASB ASC 946-20-50-2]	____	____	____
9. Are gains and losses on investments not meeting investment guidelines of the fund disclosed in the notes to the financial statements? [FASB ASC 946-20-50-2]	____	____	____
10. For registrants, are the following stated separately:			
a. Gain or loss from expiration or closing of option contracts written? [Reg. S-X 6-07.7(c)]	____	____	____
b. Gain or loss on closed short positions in securities? [Reg. S-X 6-07.7(c)]	____	____	____
c. Other realized gain or loss? [Reg. S-X 6-07.7(c)]	____	____	____
d. Federal income taxes paid and other income taxes applicable to realized and unrealized gain (loss) on investments, distinguishing taxes payable currently from deferred income taxes? [Reg. S-X 6-07.7(e)]	____	____	____
11. For registrants, 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?	____	____	____
b. during the period?	____	____	____
c. expired during the period?	____	____	____
d. closed during the period?	____	____	____
e. exercised during the period?	____	____	____
f. balance at end of the period? [Reg. S-X 6-07.7(c)]	____	____	____
12. Are distributions of realized gains by other investment companies disclosed separately under the caption "Realized and unrealized gain (loss) on investments—net?" [Reg. S-X 6-07.7(b)]	____	____	____
E. 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? [FASB ASC 946-225-45-7]	____	____	____

	Yes	No	N/A
F. Reporting Fully Benefit-Responsive Investment Contracts			
1. Is the statement of operations and changes in net assets prepared on a basis that reflects income credited to participants in the fund and realized and unrealized gains and losses only on those investment contracts that are not deemed fully benefit-responsive? [FASB ASC 946-210-45-17]	_____	_____	_____

V. Statement of Changes in Net Assets

	Yes	No	N/A
1. Does the increase or decrease in net assets of a registered investment company comprise the following categories:			
a. Operations, with separate presentation of			
i. net investment income or loss?	_____	_____	_____
ii. net realized gains or losses from investments and foreign currency transactions?	_____	_____	_____
iii. changes in unrealized appreciation or depreciation on investments and translation of assets and liabilities in foreign currencies (as shown in the statement of operations)?	_____	_____	_____
b. Net equalization debits or credits:			
i. 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:			
i. Are distributions disclosed as a single line item, except for tax return of capital distributions, which should be disclosed separately? [FASB ASC 946-205-45-3]	_____	_____	_____
2. 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? [FASB ASC 946-505-50-2]	_____	_____	_____

	Yes	No	N/A

3. Dividends

   a. Are dividends paid to investors disclosed as a single line item in the statement of changes in net assets (except tax return of capital distributions, which should be disclosed separately)? [FASB ASC 946-20-50-8] ____ ____ ____

   b. Are the tax-basis components of dividends paid (ordinary income distributions, long-term capital distributions, and return of capital distributions) disclosed in the notes? [FASB ASC 946-505-50-5] ____ ____ ____

4. *Multiple-class funds*. For financial reporting purposes, is return of capital not determined at the class level and distributable earnings disclosed only at the fund level? [FASB ASC 946-505-50-4] ____ ____ ____

5. Differences between net investment income, net realized gain, and actual distributions?

   a. Are the primary reasons for any significant difference between total U.S. GAAP-basis net investment income and net realized gain and actual distributions disclosed in the notes to the financial statements? [FASB ASC 946-505-50-6] ____ ____ ____

   b. If a portion of this difference becomes permanent, is that amount reclassified to paid-in-capital? [FASB ASC 946-205-45-3] ____ ____ ____

6. 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, considered for disclosure in the notes to the financial statements (***common practice***)? [AAG-INV 7.128] ____ ____ ____

7. Are net assets at the beginning of the year and at the end of the year disclosed? [FASB ASC 946-505-50-3] ____ ____ ____

8. Does the balance of net assets at the end of the year agree with the comparable amount shown in the statement of assets and liabilities or in the statement of net assets? [FASB ASC 946-505-50-3] ____ ____ ____

9. For registrants that use equalization accounting, are net equalization charges and credits disclosed? [Reg. S-X 6-09.2] ____ ____ ____

VI. Statement of Cash Flows

Note: As discussed in FASB ASC 230-10-15-4, a statement of cash flows is not required by an investment company that is subject to the registration and regulatory requirements of the Investment Company Act

(continued)

	Yes	No	N/A

of 1940 or an investment company that has essentially the same characteristics as those subject to the Investment Company Act of 1940. For these investment companies to be exempt, the following conditions must also be met:

- During the period, substantially all of the entity's investments were highly liquid (for example marketable securities, and other assets for which a market is readily available).
- Substantially all of the entity's investments are carried at market value. Securities for which market value is determined using matrix pricing techniques would meet this condition. Other securities for which market value is not readily determinable and for which fair value must be determined in good faith by the board of directors would not.
- The entity had little or no debt, based on the average debt outstanding during the period, in relation to average total assets. For the purpose of determining average debt outstanding, obligations resulting from redemptions of shares by the entity from unsettled purchases of securities or similar assets, or from covered options written generally may be excluded. However, any extension of credit by the seller that is not in accordance with standard industry practices for redeeming shares or for settling purchases of investments should be included in average debt outstanding.
- The entity provides a statement of changes in net assets.

For investment companies that do present a statement of cash flows, TIS sections 6910.25, "Considerations in Evaluating Whether Certain Liabilities Constitute 'Debt' for Purposes of Assessing Whether An Investment Company Must Present a Statement of Cash Flows;" 6910.20, "Presentation of Purchases and Sales/Maturities of Investments in the Statement of Cash Flows;" and 6910.26, "Additional Guidance on Determinations of Net Versus Gross Presentation of Security Purchases and Sales/Maturities in the Statement of Cash Flows of a Nonregistered Investment Company" (AICPA, *Technical Practice Aids*), provide useful information.

1. When it is necessary to provide a statement of cash flows, and it is presented using the direct method, is the following information considered for inclusion:

   a. For cash flows from operating activities (cash flows from operating activities should include the fund's investing activities) (***common practice***)

	Yes	No	N/A
i. interest and dividends received?	_____	_____	_____
ii. operating expenses paid?	_____	_____	_____
iii. purchases of long-term investments (at cost)?	_____	_____	_____
iv. sales of long-term investments (proceeds)?	_____	_____	_____
v. net sales or purchases of short-term investments?	_____	_____	_____

	Yes	No	N/A
vi. 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 7.138]			
b. For cash flows from financing activities (***common practice***)			
i. issuance and redemption of fund shares, including both common and preferred shares (excluding reinvestment of dividends and distributions)?			
ii. proceeds from and repayments of debt?			
iii. dividends and distributions to shareholders (not including stock or reinvested dividends and distributions)?			
iv. bank overdrafts? [AAG-INV 7.142]			

Note: As discussed in FASB ASC 230-10-45-28, entities that choose not to provide information about major classes of operating cash receipts and payments by the direct method should determine and report the same amount for net cash flow from operating activities indirectly by adjusting the net increase or decrease in net assets from operating activities to reconcile it to net cash flow from operating activities (the indirect or reconciliation method).
[FASB ASC 230-10-45-28]

	Yes	No	N/A
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 (***common practice***):			
a. Changes in noninvestment asset and liability accounts (such as interest receivable, accrued expenses, and other liabilities)?			
b. Noncash income and expense items (such as amortization of deferred charges, accretion of discount, and amortization of premium)?			
c. Realized and unrealized gains and losses on investment and foreign currency transactions? [AAG-INV 7.143]			
3. Are the effects of any foreign exchange fluctuations on cash balances held in foreign currencies reported as a separate part of the reconciliation of the change in cash and cash equivalents during the period? [FASB ASC 830-230-45-1]			

	Yes	No	N/A
4. Is the reporting currency equivalent of foreign currency cash flows reported using the exchange rates in effect at the time of the cash flows used or an appropriately weighted average exchange rate for the period if the result is substantially the same as if the rates at the dates of the cash flows were used? [FASB ASC 830-230-45-1]	_____	_____	_____
5. Is information about noncash investing and financing activities, such as reinvestments of dividends and distributions, disclosed? [FASB ASC 946-230-55-1]	_____	_____	_____

VII. Financial Highlights

	Yes	No	N/A
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? [FASB ASC 946-205-50-1]	_____	_____	_____
2. Per-Share Amounts			
a. Are per-share amounts presented based on a share outstanding throughout each period presented? [FASB ASC 946-205-50-7]	_____	_____	_____
b. For dividends, does the financial highlights table disclose per-share information that is consistent with the statement of changes in net assets? [FASB ASC 946-20-50-8]	_____	_____	_____
3. For investment companies with multiple classes of shares, has consideration been given to presenting financial highlights only for those classes of shares that are included in reports to such shareholders? [FASB ASC 946-205-50-2]	_____	_____	_____
4. In such cases, does the investment company include appropriate disclosures related to all classes so as to ensure that the financial statements are complete (for example, detail of capital share activity in the statement of changes in net assets or notes to financial statements)? [FASB ASC 946-205-50-2]	_____	_____	_____
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)? [FASB ASC 946-205-50-3]	_____	_____	_____

Note: As stated by FASB ASC 946-205-50-4, only the classes related to the nonmanaging investors (that is, classes of investors that do not consist exclusively of managing investor interests) are considered to be the common interests requiring financial highlight disclosure.

FASB ASC 946-205-50-5 notes that if a fund is not unitized, only

(continued)

	Yes	No	N/A

investment returns (either total return or IRR) and net investment income and expense ratios should be disclosed as indicated in paragraphs 10–25 of FASB ASC 946-205-50.

6. For nonregistered investment partnerships, when disclosing financial highlights, are the terms *classes*, *units*, and *theoretical investments* interpreted as required in the definition of *nonregistered investment partnerships—financial highlights* in the FASB ASC glossary? ____ ____ ____
   [FASB ASC glossary]
7. Is the following per share information presented for registered investment companies and investment companies that compute unitized NAV (the information in 7[*b*]–[*g*] is not required for separate accounts that represent an ownership interest in the underlying separate account portfolios or mutual funds):
   a. NAV at the beginning of the period? ____ ____ ____
   b. Per share net investment income or loss (other methods, such as dividing net investment income by the average or weighted average number of shares outstanding during the period, are acceptable)? ____ ____ ____
   c. Realized and unrealized gains and losses per share, which are balancing amounts necessary to reconcile the change in NAV per share with the other per-share information presented, 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? ____ ____ ____
   d. Total from investment operations (the sum of net investment income or loss and realized and unrealized gain or loss)? ____ ____ ____
   e. Distributions to shareholders as a single line item, except that tax return of capital distributions is disclosed separately (details of distributions should conform to those shown in the statement of changes in net assets)? ____ ____ ____
   f. Purchase premiums, redemption fees, and other capital items? ____ ____ ____
   g. Payments by affiliates? ____ ____ ____
   h. NAV at the end of the period? ____ ____ ____
   [FASB ASC 946-205-50-7]
8. Are caption descriptions in the per share data the same captions used in the statement of operations and statement of changes in net assets? ____ ____ ____
   [FASB ASC 946-205-50-7]
9. For nonregistered investment partnerships that compute unitized NAV
   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 NAV per share (as shown in the statement of operations and statement of changes in net assets of the fund)? [FASB ASC 946-205-50-8]	____	____	____
10. Ratios			
a. Are the ratios of expenses and net investment income to average net assets annualized for periods less than a year? [General practice as stated in FASB ASC 946-205-50-10]	____	____	____
b. Is the ratio of expenses to average net assets increased by brokerage services and expense offset arrangements?	____	____	____
c. For nonregistered investment partnerships, when determining expense and net investment income ratios, is average net asset calculated by using the fund's (or class's) weighted-average net assets as measured at each accounting period or periodic valuation (for example, daily, weekly, monthly, quarterly), adjusting for capital contributions or withdrawals from the fund occurring between accounting periods or valuations?	____	____	____
d. For nonregistered investment partnerships, are the expense and net investment income ratios calculated based on the expenses allocated to each common or investor class before the effects of any incentive allocation?	____	____	____
e. 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?	____	____	____
f. For nonregistered investment partnerships, are expenses related to the total return of the fund, such as incentive fees, and nonrecurring expenses, such as organizational costs, not annualized when determining the expense ratio?	____	____	____
g. For nonregistered investment partnerships, is disclosure made of the expenses that have not been annualized when determining the expense ratio?	____	____	____
h. Does the determination of expenses for computing these ratios follow the presentation of expenses in the fund's statement of operations (general practice)?	____	____	____
i. If the manager's or general partner's incentive is structured as a fee rather than an allocation of profits, is the incentive fee factored into the computation of an expense ratio?	____	____	____
j. Because an incentive allocation of profits is not presented as an expense, was it not considered part of the expense ratio?	____	____	____

