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*Your Expert Partner  
Accountants and Advisors  
Pro Forma  
Financial Statements  
Reference Guide*

*December 2016*

# Financial Services Practice



## Pro Forma Financial Statements - 2016

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In order to provide our clients with a more comprehensive, accessible reference guide, Anchin is excited to announce the addition of our Pro Forma Financial Statement tool. These complex statements include standalone entities and master/feeder structures that are updated using the latest pronouncements.

The Partners of Anchin's Financial Services Practice are the leading professionals of their industry. Our talent is showcased through numerous awards as well as our institutional knowledge, both of which provide our clients with superior perspective and insight on the direction of their businesses. With these skills, Anchin has developed a superior reputation as one of the most accomplished accounting and advisory firms within the financial services community.

If you have any questions or comments, please contact your Anchin relationship partner.



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## **Table of Contents**

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**Stand-Alone Fund**

**Master Fund**

**Domestic Feeder**

**Offshore Feeder**

**Fund of Funds**

**SAMPLE PARTNERS, L.P.**

FINANCIAL STATEMENTS  
DECEMBER 31, 20XX

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# SAMPLE PARTNERS, L.P.

## INDEX TO FINANCIAL STATEMENTS DECEMBER 31, 20XX

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	<u>PAGE</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statement of Assets and Liabilities	2
Statement of Operations	3
Statement of Changes in Partners' Capital	4
Statement of Cash Flows	5
Condensed Schedule of Investments	6
Notes to Financial Statements	9

# SAMPLE PARTNERS, L.P.

## STATEMENT OF ASSETS AND LIABILITIES

December 31, 20XX

### ASSETS

Investment in securities, at fair value	\$
Investment in private investment companies, at fair value	
Cash [and cash equivalents]	
Due from broker(s)	
Receivable for securities sold	
Dividends and interest receivable	
Collateral for securities loaned	
Other assets	
	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 0</b>

### LIABILITIES

Securities sold short, at fair value	\$
Payable for securities purchased	
Payable upon return of securities loaned	
Accrued expenses	
Payable for capital withdrawals	
Prepaid capital contributions	
	<hr/>
<b>TOTAL LIABILITIES</b>	<b>0</b>

### PARTNERS' CAPITAL

General Partner(s)	
Limited Partners	
	<hr/>
<b>TOTAL PARTNERS' CAPITAL</b>	<b>0</b>
	<hr/>
<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>\$ 0</b>

See Notes to Financial Statements

# **SAMPLE PARTNERS, L.P.**

## STATEMENT OF OPERATIONS For the Year Ended December 31, 20XX

### **REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS**

Realized gain [(loss)] on investments, net	\$	
Realized gain [(loss)] on foreign currency, net		
Unrealized gain [(loss)] on investments, net change		
Unrealized gain [(loss)] on foreign currency, net change		
Income [(loss)] from private investment companies, unrealized		
		<u>                    </u>
Total Realized and Unrealized Gain [Loss] on Investments	\$	<u>          0</u>

### **INVESTMENT INCOME [LOSS]**

Income		
Interest		
Dividends (net of \$ foreign taxes withheld)		
Income from securities loaned, net		
Total Investment Income		<u>          0</u>
Expenses		
Interest		
Dividends on securities sold short		
Total Investment Expenses		<u>          0</u>
Investment Income [Loss] Before Operating Expenses		<u>          0</u>
Operating Expenses		
Management fees		
Professional fees		
Other		
Total Operating Expenses		<u>          0</u>
Less Operating Expenses Paid by Third Parties		<u>                    </u>
Net Operating Expenses		<u>          0</u>
Net Investment Income [Loss]		<u>          0</u>
<b>NET INCOME [LOSS]</b>		<u>          0</u>
Special Allocation to the General Partner *		<u>                    </u>
<b>INCOME AVAILABLE TO ALL PARTNERS *</b>	\$	<u><u>          0</u></u>

\* For CFTC registered funds only, otherwise end at net income (loss)  
See Notes to Financial Statements