	Yes	No	N/A
k. 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?	_____	_____	_____
l. 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 FASB ASC 946-20-50-7, and of expense offsets, as described in paragraphs 3 and 5 of FASB ASC 946-20-45?	_____	_____	_____
m. Because 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? [FASB ASC 946-205-50 par. 10–15]	_____	_____	_____
11. 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? [FASB ASC 946-205-50-25]	_____	_____	_____
Fund-of-Funds			
12. For funds-of-funds, are the expense and net investment income ratios computed using the expenses in the fund's statement of operations (typically at the fund-of-funds level only)? [FASB ASC 946-205-50-16]	_____	_____	_____
13. 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? [FASB ASC 946-205-50-16]	_____	_____	_____
14. In a master-feeder structure, does the feeder include its proportionate share of the income and expenses of the master when computing the ratios at the feeder level? [FASB ASC 946-205-50-17]	_____	_____	_____
15. 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? [FASB ASC 946-205-50-17]	_____	_____	_____
16. Total Return			
a. Is the total return presented, in the financial highlights, for all investment companies?	_____	_____	_____
b. For interim periods, does the disclosure include whether or not total return is annualized? [FASB ASC 946-205-50-18]	_____	_____	_____

	Yes	No	N/A
17. For nonregistered investment companies organized in a manner using unitized NAV, is total return computed based on the change in the NAV per share during the period, and assuming that all dividends are reinvested? [FASB ASC 946-205-50-19]	_____	_____	_____
18. For investment companies not using unitized NAV (including investment partnerships), is total return computed based on the change in value during the period of a theoretical investment made at the beginning of the period? [FASB ASC 946-205-50-20]	_____	_____	_____
19. Because incentive allocations or fees may vary among investors within a class, is total return for reporting classes that is subject to an incentive allocation or fee reported before and after the incentive allocation or fee for each reporting class taken as a whole? [FASB ASC 946-205-50-22]	_____	_____	_____
20. For investment companies that by the terms of their offering documents (*a*) have limited lives, (*b*) do not continuously raise capital and are not required to redeem their interests upon investor request, (*c*) have as a predominant operating strategy the return of the proceeds from disposition of investments to investors, (*d*) have limited opportunities, if any, for investors to withdraw prior to termination of the entity, and (*e*) do not routinely acquire (directly or indirectly) as part of their investment strategy market-traded securities and derivatives			
i. is the IRR since inception 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?	_____	_____	_____
ii. does a footnote to the financial highlights disclose that the IRR is net of all incentives since inception of the investment?	_____	_____	_____
iii. are all significant assumptions with respect to the IRR since inception disclosed in the footnotes to the financial highlights? [FASB ASC 946-205-50 par. 23–24]	_____	_____	_____

Note: AAG-INV paragraphs 7.179–.181 provide illustrative examples of calculations and disclosures when reporting the IRR and total return ratio for nonregistered investment partnerships.

	Yes	No	N/A
21. Does the information filed on Form N-1A for registrants include			
a. net assets, end of period?	_____	_____	_____
b. portfolio turnover rate? [Form N-1A]	_____	_____	_____

	Yes	No	N/A
22. Is the effect on total return of payments by affiliates related to investment losses, as described in FASB ASC 946-20-50-2, 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? [FASB ASC 946-20-50-2]	____	____	____
23. Is the effect of only 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? [FASB ASC 946-20-50-7]	____	____	____
24. Is the expense ratio in the financial highlights shown net of voluntary and involuntary waivers? [FASB ASC 946-20-50-7]	____	____	____
25. For brokerage service arrangements:			
a. does 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?	____	____	____
b. Are such amounts also shown as a corresponding reduction in total expenses, captioned as fees paid indirectly? [FASB ASC 946-20-45-3]	____	____	____
26. 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, expense ratio in the financial highlights, and notes to the financial statements in the same manner as brokerage service arrangements? [FASB ASC 946-20-45-5]	____	____	____
27. Separate accounts			
a. for separate accounts with more than two levels of contract charges or net unit values per subaccount, has consideration been given to presenting the required financial highlights for contract expense levels that had units issued or outstanding during the reporting period (including number of units, unit fair value, net assets, expense ratio, investment income ratio, and total return), for either of the following:			
i. Each contract expense level that results in a distinct net unit value and for which units were issued or outstanding during each reporting period?	____	____	____
ii. The range of the lowest and highest level of expense ratio and the related total return and unit fair values during each reporting period?	____	____	____

	Yes	No	N/A
b. does the calculation of the ranges for the total return ratio and unit fair values correspond to the groupings that produced the lowest and highest expense ratios?	_____	_____	_____
c. does the financial highlights table in the separate account's financial statements state clearly that the expense ratio considers only the expenses borne directly by the separate account and excludes expenses incurred directly by the underlying funds or charged through the redemption of units?	_____	_____	_____
d. if the ranges of expense ratios, total returns, and unit fair values are presented, does the entity disclose instances in which individual contract values do not fall within the ranges presented (for example, if a new product is introduced late in a reporting period and the total return does not fall within the range)?	_____	_____	_____
e. does the expense disclosure also include ranges of all fees that are charged by the separate account and a description of those fees, including whether they are assessed as direct reductions in unit values or through the redemption of units for all policies contained within the separate account?	_____	_____	_____

[FASB ASC 946-205-50 par. 31–34]

VIII. Fully Benefit-Responsive Investment Contract Disclosures

1. Does the investment company disclose in connection with fully benefit-responsive investment contracts, in the aggregate

	Yes	No	N/A
a. a description of the nature of those investment contracts?	_____	_____	_____
b. a description of how those investment contracts operate?	_____	_____	_____
c. a description of the methodology for calculating the interest crediting for those investment contracts, including the key factors that could influence future average interest crediting rates, the basis for and frequency of determining interest crediting rate resets, and any minimum interest crediting rate under the terms of the contracts?	_____	_____	_____
d. an explanation of the relationship between future interest crediting rates and the amount reported on the statement of assets and liabilities representing the adjustment for the portion of net assets attributable to fully benefit-responsive investment contracts from fair value to contract value?	_____	_____	_____

Yes No N/A

e. a reconciliation between the beginning and ending balance of the amount presented on the statement of assets and liabilities that represents the difference between net assets reflecting all investments at fair value and net assets for each period in which a statement of changes in net assets is presented, that includes both of the following:

i. The change in the difference between the fair value and contract value of all fully benefit-responsive investment contracts? ____ ____ ____

ii. The increase or decrease due to changes in the fully benefit-responsive status of the fund's investment contracts? ____ ____ ____

f. the average yield earned by the entire fund (which may differ from the interest rate credited to participants in the fund) for each period for which a statement of assets and liabilities is presented?

i. Is this average yield calculated by dividing the annualized earnings of all investments in the fund (irrespective of the interest rate credited to participants in the fund) by the fair value of all investments in the fund? ____ ____ ____

g. the average yield earned by the entire fund with an adjustment to reflect the actual interest rate credited to participants in the fund for each period for which a statement of assets and liabilities is presented?

i. Is this average yield calculated by dividing the annualized earnings credited to participants in the fund (irrespective of the actual earnings of the investments in the fund) by the fair value of all investments in the fund? ____ ____ ____

h. two sensitivity analyses:

i. The weighted average interest crediting rate (that is, the contract value yield) as of the date of the latest statement of assets and liabilities and the effect on this weighted average interest crediting rate, calculated as of the date of the latest statement of assets and liabilities and the end of the next four quarterly periods, under two or more scenarios where there is an immediate hypothetical increase or decrease in market yields, with no change to the duration of the underlying investment portfolio and no contributions or withdrawals? (***Note:*** Those scenarios should include, at a minimum, immediate hypothetical increases and decreases in market yields equal to one-quarter and one-half of the current yield.) ____ ____ ____

	Yes	No	N/A
ii. The effect on the weighted average interest crediting rate calculated as of the date of the latest statement of assets and liabilities and the next four quarterly reset dates, under two or more scenarios where there are the same immediate hypothetical changes in market yields in the first analysis, combined with an immediate, one-time, hypothetical 10 percent decrease in the net assets of the fund due to participant transfers, with no change to the duration of the portfolio?	____	____	____
i. a description of the events that limit the ability of the fund to transact at contract value with the issuer (for example, premature termination of the contracts by the fund, plant closings, layoffs, plan termination, bankruptcy, mergers, and early retirement incentives), including a statement as to whether the occurrence of those events that would limit the fund's ability to transact at contract value with the participants in the fund is probable or not probable?	____	____	____
j. a description of the events and circumstances that would allow issuers to terminate fully benefit-responsive investment contracts with the fund and settle at an amount different from contract value? [FASB ASC 946-210-50-14]	____	____	____

IX. Other Disclosure Requirements

	Yes	No	N/A
1. (***For public entities***) Are the amounts and expiration dates of capital loss carryforwards and the amounts of any post-October capital and currency loss deferrals considered when the entity discloses the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before allocation of valuation allowances) as required by FASB ASC 740-10-50-6? [FASB ASC 946-740-55-2]	____	____	____
2. Is a provision for deferred income taxes on unrealized appreciation charged against the unrealized gains account pursuant to FASB ASC 946-740-35-1 disclosed as such in the statement of operations? [FASB ASC 946-740-50-1]	____	____	____
3. If the fund is not subject to income taxes, is consideration given to disclosing the net difference between the tax bases and the reported amounts of the fund's assets and liabilities (***common practice***)? [AAG-INV 7.161]	____	____	____

	Yes	No	N/A

Note: In response to the issuance of FASB Statement No. 141 (revised 2007), *Business Combinations*, which is codified in FASB ASC 810, *Consolidation*, the AICPA issued TIS section 6910.33. TIS section 6910.33 contains illustrative financial statements and disclosures of a tax-free business combination of investment companies.

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 acquiree at the date of acquisition considered for disclosure, if significant (***common practice***)? ____ ____ ____
   [AAG-INV 8.52]
   b. are the costs of purchases and proceeds from sales of portfolio securities that occurred in the effort to realign the combined fund's portfolio after the merger excluded in the portfolio turnover calculation and the amount of excluded purchases and sales disclosed in a note? ____ ____ ____
   [Form N1-A, Item 13, Instruction 4(d)(iii) and Form N-2, Item 4, Instruction 17(c)]
5. Are the tax status and attributes of the merger disclosed (***common practice***)? ____ ____ ____
   [AAG-INV 8.52]
6. 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]
7. 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]

Notes: As explained by FASB ASC 946-810-45-2 and FASB ASC 946-323-45-1, except as discussed in the next paragraph, consolidation or use of the equity method of accounting by an investment company of a noninvestment company investee is not appropriate. As stated by FASB ASC 323-10-15-4, FASB ASC 323, *Investments—Equity Method and Joint Ventures*, does not apply to investments in common stock held by investment companies registered under the Investment Company Act of 1940 or investment companies that would be included under the act (including small business investment companies [SBICs]) except that the number of stockholders is limited and the securities are not offered publicly. Also, as stated by "Pending Content" in FASB ASC 810-10-15-12(d), investments accounted for at fair value in accordance with the specialized guidance in accordance with FASB ASC 946 are not subject to consolidation according to the requirements of FASB ASC 810. Lastly, Regulation S-X, Rule 6-03(c)(1) also precludes consolida-

(continued)

	Yes	No	N/A

tion by a registered investment company of any entity other than another investment company.

FASB ASC 946-810-45-3 and FASB ASC 946-323-45-2 further note that an exception to this general principle occurs if the investment company has an investment in an operating entity that provides services to the investment company, for example, an investment adviser or transfer agent. In those cases, the purpose of the investment is to provide services to the investment company rather than to realize a gain on the sale of the investment. If an individual investment company holds a controlling interest in such an operating entity, consolidation is appropriate. If an investment company holds a noncontrolling ownership interest in such an operating entity that otherwise qualifies for use of the equity method of accounting, the investment company should use the equity method of accounting for that investment, rather than the fair value of the investee's assets and liabilities.

8. For UITs, upon formation of the trust the sponsor may realize a profit or loss on the sale of the portfolio to the trust equal to the difference between the aggregate cost of the portfolio to the sponsor and the aggregate valuation on the date of deposit. Is consideration given to including a note to the initial schedule of investments that discloses the aggregate cost of the securities to the trust and the related net gain or loss to the sponsor (***common practice***)? ____ ____ ____
[AAG-INV 9.07]

9. For each period in which a distributor recognizes revenue as the result of receiving cash from a third party for the rights to 12b-1 fees and contingent-deferred sales fees, did the distributor disclose the amount of revenue recognized and the related amount of deferred costs that have been expensed? ____ ____ ____
[FASB ASC 946-605-50-1]

X. Interim Financial Statements

1. Do semiannual reports to stockholders for registered investment companies contain the following information and financial statements or their equivalent?

   a. A balance sheet accompanied by a statement of the aggregate value of investments on the date of the balance sheet? ____ ____ ____

   b. A list showing the amounts and values of securities owned on the date of such balance sheet? ____ ____ ____

   c. A statement of income, for the period covered by the report, which shall be itemized at least with respect to each category of income and expense representing more than 5 per centum of total income or expense? ____ ____ ____

	Yes	No	N/A
d. A statement of surplus, which shall be itemized at least with respect to each charge or credit to the surplus account which represents more than 5 per centum of the total charges or credits during the period covered by the report?	____	____	____
e. A statement of the aggregate remuneration paid by the company during the period covered by the report (i) to all directors and to all members of any advisory board for regular compensation; (ii) to each director and to each member of an advisory board for special compensation; (iii) to all officers; and (iv) to each person of whom any officer or director of the company is an affiliated person?	____	____	____
f. A statement of the aggregate dollar amounts of purchases and sales of investment securities, other than government securities, made during the period covered by the report? [1940 Act Section 30e]	____	____	____
2. Does the statement of changes in net assets for registered investment companies present information on the latest interim period (from preceding fiscal year to end of interim period) and the preceding fiscal year? [Form N-1A, Item 27(c)(1)]	____	____	____
3. For registrants, are financial highlights presented for the semiannual period and generally the preceding five fiscal years? [Form N-1A, Item 13(a)(1)]	____	____	____
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? [FASB ASC 946-20-50-10]	____	____	____
5. Is unaudited interim financial data marked accordingly (***common practice***)? [AAG-INV 7.165]	____	____	____
6. Is data summarized in condensed form also labeled (***common practice***)? [AAG-INV 7.165]	____	____	____
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 (***common practice***)? [AAG-INV 7.165]	____	____	____

Note: Form N-SAR is the semiannual and annual report filed with the SEC by all registered management investment companies, SBICs, and UITs. A registered investment company files its annual and semiannual shareholder reports together with the certifications of principal executive and financial officers required by Rule 30a-2 of the Investment Company Act of 1940 on Form N-CSR.

Yes No N/A

XI. Funds With Multiple Classes of Shares or Master-Feeder Structures

Note: As stated in FASB ASC 946-205-45-4(b)(2), if a feeder fund is a multiple-class fund, the guidance for multiple-class funds in FASB ASC 946 should be followed.

1. For multiple-class funds

   a. in the statement of assets and liabilities, is the composition of net assets reported in total, but NAV per share and shares outstanding reported for each class? [FASB ASC 946-210-45-4] _____ _____ _____

   b. in the statement of operations or in the notes to the financial statements, are class-specific expenses for each class reported or disclosed? [FASB ASC 946-225-45-9] _____ _____ _____

   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? [FASB ASC 946-205-45-4(a)] _____ _____ _____

   d. do the notes to the financial statements do all of the following:

      i. Describe each class of shares, including sales charges, shareholder servicing fees, and distribution fees? _____ _____ _____

      ii. Disclose the method used to allocate income and expenses, and realized and unrealized capital gains and losses, to each class? _____ _____ _____

      iii. Describe fee arrangements for class-specific distribution plans and for any other class-level expenses paid to affiliates? _____ _____ _____

      iv. Disclose capital share transactions (if not disclosed separately in the statement of changes in net assets) for each class? _____ _____ _____

      v. Disclose total sales charges paid to any affiliates for each class? [FASB ASC 946-235-50-2] _____ _____ _____

   e. are financial highlights, including total return, presented by class, except for portfolio turnover, which is calculated at the fund level? ***Note***: The financial highlights for any class for which the shareholders are precluded from investing in may be omitted. [FASB ASC 946-205-50-27] _____ _____ _____

Note: As discussed in AAG-INV paragraph 5.38, under current SEC policies, the annual and semiannual reports for feeder funds should

(continued)

	Yes	*No*	*N/A*

contain two sets of financial statements, one for the master fund and the other for the specific feeder fund.

Also, as stated in FASB ASC 946-235-50-3, information concerning the purchases and sales of investments and gross unrealized appreciation or depreciation of investments on a tax basis is not applicable to the feeder's financial statements.

2. For master-feeder funds

   a. in the statement of assets and liabilities

      i. is an investment in the master fund shown in each feeder fund's statement of assets and liabilities, which is the sole or principal investment of the feeder fund? _____ _____ _____

      ii. is the total of all feeder funds' investments in the master fund equal to the total net assets of the master fund? ***Note***: A schedule of portfolio investments should not be presented at the feeder level. _____ _____ _____

      iii. is the NAV per share, total shares outstanding, and the components of net assets reported? _____ _____ _____
      [FASB ASC 946-210-45-6]

      iv. is the portfolio of investments included only in the master fund's financial statements? ***Note***: The statement of assets and liabilities of the master fund usually should not report the components of net assets, shares outstanding, or NAV per share. _____ _____ _____
      [FASB ASC 946-210-45-5]

   b. in the statement of operations

      i. are the details of the feeder fund's allocated share of net investment income from the master fund reported (that is, disclosed allocated interest, dividends, and expenses separately)? _____ _____ _____
      [FASB ASC 946-225-45-11]

      ii. is the feeder's allocated share of the master fund's realized and unrealized gains and losses reported separately? _____ _____ _____

      iii. 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? _____ _____ _____

      iv. do the feeder funds disclose their fund-specific expenses, such as transfer agent, distribution, legal and audit expenses, and registration and directors fees? _____ _____ _____

      v. are fee waivers or reimbursements at the feeder-fund level reported? _____ _____ _____
      [FASB ASC 946-225-45-12]

	Yes	No	N/A
vi. for master funds, is the standard reporting format for investment companies with simple capital structures used? [FASB ASC 946-225-45-10]	_____	_____	_____
c. in the statement of changes in net assets			
i. for feeder funds, is the standard reporting format for investment companies with simple capital structures used?	_____	_____	_____
ii. do master funds report capital transactions from or to feeder funds as contributions and withdrawals, respectively? [FASB ASC 946-205-45-4(b)]	_____	_____	_____
d. do the notes to the financial statements of each feeder fund include all of the following:			
i. A general description of the master and feeder structure?	_____	_____	_____
ii. The feeder's percentage ownership share of the particular master fund at the reporting date?	_____	_____	_____
iii. 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?	_____	_____	_____
iv. A reference to the financial statements of the master fund, including the portfolio of investments?	_____	_____	_____
v. disclosure of or reference to the accounting policies of the master fund that affect the feeders (such as the valuation of investments in the master fund)? [FASB ASC 946-235-50-3]	_____	_____	_____
e. do the financial highlights			
i. 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?	_____	_____	_____
ii. reflect balance credits earned by the master fund in the feeder fund ratios as if they had been earned by the feeder fund directly? [FASB ASC 946-205-50-28]	_____	_____	_____

	Yes	No	N/A
iii. to the extent the financial highlights table conforms to the instructions of Form N-1A, report the portfolio turnover rate experienced by the master (***common practice***)? (The financial highlights of feeder funds that are registered investment companies generally should comply with the same requirements as for registered investment companies not organized in a master-feeder structure.) [AAG-INV 5.48]	____	____	____
f. does the master fund financial highlights section			
i. include the total return, ratios of expenses, and net investment income to average net assets if the master fund is organized as a partnership?	____	____	____
ii. include the portfolio turnover rate if the master fund is organized as a partnership? ***Note***: Portfolio turnover is required by Item 71 on Form N-SAR for registered investment companies.	____	____	____
iii. report normal per share data if the master fund is not organized as a partnership? [FASB ASC 946-205-50-29]	____	____	____
3. For funds of funds			
a. in the statement of assets and liabilities			
i. have additional required disclosures been considered for funds that hold a mixture of investments in other investment companies and direct investments in securities? ***Note***: There is typically no need for a separate schedule of investments.	____	____	____
ii. 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? [FASB ASC 946-210-45-7]	____	____	____
b. in the statement of operations of funds of funds			
i. does income represent the net earnings received from investee funds? [FASB ASC 946-225-45-13]	____	____	____
ii. are agreements for investee funds to assume certain of the investor fund expenses disclosed in the notes? [FASB ASC 946-225-45-14]	____	____	____
iii. 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? [FASB ASC 946-225-45-15]	____	____	____

	Yes	No	N/A
c. in the financial highlights of funds of funds			
i. are net investment income and expense ratios computed based upon amounts reported in the statement of operations?	____	____	____
ii. is portfolio turnover measured based on the turnover of investments made by the reporting fund in investee funds, not looking through the investee funds to their portfolio activity? [FASB ASC 946-205-50-30]	____	____	____
d. do the notes to the financial statements include			
i. a general description of the fund of funds structure?	____	____	____
ii. disclosure of valuation policy-values, generally based on information reported by investee funds? [FASB ASC 946-235-50-5]	____	____	____
iii. has consideration been given to whether, and to what extent, disclosure of the investee funds' investment policies is appropriate? [FASB ASC 946-235-50-4]	____	____	____
4. Have significant transactions of the master fund been considered for disclosure in the feeder fund's financial statements (***common practice***)? [AAG-INV 5.74]	____	____	____

FSP Section 12,200

Auditor's Reports and Illustrative Financial Statements

.01 The following illustrative auditor's reports and financial statements demonstrate one form of currently acceptable practice. The illustrative financial statements in this section are principally reproduced from the AICPA Audit and Accounting Guide *Investment Companies* with conforming changes as of May 1, 2010 (AAG-INV). The illustrative financial statements are intended to provide sample financial statement formats and disclosures, and are not intended to provide all sample financial statement formats and disclosures, 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.

.02 The illustrative financial statements presented include those of a registered investment company, as illustrated in chapter 7, "Financial Statements of Investment Companies," of AAG-INV. Also presented are the illustrative financial statements for management investment companies that have multiple classes of shares or master-feeder structures, as illustrated in chapter 5, "Complex Capital Structures," of AAG-INV; the illustrative financial statements for a unit investment trust as illustrated in chapter 9, "Unit Investment Trusts," of AAG-INV; and the illustrative financial statements for variable annuity separate accounts registered as unit investment trusts as illustrated in chapter 10, "Variable Contracts—Insurance Entities," of AAG-INV. These sets of financial statements include certain, but not all, disclosures required by Securities and Exchange Commission (SEC) regulation in addition to requirements under accounting principles generally accepted in the United States (U.S. GAAP). From time to time, the SEC may administratively require additional disclosures in the financial statements. Furthermore, the illustrative financial statements do not include all disclosures and presentation items promulgated.

Note: The illustrative financial statements and footnote disclosures included in this checklist have been updated to reflect Financial Accounting Standards Board (FASB) *Accounting Standards Codification*™ (ASC). However, FASB's Notice to Constituents suggests the use of plain English in financial statement footnotes to describe broad FASB ASC Topic references. FASB suggests a reference similar to "as required by the Derivatives and Hedging Topic of the FASB *Accounting Standards Codification*." Entities might consider revising their financial statement references to reflect this plain English referencing, rather than the use of specific FASB ASC references. We have provided these detailed references as a resource for our users.

The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated. Disclosures included in the illustrative financial statements presented are not intended to be comprehensive and are not intended to establish preferences among alternative disclosures.

.03 The following form of auditor's report may be used to express an unqualified opinion on the financial statements of a nonregistered investment company. See AAG-INV paragraph 11.02 for further discussion about the following form of report:

Independent Auditor's Report

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 (the company), including the schedule of investments, as of December 31, 20X8, and the related statements of operations, cash flows and changes in net assets, and the financial highlights for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 20X8, the results of its operations, its cash flows, changes in its net assets, and its financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor
Anytown, USA
February 21, 20X9

.04 The following form of auditor's report may be used to express an unqualified opinion on the financial statements of a registered investment company. See AAG-INV paragraph 11.09 for further discussion about the following form of report:

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 (the company), including the schedule of investments, as of December 31, 20X8, 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, 20X8, 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, 20X8, 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, 20X9

Illustrative Financial Statements for a Registered Investment Company

XYZ Investment Company
Statement of Assets and Liabilities
December 31, 20X8

Assets	
Investments in securities, at fair value (cost $19,292,000)—including $570,000 of securities loaned (note 8)[1]	$21,721,000
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 shares sold	54,000
Unrealized gain on foreign currency forward exchange contract (note 3)	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 3)	108,000
Unrealized loss on swap contract (note 3)	21,000
Due to broker–variation margin (note 3)	10,000
Payables	
Investment securities purchased	52,000
Capital shares reacquired	8,000
Other	4,000
Accrued expenses	8,000
Distribution payable	137,000
Total liabilities	4,871,000
Net assets	$19,173,000

(continued)

[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.

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

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

XYZ Management Investment Company
Schedule (or Portfolio) of Investments in Securities
December 31, 20X8

[*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*.]

	Principal Amount or Shares	*Fair Value*
Common stocks—29%		
Consumer durable goods—5%		
Allied Manufacturing Corporation[2]	25,000	$620,000
Baker Industries, Inc.[3]	15,000	150,000
Consumer Goods Company	8,000	300,000
Other		16,000
		1,086,000
Consumer nondurable goods—16%		
Amalgamated Buggy Whips, Inc. (note 2)	10,000	3,280,000
American Company	4,000	100,000
Other		55,000
		3,435,000
Service industries—4%		
Service Company, Inc.[4]	10,000	465,000
Cannon Sales[4]	13,000	400,000
Other		4,000
		869,000
Other industry groupings—4%		921,000
[*Additional industry groupings and details of the 50 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 Euro yield curve)—10% due 20XX	2,000,000	2,100,000
		(continued)

[2] Portion of the security is pledged as collateral for call options written.

[3] Nonincome producing security.

[4] Portion of the security is on loan.

	Principal Amount or Shares	Fair Value
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
Short-term notes—6%		
Commercial Paper, Inc., 5.5% due 2/5/X9	505,000	506,000
U.S. Treasury bills, 5.2% due 1/20/X9[5]	720,000	719,000
Total short-term notes		1,225,000
Repurchase agreements—2%		
Money Center Bank of Large City, 4%, dated 12/29/X8, due 1/3/X9, repurchase price $500,274, collateralized by U.S. Treasury bonds	500,000	500,000
Total—100% (cost $19,292,000)		$21,721,000

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

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

[5] 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.)