**SAMPLE PARTNERS, L.P.**

STATEMENT OF CHANGES IN PARTNERS' CAPITAL  
For the Year Ended December 31, 20XX

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	<u>LIMITED PARTNERS</u>	<u>GENERAL PARTNER</u>	<u>TOTAL</u>
<b>PARTNERS' CAPITAL - Beginning of year</b>	\$ _____	\$ _____	\$ _____
<b>CHANGES IN CAPITAL FROM</b>			
Net income (loss)			
Performance reallocation	_____	_____	_____
Net Increase (Decrease) From Net Income (Loss)	_____	_____	_____
Partners' Capital Transactions			
Capital contributions			
Capital withdrawals			
Capital transfers	_____	_____	_____
Net Increase (Decrease) From Partners' Capital Transactions	_____	_____	_____
Total Increase (Decrease) in Partners' Capital	_____	_____	_____
<b>PARTNERS' CAPITAL - End of year</b>	\$ _____	\$ _____	\$ _____

*See Notes to Financial Statements*



# SAMPLE PARTNERS, L.P.

## STATEMENT OF CASH FLOWS For the Year Ended December 31, 20XX

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### CASH FLOWS FROM OPERATING ACTIVITIES

Net income (loss)	\$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Cost of securities purchased	
Cost of private investment companies purchased	
Proceeds from securities sold	
Proceeds from private investment companies sold	
Proceeds from securities sold short	
Purchase of securities sold short	
Realized gain [(loss)] on investments [and foreign currency], net	
Unrealized gain [(loss)] on investments [and foreign currency], net change	
(Increase) decrease in:	
Receivable from brokers	
Dividends and interest receivable	
Collateral for securities loaned	
Other assets	
Increase (decrease) in:	
Payable to brokers	
Payable upon return of securities loaned	
Accrued expenses	
Net Cash Provided by (Used in) Operating Activities	_____

### CASH FLOWS FROM FINANCING ACTIVITIES

Partners' capital contributions	
Partners' capital withdrawals	
Net Cash Provided by Financing Activities	_____

### NET INCREASE (DECREASE) IN CASH

**[AND CASH EQUIVALENTS]**

### CASH [AND CASH EQUIVALENTS]

Beginning of year	_____
End of year	\$ _____

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest	\$ _____
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### SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITY (IES)

Payable incurred for partners' capital withdrawals	\$ _____
Distribution of securities, at fair value	\$ _____

*See Notes to Financial Statements*

**SAMPLE PARTNERS, L.P.**

CONDENSED SCHEDULE OF INVESTMENTS  
December 31, 20XX

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<b><u>INVESTMENT IN SECURITIES</u></b>	<b><u>SHARES</u></b>	<b><u>% OF PARTNERS' CAPITAL</u></b>	<b><u>FAIR VALUE</u></b>
<b>COMMON STOCKS</b>			
United States			
Financial Services			\$
ABC Financial			
Other			
Total United States (cost \$	)		<u>                    </u>
			<u>                    </u>
Hong Kong			
Total Hong Kong (cost \$	)		<u>                    </u>
			<u>                    </u>
Italy			
Total Italy (cost \$	)		<u>                    </u>
			<u>                    </u>
<b>TOTAL COMMON STOCKS (cost \$</b>	<b>)</b>		<b>\$ <u>                    </u></b>

*See Notes to Financial Statements*

**SAMPLE PARTNERS, L.P.**

CONDENSED SCHEDULE OF INVESTMENTS

December 31, 20XX

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<b><u>INVESTMENT IN SECURITIES</u></b>	<b><u>PRINCIPAL AMOUNT</u></b>	<b><u>% OF PARTNERS' CAPITAL</u></b>	<b><u>FAIR VALUE</u></b>
<b>LONG-TERM DEBT SECURITIES</b>			
United States			
ABC Bonds			\$
DEF Bonds			
Other			
Total United States (cost \$                    )			<hr/>
Spain			
Total Spain (cost \$                    )			<hr/>
<b>TOTAL LONG-TERM DEBT SECURITIES (cost \$                    )</b>			<hr/>
<b>COLLATERAL FOR SECURITIES LOANED</b>			
United States			
U.S. Treasury bills, ____%, due ____			
Other			
<b>TOTAL COLLATERAL FOR SECURITIES LOANED</b>			<hr/>
<b>OTHER SECURITIES</b>			
United States			
<b>TOTAL OTHER SECURITIES</b>			<hr/>
<b>PRIVATE INVESTMENT COMPANIES</b>			
United States			
<b>TOTAL PRIVATE INVESTMENT COMPANIES</b>			<hr/>
<b>TOTAL INVESTMENT IN SECURITIES (cost \$                    )</b>			<b>\$</b> <hr/> <hr/>