XYZ Investment Company
Call Options Written
December 31, 20X8

Common Stocks/Expiration Date/Exercise Price	*Shares Subject to Call*	*Fair Value*
Allied Manufacturing Corporation/July/25	10,000	$50,000
Allied Manufacturing Corporation/October/30	5,000	2,500
Consumer Goods Company/September/45	7,000	177,500
Total (premiums received $110,000) (note 3)		$230,000

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

XYZ Investment Company
Securities Sold Short
December 31, 20X8

Common Stocks	*Shares*	*Fair Value*
International Widgets, Inc.	40,000	$425,000
Paper Airplane Corporation	25,000	265,000
Amber Company	100,000	983,000
Total (proceeds $1,555,000)		$1,673,000

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

XYZ Management Investment Company
Statement of Net Assets
December 31, 20X8

[*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.*]

	Shares or Principal Amount	*Fair Value*
Assets		
Investment in securities—113% of net assets		
Common stocks—33%		
Consumer durable goods—6%		
Allied Manufacturing Corporation[6]	25,000	$620,000
Baker Industries, Inc.[7]	15,000	150,000
Consumer Goods Company Allied Manufacturing Corporation[6]	8,000	300,000
Other	600	16,000
		1,086,000
Consumer nondurable goods—18%		
Amalgamated Buggy Whips, Inc. (note 2)	10,000	3,280,000
American Company	4,000	100,000
Other	2,000	55,000
		3,435,000
Service industries—4%		
Service Company, Inc.[8]	10,000	465,000
Cannon Sales[8]	13,000	400,000
Other	200	4,000
		869,000
Other industry groupings—5%		921,000
[*Additional industry groupings and details of the fifty largest holdings are not included in this illustration.]*		
Total common stocks		6,311,000
Convertible bonds—28%		
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 bonds		5,400,000
Indexed securities—11%		
American Trust Co. (principal linked to Euro yield curve)—10% due 20XX	2,000,000	2,100,000

(continued)

[6] Portion of the security is pledged as collateral for call options written.

[7] Nonincome producing security.

[8] Portion of the security is on loan.

	Shares or Principal Amount	Fair Value
Mortgage-backed securities—14%		
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—18%		
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
Short-term notes—6%		
Commercial Paper, Inc., 5.5% due 2/5/X9	505,000	506,000
U.S. Treasury bills, 5.2% due 1/20/X9[9]	720,000	719,000
Total short-term notes		1,225,000
Repurchase agreements—3%		
Money Center Bank of Large City, 4%, dated 12/29/X8 due 1/3/X9, 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)[10]		21,721,000
Foreign currency (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 forward exchange contract (note 3)		419,000
Other assets		26,000
Total assets		24,044,000

(continued)

[9] 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.)

[10] 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.

	Shares or Principal Amount	Fair Value
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 forward exchange contract (note 3)		108,000
Unrealized loss on swap contract (note 3)		21,000
Due to broker—variation margin (note 3)		10,000
Payables		
Investment securities purchased		52,000
Capital stock reacquired		8,000
Other		4,000
Accrued expenses		8,000
Distribution payable		137,000
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.

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

XYZ Investment Company
Statement of Operations
Year Ended December 31, 20X8

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[11]		(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[11]		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

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

[11] 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.

XYZ Investment Company
Statements of Changes in Net Assets
Years Ended December 31, 20X8 and 20X7

	20X8	*20X7*
Increase (decrease) in net assets from operations		
Investment income—net	$775,000	$492,000
Net realized gain from investments and foreign currency[12]	1,045,000	1,000,000
Unrealized appreciation (depreciation) on investments and translation of assets and liabilities in foreign currencies[13]	(1,294,000)	1,551,000
Net increase in net assets resulting from operations	526,000	3,043,000
Distributions to shareholders	(1,875,000)	(1,350,000)
Tax return of capital to shareholders	—	(66,000)
Capital share transactions (note 6)	2,730,000	1,755,000
Total increase	1,381,000	3,382,000
Net assets		
Beginning of year	17,792,000	14,410,000
End of year	$19,173,000	$17,792,000

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

[12] 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.

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

XYZ Investment Company
Statement of Cash Flows
Year Ended December 31, 20X8

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)
Premiums from call options written	50,000
Proceeds from securities sold short	802,000
Increase in depreciation on swap contracts	21,000
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	1,647,000
Net realized gain from investments	(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	113,000
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.

XYZ Investment Company
Notes to Financial Statements

1. Significant Accounting Policies

XYZ 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. All investments in securities are recorded at their estimated fair value, as described in note 2.

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 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 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; if the borrower fails to deliver the securities on a timely basis, the company could experience delays or losses on recovery. Additionally, the company is subject to risk of loss from investments it makes with the cash received as collateral.

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. If 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. The company is also subject to the risk that it may be unable to reacquire a security to terminate a short position except at a price substantially in excess of the last quoted price.

Foreign currency forward exchange 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. 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.

Credit default swaps. The company may enter into credit default swaps to manage its exposure to the market or certain sectors of the market, to reduce its risk exposure to defaults of corporate and sovereign issuers or to create exposure to corporate or sovereign issuers to which it is not otherwise exposed. In a credit default swap, the protection buyer makes a stream of payments based on a fixed percentage applied to the contract notional amount to the protection seller in exchange for the right to receive a specified return upon the occurrence of a defined credit event on the reference obligation which may be either a single security or a basket of securities issued by corporate or sovereign issuers. Although contract-specific, credit events are generally defined as bankruptcy, failure to pay, restructuring, obligation acceleration, obligation default, or repudiation/moratorium. Upon the occurrence of a defined credit event, the difference between the value of the reference obligation and the swap's notional amount is recorded as realized gain (for protection written) or loss (for protection sold) in the statement of operations.

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. The company also intends to distribute sufficient net investment income and net capital gains, if any, so that it will not be subject to excise tax on undistributed income and gains. Therefore, no federal income tax or excise provision is required.

Distributions to shareholders. Dividends to shareholders from net investment income, if any, are paid semi-annually. Distributions of capital gains, if any, are made at least annually, and as required to comply with Federal excise tax requirements. Distributions to shareholders are determined in accordance with income tax regulations and are recorded on the ex-dividend date.

Use of estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 accreted and 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. Securities Valuations

As described in note 1, the company utilizes various methods to measure the fair value of most of its investments on a recurring basis. U.S. GAAP establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the company has the ability to access.

Level 2—Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3—Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available; representing the company's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair Value Measurements

A description of the valuation techniques applied to the company's major categories of assets and liabilities measured at fair value on a recurring basis follows.

Equity securities (common and preferred stock). 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. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in level 1 of the fair value hierarchy. Certain foreign securities may be fair valued using a pricing service that considers the correlation of the trading patterns of the foreign security to the intraday trading in the U.S. markets for investments such as American Depositary Receipts, financial futures, Exchange Traded Funds, and the movement of the certain indexes of securities based on a statistical analysis of the historical relationship and are categorized in level 2. Preferred stock and other equities traded on inactive markets or valued by reference to similar instruments are also categorized in level 2.

Corporate bonds. The fair value of corporate bonds is estimated using various techniques, which may consider recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivative instruments. Although most corporate bonds are categorized in level 2 of the fair value hierarchy, in instances where lower relative weight is placed on transaction prices, quotations, or similar observable inputs, they are categorized in level 3.

Asset backed securities. The fair value of asset backed securities is estimated based on models that consider the estimated cash flows of each tranche of the entity, establishes a benchmark yield, and develops an estimated tranche specific spread to the benchmark yield based on the unique attributes of the tranche. To the extent the inputs are observable and timely, the values would be categorized in level 2 of the fair value hierarchy; otherwise they would be categorized as level 3.

Short term notes. Short-term notes are valued using amortized cost, which approximates fair value. To the extent the inputs are observable and timely, the values would be categorized in level 2 of the fair value hierarchy.

U.S. government securities. U.S. government securities are normally valued using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. Certain securities are valued principally using dealer quotations. U.S. government securities are categorized in level 1 or level 2 of the fair value hierarchy depending on the inputs used and market activity levels for specific securities.

U.S. agency securities. U.S. agency securities are comprised of two main categories consisting of agency issued debt and mortgage pass-throughs. Agency issued debt securities are generally valued in a manner similar to U.S. government securities. Mortgage pass-throughs include to-be-announced (TBA) securities and mortgage pass-through certificates. TBA securities and mortgage pass-throughs are generally valued using dealer quotations. Depending on market activity levels and whether quotations or other data are used, these securities are typically categorized in level 1 or level 2 of the fair value hierarchy.

Restricted securities (equity and debt). Restricted securities for which quotations are not readily available are valued at fair value as determined by the board of directors. Restricted securities issued by publicly traded companies are generally valued at a discount to similar publicly traded securities. Restricted securities issued by nonpublic entities may be valued by reference to comparable public entities or fundamental data relating to the issuer, or both. Depending on the relative significance of valuation inputs, these instruments may be classified in either level 2 or level 3 of the fair value hierarchy.

Derivative instruments. Listed derivatives that are actively traded are valued based on quoted prices from the exchange and are categorized in level 1 of the fair value hierarchy. Over the counter (OTC) derivative contracts include forward, swap, and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices, or commodity prices. Depending on the product and the terms of the transaction, the fair value of the OTC derivative products can be modeled taking into account the counterparties' creditworthiness and using a series of techniques, including simulation models. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgments and the pricing inputs are observed from actively quoted markets, as is the case of interest rate swap and option contracts. A substantial majority of OTC derivative products valued by the company using pricing models fall into this category and are categorized within level 2 of the fair value hierarchy.

The following table summarizes the inputs used to value the company's assets and liabilities measured at fair value as of December 31, 20X8.[14]

Assets

	Level 1	*Level 2*	*Level 3*	*Total*
Common stocks— *Consumer durable goods*	$1,086,000	$—	$—	$1,086,000
Common stocks— *Consumer nondurable goods*	155,000	—	3,280,000	3,435,00
Common stocks— *Service industries*	869,000	—	—	869,000
Common stocks— *Other industries*	921,000	—	—	921,000
Convertible bonds	—	5,400,000	—	5,400,000
Indexed securities	—	—	2,100,000	2,100,000
Mortgage-backed securities	—	2,710,000	—	2,710,000
U.S. governmental obligations	—	3,475,000	—	3,475,000
Short term notes	—	1,225,000	—	1,225,000
Repurchase agreements	—	500,000	—	500,000
Derivative Instruments*	—	419,000	—	419,000
Total	$3,031,000	$13,729,000	$5,380,000	$22,140,000

* Derivative instruments include call options written, foreign currency forward contracts, credit default swap contracts, and cumulative loss on futures contracts open at December 31, 20X8.

Liabilities

	Level 1	*Level 2*	*Level 3*	*Total*
Common stocks	$(1,673,000)	—	—	$(1,673,000)
Derivative Instruments*	(280,000)	(129,000)	—	$(409,000)
Total	$(1,953,000)	$(129,000)	—	$(2,082,000)

* Derivative instruments include call options written, foreign currency forward contracts, credit default swap contracts, and cumulative loss on futures contracts open at December 31, 20X8.

[14] The classification of various financial instruments in this table is for illustrative purposes only and should not be construed as recommended practice for any particular financial instrument or class of financial instruments.

The following is a reconciliation of assets for which level 3 inputs were used in determining value:

	Common Stock	*Indexed Securities*	*Total*
Beginning balance	$2,000,000	$—	$2,000,000
Total realized gain (loss)	(500,000)	—	(500,000)
Change in unrealized appreciation (depreciation)	780,000	(300,000)	480,000
Cost of purchases	—	2,400,000	2,400,000
Proceeds from sales	1,000,000	—	1,000,000
Accrued interest	—	—	—
Net transfers in/out of level	—	—	—
Ending balance	$3,280,000	$2,100,000	$5,380,000
The total change in unrealized appreciation (depreciation) included in the statement of operations attributable to level 3 investments still held at December 31, 20X8 includes	$880,000	$(300,000)	$580,000

3. Derivatives Transactions[15]

As of December 31, 20X8, portfolio securities valued at $634,500 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, 20X8, were as follows:

	Number of Contracts	*Premiums Received*
Options outstanding at December 31, 20X7	100	$100,000
Options written	500	500,000
Options terminated in closing purchase transactions	(150)	(190,000)
Options expired	(80)	(150,000)
Options exercised	(150)	(150,000)
Options outstanding at December 31, 20X8	220	$110,000

As of December 31, 20X8, the company sold 10 financial futures contracts on 10-year U.S. Treasury notes for delivery in March 20X9. The company has recorded an unrealized loss of $50,000 as of December 31, 20X8, related to these contracts. The company has additionally recorded a liability of $10,000 as of December 31, 20X8, related to the current day's variation margin related to these contracts.

At December 31, 20X8, the company sold the following foreign currency forward exchange contracts:

	Unrealized Gain	*Unrealized Loss*
1,407,900,000 Japanese yen vs. $14,588,000 for settlement January 25, 20X9	$419,000	
14,394,000 Euro vs. $13,206,000 for settlement March 7, 20X9		$(108,000)
	$419,000	$(108,000)

[15] Practitioners should consider all of the disclosure requirements of FASB ASC 815, *Derivatives and Hedging*, which may not be necessarily reflected in these financial statements and notes to the financial statements.

Additionally, the company had entered into a credit default swap with American Trust Company as counterparty, under which it had agreed to sell protection, expiring June 30, 20Y1 against $500,000 (par) of Baker Industries, Inc. 6 percent bonds due 20X9 for an annual premium of 1.75 percent. At December 31, 20X8, this contract had a fair value of $(21,000). The current credit rating of Baker Industries, as determined by major credit rating agencies, is BB/Ba. The unrealized depreciation in the contract at December 31, 20X8 indicates that the market's evaluation of a default has increased since the contract's inception, but not to the extent that default is considered imminent.

The locations on the statement of assets and liabilities of the company's derivative positions by type of exposure, all of which are not accounted for as hedging instruments under FASB ASC 815, *Derivatives and Hedging*, is as follows:

	Location	*Fair Value of Asset Derivatives*	*Location*	*Fair Value of Liability Derivatives*
Interest rate contracts		—	*	($50,000)
Foreign exchange contracts	Unrealized gain on foreign currency contract	$419,000	Unrealized loss on foreign currency contract	($108,000)
Credit contracts		—	Unrealized loss on swap contract	($21,000)
Equity contracts		—	Call options written	($230,000)
Other contracts		—		
Total		$419,000		($409,000)

* Includes cumulative appreciation/depreciation of futures contracts as described previously. Only current day's variation margin is reported within the statement of assets & liabilities.

Realized and unrealized gains and losses on derivatives contracts entered into during the year ended December 31, 20X8, by the company are recorded in the following locations in the Statement of Operations:

	Location	*Realized Gain/Loss*	*Locations*	*Unrealized Gain/Loss*
Interest rate contracts	Realized gain/ loss—investments	$73,000	Unrealized gain/ loss—investments	($50,000)
Foreign exchange contracts	Realized gain/loss foreign currency transactions	18,000	Unrealized gain/loss translation	311,000
Credit contracts		—	Unrealized gain/ loss—investments	($21,000)
Equity contracts	Realized gain/ loss—investments	($89,000)	Unrealized gain/ loss—investments	($120,000)
Other contracts		—		—
Total		$2,000		$120,000

For nonexchange traded derivatives (swaps and forward foreign currency contracts), under standard derivatives agreements, the company may be required to post collateral on derivatives if the company is in a net liability position with the counterparty exceeding certain amounts. Additionally, counterparties may immediately terminate derivatives contracts if the company fails to maintain sufficient asset coverage for its contracts or its net assets decline by stated percentages.

4. Income Taxes

The tax character of distributions paid during 20X8 and 20X7 was as follows:

	20X8	*20X7*
Distributions paid from:		
Ordinary income	$755,000	$550,000
Long-term capital gain	1,120,000	800,000
	1,875,000	1,350,000
Return of capital	—	66,000
	$1,875,000	$1,416,000

As of December 31, 20X8, 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
	$3,989,000

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.

Permanent book and tax basis differences, if any, result in reclassifications to paid-in capital. These reclassifications have no impact on net assets or results of operations. Permanent book/tax differences are primarily attributable to derivatives transactions.

The U.S. federal income tax basis of the company's investments at December 31, 20X8, 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).

The company recognizes the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. Management has analyzed the company's tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for open tax years (20X5–20X8), or expected to be taken in the company's 20X9 tax returns. The company identifies its major tax jurisdictions as U.S. Federal, New York State and foreign jurisdictions where the company makes significant investments; however the company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months.

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, 20X8, 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, 20X8, 25,000,000 shares of $0.50 par value capital stock were authorized.

Transactions in capital stock were as follows:

	Shares		*Amount*	
	20X8	*20X7*	*20X8*	*20X7*
Shares sold	452,000	329,000	$2,186,000	$1,440,000
Shares issued in reinvestment of distributions	222,000	207,000	1,000,000	845,000
	674,000	536,000	3,186,000	2,285,000
Shares redeemed	104,000	121,000	456,000	530,000
Net increase	570,000	415,000	$2,730,000	$1,755,000

On January 3, 20X9, a distribution of $0.20 per share was declared from net investment income. The dividend was paid on January 20, 20X9, to shareholders of record on January 10, 20X9.

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.

8. Portfolio Securities Loaned

As of December 31, 20X8, 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 20X9.

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, 20X8, the investment adviser voluntarily waived $45,000 of its fee.

The investment adviser also received $5,000 in 20X8 from brokerage fees on executions of purchases and sales of the company's portfolio investments.

During 20X8, 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 20X8 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, 20X8, 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.

Financial Highlights

	20X8	*20X7*	*20X6*	*20X5*	*20X4*[16]
Per Share Operating Performance (For a share of capital stock outstanding throughout the period):					
Net asset value, beginning of period	$4.88	$4.46	$4.16	$4.81	$4.53
Income from investment operations:					
Net investment income	0.21	0.15	0.19	0.17	0.15
Net realized and unrealized gain (loss) on investment transactions	(0.04)	0.76	0.52	(0.42)	0.48
Total from investment operations	0.17	0.91	0.71	(0.25)	0.63
Less distributions	(0.50)	(0.47)	(0.41)	(0.40)	(0.35)
Tax return of capital distribution	—	(0.02)	—	—	—
Total distributions	(0.50)	(0.49)	(0.41)	(0.40)	(0.35)
Net asset value, end of period	$4.55	$4.88	$4.46	$4.16	$4.81
Total Return:[17]	3.48%	20.40%	17.07%	(5.02)%	3.91%
Supplemental Data:					
Net assets, end of period (000)	$19,173	$17,792	$14,410	$15,000	$14,000
Ratio to average net assets:					
Expenses[18]	1.33%[19]	1.31%	.99%	.82%	84%[19]
Net investment income[18]	4.56%[19]	2.82%	4.22%	5.42%	5.10%[19]
Portfolio turnover rate	92%	80%	108%	75%	62%

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

16 Period from March 1, 20X4 (inception), to December 31, 20X4.

17 Not annualized for periods less than a year.

18 Annualized for periods less than one year.

19 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 percent of average net assets) in 20X8 and subsidized certain operating expenses (equal to 0.21 percent of average net assets) in 20X4.

Illustrative Financial Statements for Management Investment Companies That Have Multiple Classes of Shares or Master-Feeder Structures

XYZ Multiple-Class Fund
Statement of Assets and Liabilities
December 31, 20X8

Assets	
Investments in securities, at fair value (cost $18,674,000)	$21,101,000
Cash	199,000
Deposits with brokers for securities sold short	1,555,000
Collateral for securities loaned, at fair value	620,000
Receivables:	
Dividends and interest	46,000
Investment securities sold	24,000
Capital shares sold	54,000
Other assets	26,000
Total assets	23,625,000
Liabilities	
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	2,000,000
Payable upon return of securities loaned	620,000
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	4,763,000
Net assets	$18,862,000
Net assets consist of:	
Paid-in capital	$15,184,000
Distributable earnings	3,678,000
Total net assets	$18,862,000
Net asset value per share:	
Class A—based on net assets of $15,089,600 and 3,375,750 shares outstanding	$4.47
Class A public offering price ($4.47 net asset value divided by .95)	$4.71
Class B—based on net assets of $3,772,400 and 845,830 shares outstanding	$4.46
Redemption price per Class B share is equal to net asset value less any applicable contingent deferred sales charge.	

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

XYZ Multiple-Class Fund
Statement of Operations
Year Ended December 31, 20X8

Investment income:	
Dividends (net of foreign withholding taxes of $20,000)	$742,000
Interest	209,000
Income from loaned securities—net	50,000
Total income	1,001,000
Expenses:	
Investment advisory fee	137,400
Service fees—Class A	36,600
Distribution and service fees—Class B	37,000
Interest	10,000
Professional fees	18,000
Custodian	5,000
Transfer agent fees—Class A	10,000
Transfer agent fees—Class B	12,000
Directors' fees	10,000
Dividends on securities sold short	3,000
Total gross expenses	279,000
Less waivers:	
Distribution and service fees—Class B	(18,500)
Investment advisory fee	(34,500)
Total net expenses	226,000
Investment income—net	775,000
Realized and unrealized gain (loss) on investments:	
Net realized gain (loss) on investments	1,089,000
Net change in unrealized appreciation (depreciation) on investments	(1,649,000)
Net loss on investments	(560,000)
Net increase in net assets resulting from operations	$215,000

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

XYZ Multiple-Class Fund
Statements of Changes in Net Assets
Years Ended December 31, 20X8 and 20X7

	20X8	*20X7*
Increase (decrease) in net assets from operations:		
Investment income—net	$775,000	$724,000
Net realized gain on investments	1,089,000	1,000,000
Change in unrealized appreciation or depreciation	(1,649,000)	1,319,000
Net increase in net assets resulting from operations	215,000	3,043,000
Distributions to shareholders:		
Class A	(1,505,250)	(1,104,500)
Class B	(360,750)	(239,500)
Tax return of capital:		
Class A	—	(52,800)
Class B	—	(13,200)
Total distributions	(1,866,000)	(1,410,000)
Net increase from capital share transactions	2,721,000	4,700,000
Total increase in net assets	1,070,000	6,333,000
Net assets:		
Beginning of year	17,792,000	11,459,000
End of year	$18,862,000	$17,792,000

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

XYZ Multiple-Class Fund
Notes to Financial Statements

[*The following notes are limited to illustrations of disclosures unique to a multiple-class fund structure. In addition to the disclosures provided, notes for a multiple-class fund would include all standard disclosures presented as part of the illustrative financial statements in chapter 7.*]

1. Significant Accounting Policies

XYZ Multiple-Class Fund (the fund) is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The fund offers 2 classes of shares (class A and class B). Each class of shares has equal rights as to earnings and assets except that each class bears different distribution, shareholder service, and transfer agent expenses. Each class of shares has exclusive voting rights with respect to matters that affect just that class. Income, expenses (other than expenses attributable to a specific class), and realized and unrealized gains or losses on investments are allocated to each class of shares based on its relative net assets. Class B shares are subject to a maximum contingent deferred sales charge (CDSC) of 5 percent upon redemption, decreasing to zero over a period of 6 years. Class B shares automatically convert to class A shares at the end of the month following the eighth anniversary of issuance.

2. Capital Share Transactions

The fund is authorized to issue an unlimited number of shares in an unlimited number of classes.

Transactions in the capital shares of the fund were as follows:

	20X8		*20X7*	
	Shares	*Amount*	*Shares*	*Amount*
Class A:				
Shares sold	309,000	$1,444,500	690,500	$3,176,000
Shares issued from reinvestments	195,000	1,040,000	171,000	770,000
Shares redeemed	(57,000)	(253,500)	(40,000)	(186,000)
Net increase from capital share transactions	447,000	$2,231,000	821,500	$3,760,000
Class B:				
Shares sold	61,925	$290,100	185,000	$848,000
Shares issued from reinvestments	57,875	270,000	35,000	160,000
Shares redeemed	(15,000)	(70,100)	(15,000)	(68,000)
Net increase from capital share transactions	104,800	$490,000	205,000	$940,000

3. Investment Advisory Fees and Other Transactions With Affiliates

The fund has entered into a distribution plan, pursuant to rule 12b-1 under the Investment Company Act of 1940, with XYZ Distributors (distributors). Under the plan, class A shares pay a monthly shareholder servicing fee at an annual rate of 0.25 percent of class A average daily net assets. Class B shares pay monthly shareholder servicing and distribution fees at the annual rate of 0.25 percent and 0.75 percent, respectively, of class B average daily net assets. These fees compensate distributors for the services they provide and for expenses borne by distributors under the agreement. During the year ended December 31, 20X8, distributors waived $18,500 of their distribution fees related to class B shares.

For the year ended December 31, 20X8, distributors received $70,000 in sales commissions from the sale of class A shares. Distributors also received $6,500 of contingent deferred sales charges relating to redemptions of class B shares.

XYZ Service Company, an affiliate of advisers, provides transfer agent services to the fund. Under the transfer agent agreement with XYZ Service Company, the fund pays a monthly fee equal, on an annual basis, to $15 and $18 per shareholder account for class A and class B shares, respectively.

XYZ Multiple-Class Fund
Financial Highlights

	Class A			*Class B*		
	20X8	*20X7*	*20X6*[20]	*20X8*	*20X7*	*20X6*[20]
Per share operating performance:[21]						
Net asset value, beginning of year	$4.88	$4.46	$4.00	$4.88	$4.45	$4.00
Income from investment operations:						
Net investment income	0.21	0.20	0.12	0.19	0.20	0.11
Net realized and unrealized gain (loss) on investment transactions	(0.12)	0.71	0.50	(0.12)	0.71	0.49
Total from investment operations	0.09	0.91	0.62	0.07	0.91	0.60
Less distributions:						
Dividends and distributions	(0.50)	(0.44)	(0.16)	(0.49)	(0.43)	(0.15)
Tax return of capital distributions	0	(0.05)	0	0	(0.05)	0
Total distributions	(0.50)	(0.49)	(0.16)	(0.49)	(0.48)	(0.15)
Net asset value, end of year	$4.47	$4.88	$4.46	$4.46	$4.88	$4.45
Total return[22]	1.84%	20.40%	15.50%	1.43%	19.90%	15.00%
Percentages and supplemental data:						
Net assets, end of period (000s)	$15,090	$14,167	$9,167	$3,772	$3,625	$2,292
Ratios to average net assets:						
Expenses[23]	1.23%	1.30%	1.35%[24]	1.48%	2.05%	2.10%[24]
Net investment income[23]	4.15%	2.82%	4.00%[24]	3.90%	2.07%	3.25%[24]
Portfolio turnover rate	92%	80%	75%	92%	80%	75%

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

[20] For the period from June 1, 20X6, commencement of operations, to December 31, 20X6.

[21] Selected data for a share of capital stock outstanding throughout the year.

[22] Total return excludes the effect of sales charges.

[23] During 20X8, 20X7, and 20X6, the adviser and distributor voluntarily waived a portion of their advisory fees and a portion of the class B distribution fee (0.50%). Absent these waivers, the expense percentages would have been approximately 1.48%, 1.55%, 1.60%, 2.23%, 2.80%, and 2.85%, respectively.

[24] Annualized.

ABC Feeder Fund, Inc.
Statement of Assets and Liabilities
December 31, 20X8

Assets	
Investment in ABC Master Portfolio	$15,089,600
Receivable for capital shares sold	110,000
Prepaid expenses and other assets	35,000
Total assets	15,234,600
Liabilities	
Administrative fee payable	20,000
Payable for capital shares redeemed	30,000
Dividends payable	40,000
Other accrued liabilities	25,000
Total liabilities	115,000
Net assets	$15,119,600
Net assets consist of:	
Paid-in capital, 1,250,000 shares outstanding	$12,258,600
Distributable earnings	2,861,000
Total net assets	$15,119,600
Net asset value per share	$12.10
Public offering price ($12.10 net asset value divided by 0.95)	$12.74

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

ABC Feeder Fund, Inc.
Statement of Operations[25]
Year Ended December 31, 20X8

Net investment income allocated from ABC Master Portfolio:	
Dividends	$579,000
Interest	168,200
Income from loaned securities—net	40,000
Expenses[26]	(179,000)
Net investment income from ABC Master Portfolio	608,200
Fund expenses:	
Administrative fees	15,000
Distribution and servicing fees	37,500
Professional fees	12,000
Transfer agent fees	35,000
Directors' fees	10,000
Registration fees	26,000
Other expenses	12,000
Total expenses	147,500
Investment income—net	460,700
Realized and unrealized gain (loss) on investments allocated from ABC Master Portfolio:	
Net realized gain on investments	865,000
Net change in unrealized appreciation (depreciation) on investments	(1,320,000)
Net loss on investments	(455,000)
Net increase in net assets resulting from operations	$5,700

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

[25] In the initial year of adopting a master-feeder structure, the feeder's statement of operations may be a combination of (*a*) direct income, expenses, and realized gains and losses for the period prior to adoption of the master-feeder structure, and (*b*) the allocated amounts from the master portfolio for the period from adoption to fiscal year end.

[26] Any expense waivers should be reported in a note to the statement of operations.

ABC Feeder Fund, Inc.
Statements of Changes in Net Assets
Years Ended December 31, 20X8 and 20X7

	20X8	*20X7*
Increase (decrease) in net assets from operations:		
Investment income—net	$460,700	$369,000
Net realized gain on investments	865,000	750,000
Change in unrealized appreciation or depreciation	(1,320,000)	1,178,000
Net increase in net assets resulting from operations	5,700	2,297,000
Distributions to shareholders	(1,178,700)	(1,071,000)
Net increase from capital share transactions:		
Sold 147,000 and 207,000 shares	1,782,600	2,359,000
Distributions reinvested of 72,000 and 73,000 shares	880,000	820,000
Redeemed 20,700 and 13,000 shares	(250,000)	(150,000)
Net increase from capital share transactions	2,412,600	3,029,000
Total increase in net assets	1,239,600	4,255,000
Net assets: Beginning of year	13,880,000	9,625,000
End of year	$15,119,600	$13,880,000

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

ABC Feeder Fund, Inc.
Notes to Financial Statements

[*The following notes are limited to illustrations of disclosures unique to feeder fund financial statements. Besides the following disclosures presented, notes for a feeder fund would include all standard disclosures presented as part of the illustrative financial statements in chapter 7. Exceptions to the standard chapter 7 disclosures would be the omission of notes relating to the master fund portfolio activity and expenses such as the advisory fee incurred, which are disclosed in the master fund financial statements*.]

1. Significant Accounting Policies

ABC Feeder Fund, Inc. (the fund) is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The fund invests substantially all of its assets in the ABC Master Portfolio, an open-end investment company that has the same investment objectives as the fund. The financial statements of the ABC Master Portfolio, including the schedule of investments, are included elsewhere in this report and should be read with the fund's financial statements. The percentage of ABC Master Portfolio owned by the fund at December 31, 20X8, was 80 percent.

Valuation of investments. The fund records its investment in ABC Master Portfolio at fair value. The notes to the ABC Master Portfolio financial statements included elsewhere in this report provide information about the Master Portfolio's valuation policy and its period-end security valuations.

Investment income and expenses. The fund records daily its proportionate share of the ABC Master Portfolio's income, expenses, and realized and unrealized gains and losses. In addition, the fund accrues its own expenses.

ABC Feeder Fund, Inc.
Financial Highlights

	20X8	*20X7*	*20X6*[27]
Per share operating performance:[28, 29]			
Net asset value, beginning of year	$13.11	$11.75	$10.00
Income from investment operations:			
Net investment income	0.40	0.41	0.38
Net realized and unrealized gain (loss) on investment transactions	(0.39)	2.12	2.47
Total from investment operations	0.01	2.53	2.85
Less distributions	(1.02)	(1.17)	(1.10)
Net asset value, end of year	$12.10	$13.11	$11.75
Total return	0.08%	21.53%	28.50%
Percentages and supplemental data:			
Net assets, end of period (000s)	$15,119	$13,880	$9,625
Ratios to average net assets:[29]			
Expenses	2.25%	2.30%	2.32%[30]
Net investment income	3.21%	2.48%	2.58%[30]

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

[27] For the period from March 1, 20X6, the date of commencement of operations, to December 31, 20X6.

[28] Selected data for a share of capital stock outstanding throughout the year.

[29] The per share amounts and percentages reflect income and expenses assuming inclusion of the fund's proportionate share of the income and expenses of ABC Master Portfolio.

[30] Annualized.

ABC Master Portfolio
Statement of Assets and Liabilities
December 31, 20X8

Assets	
Investments in securities, at fair value (cost $18,674,000)	$21,101,000
Cash	199,000
Deposits with brokers for securities sold short	1,555,000
Collateral for securities loaned, at fair value	620,000
Receivables:	
Dividends and interest	100,000
Investment securities sold	24,000
Other assets	26,000
Total assets	23,625,000
Liabilities	
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	2,000,000
Payable upon return of securities loaned	620,000
Due to broker—variation margin	10,000
Payables:	
Investment securities purchased	210,000
Other	12,000
Accrued expenses	8,000
Total liabilities	4,763,000
Net assets	$18,862,000

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

ABC Master Portfolio
Statement of Operations
Year Ended December 31, 20X8

Investment income:	
Dividends (net of foreign withholding taxes of $20,000)	$742,000
Interest	209,000
Income from loaned securities—net	50,000
Total income	1,001,000
Expenses:	
Investment advisory fee	171,900
Interest	10,000
Professional fees	18,000
Custodian	13,100
Directors' fees	10,000
Dividends on securities sold short	3,000
Total expenses	226,000
Investment income—net	775,000
Realized and unrealized gain (loss) on investments:	
Net realized gain on investments	1,089,000
Net change in unrealized appreciation on investments	(1,649,000)
Net loss on investments	(560,000)
Net increase in net assets resulting from operations	$215,000

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

ABC Master Portfolio
Statements of Changes in Net Assets
Years Ended December 31, 20X8 and 20X7

	20X8	*20X7*
Increase (decrease) in net assets from operations:		
Investment income—net	$775,00	$492,000
Net realized gain on investments	1,089,000	1,000,000
Net change in unrealized appreciation or (depreciation)	(1,649,000)	1,551,000
Net increase in net assets resulting from operations	215,000	3,043,000
Proceeds from contributions	3,000,000	5,000,000
Fair value of withdrawals	(2,145,000)	(2,751,000)
	855,000	2,249,000
Increase in net assets	1,070,000	5,292,000
Net assets:		
Beginning of year	17,792,000	12,500,000
End of year	$18,862,000	$17,792,000

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

ABC Master Portfolio
Notes to Financial Statements

[*The following notes are limited to illustrations of disclosures unique to master fund financial statements. Besides the following disclosures presented, notes for a master fund would include all standard disclosures presented as part of the illustrative financial statements in chapter 7. Exceptions to the standard chapter 7 disclosures would be the omission of notes regarding dividend distributions, capital share transactions, and distribution fees, each of which is disclosed in the financial statements of the feeder fund*.]

1. Significant Accounting Policies

ABC Master Portfolio (the portfolio) is organized as a trust and is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The Declaration of Trust permits the trustees to issue nontransferable interests in the portfolio. For federal income tax purposes, the portfolio qualifies as a partnership, and each investor in the portfolio is treated as the owner of its proportionate share of the net assets, income, expenses, and realized and unrealized gains and losses of the portfolio. Accordingly, as a pass-through entity, the portfolio pays no income dividends or capital gain distributions.

2. Federal Income Taxes

The portfolio will be treated as a partnership for federal income tax purposes. As such, each investor in the portfolio will be subject to taxation on its share of the portfolio's ordinary income and capital gains. It is intended that the portfolio's assets will be managed so an investor in the portfolio can satisfy the requirements of Subchapter M of the Internal Revenue Code.

3. Financial Highlights

Financial highlights for the portfolio for each period were as follows:

	20X8	*20X7*	*20X6*[31]
Total return	1.21%	24.34%	31.20%
Ratios to average net assets:			
Expenses	1.23%	1.25%	1.27%[32]
Net investment income	4.23%	3.25%	3.34%[32]
Portfolio turnover rate	92%	80%	102%

[31] For the period from March 1, 20X6, the date of commencement of operations, to December 31, 20X6.

[32] Annualized.

FOF Fund, Inc.
Statement of Net Assets
September 30, 20X8

[*The following sample financial statements are limited to matters directly related to funds of funds. The sample financial statements in chapters 5 and 7 should be consulted for relevant disclosures.*]

Assets:	
204,100 shares FOF Growth Fund, Inc.	$2,046,762
182,633 shares FOF International Fund, Inc.	2,224,470
96,152 shares FOF Income Fund, Inc.	1,046,134
602,908 shares FOF Money Market Fund, Inc.	602,908
Total investments (cost $5,617,279)	5,920,274
Cash	9,000
Receivable for Fund shares sold	23,652
Other assets	2,710
Total assets	5,955,636
Liabilities:	
Payable for Fund shares repurchased	37,123
Accrued expenses	8,327
Total liabilities	45,450
Net assets (equivalent to $10.73 per share based on 550,810 shares of capital stock issued and outstanding; unlimited shares authorized)	$5,910,186
Components of net assets:	
Paid-in capital	$5,569,426
Distributable earnings	340,760
	$5,910,186

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

FOF Fund, Inc.
Statement of Operations
Year Ended September 30, 20X8

Investment income:		
Dividends from investment company shares		$201,942
Expenses:		
Custodian and transfer agent fees	$22,560	
Professional fees	8,318	
Registration fees	1,040	
Directors' fees	1,982	
Total expenses		33,900
Net investment income		168,042
Realized and unrealized gain (loss) on investments:		
Realized gain on sales of investment company shares	$12,067	
Realized gain distributions from investment company shares	321,939	
Net realized gain		334,006
Change in unrealized appreciation (depreciation) on investments during the year		219,837
Net realized and unrealized gain		553,843
Net increase in net assets resulting from operations		$721,885

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

FOF Fund, Inc.
Statements of Changes in Net Assets
Years Ended September 30, 20X8 and 20X7[33]

	20X8	*20X7*
Increase (decrease) in net assets from:		
Net investment income	$168,042	$32,177
Net realized gain on investments	334,006	16,090
Change in net unrealized appreciation	219,837	83,158
	721,885	131,425
Distributions to shareholders	(484,617)	(27,933)
Capital share transactions—net	2,172,589	3,396,837
Net increase in net assets	2,409,857	3,500,329
Net assets:		
Beginning of year	3,500,329	—
End of year	$5,910,186	$3,500,329

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

[33] The fund commenced operations on October 1, 20X6.

FOF Fund, Inc.
Notes to Financial Statements

1. Significant Accounting Policies

FOF Fund, Inc. (the fund) is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company. The fund invests solely in shares of other funds within the FOF Group of Mutual Funds with the objective of seeking high total return through investments allocated to diverse equity and fixed-income markets.

The following is a summary of significant accounting policies that are in conformity with U.S. generally accepted accounting principles (GAAP) and which are followed consistently by the fund in the preparation of its financial statements. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Security valuation. Investments in funds within the FOF Group of Mutual Funds are valued at fair value based on the net asset values as reported by the underlying funds.

Transaction dates. Share transactions are recorded on the trade date. Dividend income and realized gain distributions from other funds are recognized on the ex-dividend date. Distributions to shareholders, which are determined in accordance with income tax regulations, are similarly recorded on the ex-dividend date. In determining the net gain or loss on securities sold, the cost of securities is determined on the identified cost basis.

Federal income taxes. The fund's policy is to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable income to its shareholders. Thus, no federal income tax provision is required.

2. Investment Transactions and Valuation

Cost of purchases and proceeds of sales of shares of funds within the FOF Group of Mutual Funds (excluding FOF Money Market Fund, Inc.) for the year ended September 30, 20X8, were $2,482,315 and $336,232, respectively. At September 30, 20X8, the cost of investments for federal income tax purposes was $5,617,279 and gross unrealized appreciation was $302,995; there was no gross unrealized depreciation.

The fund utilizes various methods to measure the fair value of most of its investments on a recurring basis. U.S. GAAP establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the fund has the ability to access.

Level 2—Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk yield curves, default rates and similar data.

Level 3—Unobservable inputs for the asset or liability, to the extent observable inputs are not available, representing the fund's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The following table summarizes the inputs used to value the fund's assets measured at fair value as of September 30, 20X8.[34]

[34] The classification of various financial instruments in this table is for illustrative purposes only and should not be construed as recommended practice for any particular financial instrument or class of financial instruments.

Valuation Inputs	*Investments in Mutual Funds*
Level 1	$5,920,274
Level 2	—
Level 3	—
Total	$5,920,274

3. Investment Advisory Services and Other Transactions With Affiliates

The fund receives investment management and advisory services, consisting principally of determining the allocation of the assets of the fund among designated underlying funds, under a management agreement with FOF Investment Management, Inc. (the manager). The manager receives no compensation under this agreement; however, the fund pays management fees and expenses to the manager indirectly, as a shareholder in funds of the FOF Group of Mutual Funds. Additionally, each fund in which the fund invests (except FOF Money Market Fund, Inc.) pays a distribution fee to FOF Distributors, Inc., the distributor of the fund, in the amount of 0.25 percent of average annual net assets. The fund pays no sales loads or similar compensation to FOF Distributors, Inc. to acquire shares of each fund in which it invests.

Because the underlying funds have varied expense and fee levels and the fund may own different proportions of underlying funds at different times, the amount of fees and expenses incurred indirectly by the fund will vary.

The fund paid $1,982 to unaffiliated directors during the year ended September 30, 20X8. No compensation is paid to any director or officer who is affiliated with the manager.

4. Capital Share Transactions

Transactions in capital shares were as follows:

	Years Ended September 30,			
	20X8		*20X7*	
	Shares	*Amount*	*Shares*	*Amount*
Shares sold	204,017	$2,077,520	354,695	$3,590,241
Shares issued in reinvestment of dividends	41,817	425,255	2,615	27,013
Shares redeemed	(30,948)	(330,186)	(21,386)	(220,417)
Net increase	214,886	$2,172,589	335,924	$3,396,837

5. Components of Capital

Components of capital on a federal income tax basis at September 30, 20X8, were as follows:

Paid-in capital	$5,569,426
Undistributed ordinary income	11,460
Undistributed net realized gain	26,305
Unrealized appreciation	302,995
	$5,910,186

The tax character of distributions paid during the years ended September 30, 20X8, and 20X7, was as follows:

	20X8	*20X7*
Ordinary income	$160,826	$27,933
Long-term capital gain	323,791	—
	$484,617	$27,933

Financial Highlights

	Year Ended September 30, 20X8	20X7
Per share data (for a share outstanding throughout the period):		
Net investment income[35]	$.38	$.20
Net realized and unrealized (gain) loss on investments	1.04	.38
Total from investment operations	1.42	.58
Less: Distributions to shareholders	(1.11)	(.16)
Net increase (decrease)	.31	.42
Net asset value:		
Beginning of year[36]	10.42	10.00
End of year	$10.73	$10.42
Total return	13.59%	5.86%
Net assets, end of year (000s)	$5,910	$3,501
Ratio of expenses to average net assets[37]	0.72%	0.89%[38]
Net investment income as a percentage of average net assets[35]	3.59%	1.96%[38]
Portfolio turnover rate	21%	5%

[35] Recognition of net investment income by the fund is affected by the timing of the declaration of dividends by the underlying investment companies in which the fund invests.

[36] Investment operations commenced on October 1, 20X6.

[37] Does not include expenses of the investment companies in which the fund invests.

[38] Annualized.

Illustrative Financial Statements for a Unit Investment Trust

Anytown Income Trust
First Intermediate Series
Statement of Assets and Liabilities
August 31, 20X8

Trust Property

Assets	
Investment in securities, at fair value (cost $14,591,035) (note 1 and Schedule 1)	$13,878,788
Interest receivable	339,174
Cash	166,489
Total assets	14,384,451

Liabilities and Net Assets

Liabilities	
Trustee and evaluator fees payable	47
Accrued other expenses payable	475
Total liabilities	522
Net assets	
Balance applicable to 15,500 units of fractional undivided interest outstanding (notes 1 and 3)	
Cost to original investors	15,475,560
Less initial underwriting commission	(619,022)
	14,856,538
Accumulated losses	(232,610)
Principal distributions to unit holders of proceeds from investment transactions	(239,999)
Net assets	$14,383,929
Net asset value per unit (15,500 units)	$928

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

Schedule 1
Anytown Income Trust
First Intermediate Series
Portfolio of Investments
August 31, 20X8

Name of Issuer and Title of Issue	*Coupon Rate (%)*	*Date of Maturity or Final Sinking Fund Payment*	*Principal Amount or Par Value*	*Fair Value*	
Corporate debt obligations:					
Air transport					
Flying Tiger Lines Incorporated equipment trust certificates	9.000	10/01/Y1	$931,000	$912,380	
Total air transport (percentage of net asset value)				912,380	(6.4%)
Banking					
Dominion Bankshares notes	9.500	4/01/Y3	1,000,000	1,022,500	
First Maryland Bancorp notes	9.750	11/01/Y3	250,000	252,500	
Southeast Banking Corporation notes	10.000	5/01/Y3	218,000	224,267	
Total banking (percentage of net asset value)				1,499,267	(10.4%)
Utilities					
Utah Power & Light Company first mortgage bonds	4.500	6/01/Y2	12,100,000	11,467,141	
Total utilities (percentage of net asset value)				11,467,141	(79.7%)
Total debt obligations (percentage of net asset value)				$13,878,788	(96.5%)

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

Anytown Income Trust
First Intermediate Series
Statements of Operations

	For the Year Ended August 31, 20X8	*From March 23, 20X7 (Date of Deposit) Through August 31, 20X7*
Investment income		
Interest income	$1,258,975	$554,509
Expenses (note 1)		
Trustee's fee	14,063	5,411
Evaluator's fee	1,350	375
Other	1,083	351
Total expenses	16,496	6,137
Net investment income	1,242,479	548,372
Realized and unrealized gain (loss) on investments (note 1)		
Net realized losses from investment transactions	(12,738)	(12,765)
Net change in unrealized appreciation (depreciation) of investments	(738,828)	26,581
Net gain (loss) on investments	(751,566)	13,816
Net increase in net assets resulting from operations	$490,913	$562,188

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

Anytown Income Trust
First Intermediate Series
Statements of Changes in Net Assets

	For the Year Ended August 31, 20X8	*From March 23, 20X7 (Date of deposit) Through August 31, 20X7*
Increase (decrease) in net assets resulting from operations		
Net investment income	$1,242,479	$548,372
Net realized losses on investment transactions	(12,738)	(12,765)
Net change in unrealized appreciation (depreciation) of investments	(738,828)	26,581
Net increase in net assets resulting from operations	490,913	562,188
Distributions to unit holders (note 2)		
Accrued income as of the date of deposit	5,182	360,787
Net investment income	1,231,408	54,303
Proceeds from investment transactions	129,000	110,999
Total distributions	1,365,590	526,089
Increase (decrease) in net assets	(874,677)	36,099
Net assets		
Beginning of period	15,258,606	15,222,507
End of period	$14,383,929	$15,258,606

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

Anytown Income Trust
First Intermediate Series
Notes to Financial Statements

1. Summary of Significant Accounting Policies

The trust was organized on March 23, 20X7, under the laws of the Commonwealth of Massachusetts by a Trust Indenture and Agreement, and is registered under the Investment Company Act of 1940. The significant accounting policies of the trust include the following:

Basis of presentation. The financial statements are presented on the accrual basis of accounting.

Investment in marketable securities. Security transactions are recorded on a trade date basis. Investments owned are carried at fair value, which is the closing bid price on the last day of trading during the period, except that fair value on the date of deposit (March 23, 20X7) represents the cost to the trust based on offering prices for investments at that date. The difference between cost and fair value is reflected as unrealized appreciation (depreciation) of investments. Realized gains (losses) from securities transactions are determined for federal income tax and for financial reporting purposes on the identified cost basis.

FASB ASC 820-10-35 establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the trust has the ability to access.

Level 2—Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.

Level 3—Unobservable inputs for the asset or liability, to the extent observable inputs are not available, representing the trust's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The following table summarizes the inputs used to value the trust's assets and liabilities measured at fair value as of December 31, 20X8:[39]

Valuation Inputs	*Investments in Securities*
Level 1	$—
Level 2	13,878,888
Level 3	—
Total	$13,878,888

Income taxes. No provision for federal income taxes has been made in the accompanying financial statements because the trust has elected and intends to continue to qualify for the tax treatment applicable to regulated investment companies under the Internal Revenue Code. Under existing law, if the trust so qualifies, it will not be subject to federal income tax on net investment income and capital gains distributed to unit holders. Distributions to unit holders of the trust's net investment income will be taxable as ordinary income to unit holders. Capital gains distributions will be taxable as capital gains to unit holders.

Investment expenses. The trust pays a fee for trustee services to XYZ Bank that is based on $0.75 per $1,000 of outstanding investment principal. In addition, a fixed fee of $35 is paid to a service bureau for portfolio valuation at least weekly and more often at the discretion of the trustee.

Management has analyzed the trust's tax positions, and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions taken on returns filed for 20X7, or expected to

[39] The classification of various financial instruments in this table is for illustrative purposes only and should not be construed as recommended practice for any particular financial instrument or class of financial instruments.

be taken in the trust's 20X8 tax returns. The trust is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next 12 months.

2. Distributions of Income and Redemption of Units

The trust agreement requires that the net investment income and net realized capital gains (if any) of the trust, and also the proceeds from the sale, redemption, or maturity of securities (to the extent that the proceeds are not used to redeem units), be distributed to unit holders monthly.

The agreement also requires the trust to redeem units tendered for redemption, to the extent that such units are not purchased by the sponsor, at a price determined based on bid prices of the securities of the trust.

As of August 31, 20X8, the components of distributable earnings on a tax basis were as follows:

Undistributed ordinary income		$505,140
Unrealized depreciation of investments	(712,247)	
Accumulated net realized loss from investment transactions	(25,503)	
		$(232,610)

3. Original Cost to Unit Holders

The original cost to investors[40] represents the aggregate initial offering price as of the date of deposit exclusive of accrued interest. The initial underwriting commission and investors' original cost of units, as shown on the statement of assets and liabilities, are based upon the assumption that the maximum sales commission was charged for each initial purchase of units.

4. Financial Highlights

	8/31/X8	*8/31/X7*
Per Share Operating Performance:		
Net asset value, beginning of period	$984.43	$982.10
Income from investment operations		
Net investment income	80.16	35.38
Net realized and unrealized gain (loss) on investment transactions	(48.49)	0.89
Total from investment operations	31.67	36.27
Less distributions	(88.10)	(33.94)
Net asset value, end of period	$928.00	$984.43
Total Return:	3.22%	3.51%
Ratios as a Percentage of Average Net Assets:		
Expenses	0.11%	0.09%
Net investment income	8.38%	8.21%

[40] This information is required by Regulation S-X and is not otherwise required by U.S. generally accepted accounting principles.

Illustrative Financial Statements for Variable Annuity Separate Accounts Registered as Unit Investment Trusts

ABC Variable Annuity Separate Account I
of ABC Life Insurance Company
Statement of Assets and Liabilities
December 31, 20X8

	Money Market	*Equity Index*
Assets:		
ABC Investment Fund		
Investments at fair value:		
Money Market Portfolio, 57,231,590 shares (cost $57,231,590)	$57,231,590	$—
Equity Index Portfolio, 23,961,595 shares (cost $325,054,036)	—	350,797,752
Total assets	57,231,590	350,797,752
Liabilities:		
Payable to ABC Life Insurance Company	—	46,109
	$57,231,590	$350,751,643
Net assets:		
Accumulation units	$57,231,590	$349,750,644
Contracts in payout (annuitization) period	—	610,108
Retained in Separate Account I by ABC Life Insurance Company	—	390,891
Total net assets	$57,231,590	$350,751,643
Units outstanding	4,136,795	19,674,291
Unit value (accumulation)	$13.83	$17.83

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

ABC Variable Annuity Separate Account I
of ABC Life Insurance Company
Statement of Operations
for the Year Ended December 31, 20X8

	Money Market	*Equity Index*
Income:		
Dividends	$4,602,399	$6,450,878
Expenses:		
Mortality and expense risk	548,224	1,753,874
Administrative charges[41]	182,741	584,624
Net Investment Income	3,871,434	4,112,380
Realized gains (losses) on investments		
Realized gain on sale of fund shares	—	4,050,008
Realized gain distributions	—	400,900
Realized gain	—	4,450,908
Change in unrealized appreciation during the year	—	20,728,111
Net increase in net assets from operations	$3,871,434	$29,291,399

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

[41] If, under the annuity contract, the administrative charge is levied as a direct charge to the contract holders' accounts, rather than against the separate account, this would be included as an item separate from contract transactions in the statement of changes in net assets. In such cases, the exclusion of the direct charges from the expense ratios appearing in the financial highlights should be noted. If the charge is applied uniformly to all accounts based on the value of the contract holder's account, consideration should be given to indicating the effect of the charge on contract holder costs (expressed as a percentage of net assets) in the note.

ABC Variable Annuity Separate Account I
of ABC Life Insurance Company
Statement of Changes in Net Assets
for the Years Ended December 31, 20X8 and 20X7

	Money Market		*Equity Index*	
	20X8	*20X7*	*20X8*	*20X7*
Increase in net assets from operations:				
Net investment income	$3,871,434	$3,534,624	$4,112,380	$1,100,710
Realized gains	—	—	4,450,908	462,877
Unrealized appreciation during the year	—	—	20,728,111	22,480,579
Net increase in net assets from operations	3,871,434	3,534,624	29,291,399	24,044,166
Contract transactions:				
Payments received from contract owners	14,367,366	17,444,822	37,527,318	11,075,691
Transfers between subaccounts (including fixed account), net	(15,063,795)	(18,267,246)	155,175,016	59,808,957
Transfers for contract benefits and terminations	(11,945,485)	(10,017,075)	(4,238,812)	(1,639,933)
Contract maintenance charges	(40,061)	(51,366)	(210,505)	(65,202)
Adjustments to net assets allocated to contracts in payout period	—	—	6,500	—
Net increase (decrease) in net assets from contract transactions	(12,681,975)	(10,890,865)	188,259,517	69,179,513
Increase (decrease) in amounts retained in Variable Annuity Account I, net	—	—	90,967	(122,904)
Total increase (decrease) in net assets	(8,810,541)	(7,356,241)	217,641,883	93,100,775
Net assets at beginning of period	66,042,131	73,398,372	133,109,760	40,008,985
Net assets at end of period	$57,231,590	$66,042,131	$350,751,643	$133,109,760

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

ABC Variable Annuity Separate Account I
of ABC Life Insurance Company
Notes To Financial Statements

1. Organization

The ABC Variable Annuity Separate Account I (Separate Account I), a unit investment trust registered under the Investment Company Act of 1940 as amended, was established by ABC Life Insurance Company (ABC) on April 1, 20XX, and exists in accordance with the regulations of the New York Insurance Department. Separate Account I is a funding vehicle for individual variable annuity contracts. Separate Account I currently consists of 2 investment divisions, Money Market and Equity Index, each of which is treated as an individual separate account. Each investment division invests all of its investible assets in the corresponding portfolio of ABC Investment Fund, Inc.

Under applicable insurance law, the assets and liabilities of Separate Account I are clearly identified and distinguished from ABC's other assets and liabilities. The portion of Separate Account I's assets applicable to the variable annuity contracts is not chargeable with liabilities arising out of any other business ABC may conduct.

2. Significant Accounting Policies

Investments are made in the portfolios of the ABC Investment Fund and are valued at fair value based on the reported net asset values of such portfolios, which in turn value their investment securities at fair value. Transactions are recorded on a trade date basis. Dividend income and realized gain distributions are recorded on the ex-distribution date.

Realized gains and losses on the sales of investments are computed on the basis of the identified cost of the investment sold.

Net assets allocated to contracts in the payout period are computed according to the 1983a Individual Annuitant Mortality Table. The assumed investment return is 3.5 percent unless the annuitant elects otherwise, in which case the rate may vary from 3.5 percent to 7 percent, as regulated by the laws of the respective states. The mortality risk is fully borne by ABC and may result in additional amounts being transferred into the variable annuity account by ABC to cover greater longevity of annuitants than expected. Conversely, if amounts allocated exceed amounts required, transfers may be made to the insurance company.

The operations of Separate Account I are included in the federal income tax return of ABC, which is taxed as a life insurance company under the provisions of the Internal Revenue Code (IRC). Under the current provisions of the IRC, ABC does not expect to incur federal income taxes on the earnings of Separate Account I to the extent the earnings are credited under the contracts. Based on this, no charge is being made currently to the Separate Account I for federal income taxes. ABC will review periodically the status of this policy in the event of changes in the tax law. A charge may be made in future years for any federal income taxes that would be attributable to the contracts.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported therein. Actual results could differ from these estimates.

3. Investments

As described in note 2, Separate Account I measures the fair value of its investment in ABC Investment Fund on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that Separate Account I has the ability to access.

Level 2—Observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.

Level 3—Unobservable inputs for the asset or liability, to the extent observable inputs are not available, representing Separate Account I's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The following table summarizes the inputs used to value Separate Account I's assets measured at fair value as of December 31, 20X8:[42]

Valuation Inputs	*Money Market*	*Equity Index*
Level 1	$57,231,590	$350,797,752
Level 2	—	—
Level 3	—	—
Total	$57,231,590	$350,797,752

The cost of purchases and proceeds from sales of investments for the year ended December 31, 20X8, were as follows:

	Purchases	*Sales*
Money Market Subaccount	$13,855,466	$22,666,007
Equity Index Subaccount	245,503,854	37,232,105

4. Expenses and Related Party Transactions

ABC deducts a daily charge from the net assets of Separate Account I equivalent to an effective annual rate of 0.25 percent for administrative expenses and 0.75 percent for the assumption of mortality and expense risks. ABC also deducts an annual maintenance charge of $35 for each contract from the ABC Retirement Reserves Contract value. The maintenance charge, which is recorded as a redemption in the accompanying statement of changes in net assets, is waived on certain contracts.

Additionally, during the year ended December 31, 20X8, management fees were paid indirectly to ABC Management Company, an affiliate of ABC in its capacity as adviser to ABC Investment Fund. The fund's advisory agreement provides for a fee at the annual rate of 0.15 percent of the average net assets of the Money Market Fund and 0.45 percent of the average net assets of the Equity Index Fund.

[Other: Consider disclosures of other fees to affiliates not otherwise disclosed, such as sales load charges retained by the insurance company].

5. Changes in Units Outstanding

The changes in units outstanding for the years ended December 31, 20X8 and 20X7 were as follows:

	Money Market		*Equity Index*	
	20X8	*20X7*	*20X8*	*20X7*
Units Issued	1,075,828	1,346,281	11,530,377	5,387,478
Units Redeemed	(1,967,393)	(2,191,438)	(268,220)	(115,368)
Net Increase (Decrease)	(891,565)	(845,157)	11,262,157	5,272,110

[42] The classification of various financial instruments in this table is for illustrative purposes only and should not be construed as recommended practice for any particular financial instrument or class of financial instruments.

6. Unit Values

A summary of unit values and units outstanding for variable annuity contracts, net investment income ratios, and the expense ratios, excluding expenses of the underlying funds, for each of the 5 years in the period ended December 31, 20X8, follows.

a. The following format should be presented if the insurance enterprise chooses to disclose each contract expense level that results in a distinct net unit value and for which units were issued or outstanding during each of the 5 years ended December 31, 20X8.

	Net Assets				
Units	*Unit Value*	*(000s)*	*Investment Income Ratio*[43]	*Expense Ratio*[44]	*Total Return*[45]
Money Market Investment Division					
December 31					
20X8					
4,136,795	$13.83	$57,232	5.25%	1.00%	5.30%
20X7					
5,028,360	13.13	66,042	5.02	1.00	5.07
20X6					
5,873,517	12.50	73,398	8.46	1.00	8.54
20X5					
2,058,353	11.52	23,705	8.23	1.00	8.31
20X4					
967,550	10.63	10,291	6.24	1.00	6.30
7/1/X3					
500,000	10.00	5,000			

	Net Assets				
Units	*Unit Value*	*(000s)*	*Investment Income Ratio*[46]	*Expense Ratio*[47]	*Total Return*[48]
Equity Index Division					
December 31					
20X8					
19,674,291	$17.83	$350,752	2.23%	1.00%	12.68%

(continued)

[43] These amounts represent the dividends, excluding distributions of capital gains, received by the subaccount from the underlying mutual fund, net of management fees assessed by the fund manager, divided by the average net assets. These ratios exclude those expenses, such as mortality and expense charges, that are assessed against contract owner accounts either through reductions in the unit values or the redemption of units. The recognition of investment income by the subaccount is affected by the timing of the declaration of dividends by the underlying fund in which the subaccount invests.

[44] These amounts represent the annualized contract expenses of the separate account, consisting primarily of mortality and expense charges, for each period indicated. These ratios include only those expenses that result in a direct reduction to unit values. Charges made directly to contract owner accounts through the redemption of units and expenses of the underlying fund have been excluded.

[45] These amounts represent the total return for the periods indicated, including changes in the value of the underlying fund, and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units. Investment options with a date notation indicate the effective date of that investment option in the variable account. The total return is calculated for each period indicated or from the effective date through the end of the reporting period.

[46] See footnote 43.

[47] See footnote 44.

[48] See footnote 45.

Units	Unit Value	Net Assets (000s)	Investment Income Ratio	Expense Ratio	Total Return
20X7					
8,412,134	15.82	133,110	2.35	1.00	24.16
20X6					
3,140,024	12.74	40,009	3.12	1.00	(9.50)
20X5					
3,879,972	14.08	54,630	3.24	1.00	11.94
20X4					
2,162,080	12.58	27,195	3.98	1.00	6.20

b. The following format should be presented if the insurance enterprise chooses to present the range of the lowest to highest level of expense ratio and the related total return and unit fair values during each of the 5 years ended December 31, 20X8. Certain of the information is presented as a range of minimum to maximum values, based on the product grouping representing the minimum and maximum expense ratio amounts.

	At December 31			For the Year Ended December 31		
	Units (000s)	Unit Fair Value Lowest to Highest	Net Assets (000s)	Investment Income Ratio[49]	Expense Ratio Lowest to Highest[50]	Total Return Lowest to Highest[51]
Money Market Investment Division						
20X8	4,137	$10.51–$14.06	$57,232	5.25%	1.00%–2.65%	4.10%–5.30%
20X7	5,028	10.00–13.20	66,042	5.02	1.00–2.60	4.01–5.07
20X6	5,874	9.37–13.21	73,398	8.46	1.00–2.60	7.45–8.54
20X5	2,058	8.72–12.23	23,705	8.23	1.00–2.55	5.65–8.31
20X4	968	8.25–12.50	10,291	6.24	1.00–2.45	5.25–6.30
Equity Index Division						
20X8	19,674	$10.51–$19.06	$350,752	2.23%	1.00%–2.65%	5.10%–12.18%
20X7	8,412	10.00–20.20	133,110	2.35	1.00–2.60	6.80–24.16
20X6	3,140	9.37–14.21	40,009	3.12	1.00–2.60	(9.50)–9.10
20X5	3,880	8.72–15.23	54,630	3.24	1.00–2.55	5.65–11.94
20X4	2,162	8.25–13.50	27,195	3.98	1.00–2.45	5.25–6.20

c. An insurance enterprise may choose to present all expenses that are charged by the separate account in either a table or narrative format. The disclosure should list all fees that are charged by the separate account and a description of those fees, including whether they are assessed as direct reductions in unit values or through the redemption of units for all policies contained within the separate account. For this example, expenses disclosed are based on the ranges of all products within the separate account; the expenses may also be listed in more detail (for example, individual charges broken out by products within the separate account) in either table or narrative format.

[49] See footnote 43.

[50] See footnote 44.

[51] These amounts represent the total return for the periods indicated, including changes in the value of the underlying fund, and expenses assessed through the reduction of unit values. These ratios do not include any expenses assessed through the redemption of units. Investment options with a date notation indicate the effective date of that investment option in the variable account. The total return is calculated for each period indicated or from the effective date through the end of the reporting period. As the total return is presented as a range of minimum to maximum values, based on the product grouping representing the minimum and maximum expense ratio amounts, some individual contract total returns are not within the ranges presented.

ABC Variable Annuity Separate Account I

Mortality and Expense Charge

Basic charges are assessed through reduction of unit values.	1.00%–1.70%

Death Benefit Options

The options are assessed through reduction in unit values:

• Ratchet Option—Equal to the highest account balance among prior specified anniversary dates adjusted for deposits less partial withdrawals since the specified anniversary date	0.15%–0.20%
• Roll Up Option—Equal to the total of deposits made to the contract less an adjustment for partial withdrawals, accumulated at a specified interest rate	0.20%–0.40%

Guaranteed Minimum Income Benefits

These benefits are assessed through reduction in unit values and provide that the periodic annuity benefits will:

• Not fall below a contractually specified level.	0.20%–0.55%
• Be based on the higher of actual account values at the date the policy owner elects to annuitize or a contractually specified amount.	0.30%–0.40%

Administrative Charge

This charge is assessed through the redemption of units.	Years 1–5: $30 Years 6+: $10

Alternatively, the expense ratio represents the annualized contract expenses of ABC Variable Annuity Separate Account I for the period indicated and includes only those expenses that are charged through a reduction of the unit value. Included in this category are mortality and expense charges, and the cost of any riders the policy holder has elected. These fees range between 1.00 percent and 2.65 percent, depending on the product and options selected. Expenses of the underlying fund portfolios and charges made directly to contract owner accounts through the redemption of units are excluded. For this separate account, charges made through the redemption of units ranged from $10 to $30 per policy annually.

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