*See Notes to Financial Statements*

**SAMPLE PARTNERS, L.P.**

CONDENSED SCHEDULE OF INVESTMENTS

December 31, 20XX

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<b><u>SECURITIES SOLD SHORT</u></b>	<b><u>SHARES</u></b>	<b><u>% OF PARTNERS' CAPITAL</u></b>	<b><u>FAIR VALUE</u></b>
<b>COMMON STOCKS</b>			
United States			
Technology			\$
IBM			
Other			
Total United States (proceeds \$            )			<hr/>
Italy			
Total Italy (proceeds \$                    )			<hr/>
<b>TOTAL SECURITIES SOLD SHORT (proceeds \$            )</b>			<b>\$</b> <hr/> <hr/>
<b><u>FUTURES CONTRACTS</u></b>			
	<b><u>Expiration Dates</u></b>	<b><u>No. of Contracts</u></b>	<b><u>FAIR VALUE</u></b>
Financial (5.2%)			
Eurodollar (5.2%)			\$
Indices (2.4%)			
S&P (2.4%)			<hr/>
<b>TOTAL FUTURES CONTRACTS</b>			<b>\$</b> <hr/> <hr/>

*See Notes to Financial Statements*

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### ORGANIZATION

Sample Partners, L. P. (the “Partnership”) was organized in the State of Delaware as a limited partnership for the purpose of [trading/investing] in securities. The Partnership will continue until December 31, \_\_\_\_ unless sooner terminated or extended as provided for in the Partnership Agreement.

The Partnership’s [trading/investing] activity is the responsibility of (name of GP) (the “General Partner”) which is a registered investment adviser.

(If applicable) The Partnership is registered as a Commodity Pool under the rules of the Commodity Futures Trading Commission (“CFTC”) because of certain of its trading activities. Effective \_\_\_\_\_ the Partnership has deregistered.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

#### Financial Statement Estimates

The preparation of financial statements in conformity with GAAP may require 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash Equivalents

Cash equivalents include short-term highly liquid investments, such as [money market funds, certificate of deposits, other (describe)] that are readily convertible to known amounts of cash and have original maturities of three months or less.

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Securities Valuation

As more fully described elsewhere in the notes to the financial statements, all investments in securities are recorded at their estimated fair value.

#### Foreign Securities

The values of securities and cash equivalents which are denominated in foreign currencies are stated using the exchange rate in effect on the last business day of the year.

Purchases and sales of securities, interest and dividend income and expense which are denominated in foreign currencies are recorded at the exchange rate as of the date of the transaction. For financial statement purposes, the Partnership does not isolate that portion of the gain or loss on securities resulting from exchange rate fluctuation. Such changes are combined with changes in market prices and included in realized or unrealized gain (loss) on investments, net, in the statement of operations.

#### Investment Transactions and Related Income

Purchases and sales of securities [and private investment companies] are recorded on a trade date basis. Realized gains and losses are determined using costs calculated on a [first-in, first-out or the specific identification method.] Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis. [Withholding taxes on foreign dividends have been provided for in accordance with the Partnership's understanding of the applicable countries' tax rules and rates.] Premiums and discounts on fixed income securities are amortized over the lives of the related securities.

#### Income Taxes

The Partnership is not subject to income taxes. The partners report their distributive share of realized income or loss on their own tax returns. Certain U.S. dividend income and interest may be subject to a maximum 30% withholding for those limited partners that are foreign entities or foreign individuals.

(Optional) The Partnership determined that there are no uncertain tax positions which would require adjustments or disclosures on the financial statements.

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS

The Partnership utilizes various methods to measure the fair value of its investments on a recurring basis. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods. The three levels of input are:

- Level 1 Unadjusted quoted prices in active markets that the Partnership has the ability to access for identical assets or liabilities.
- 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 Partnership's own assumptions about the assumptions a market participant would use in valuing the asset or liability, 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 the 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.

Transfers between levels are recognized at the [beginning/end] of the reporting period.

# **SAMPLE PARTNERS, L.P.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### **SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)**

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

#### Equity Securities (Common and Preferred Stock)

Investments in securities and securities sold short which are traded on a national securities exchange or listed on NASDAQ are valued at the last reported sales price on the last business day of the year. Investments in securities and securities sold short [for which no sale occurred on the last business day of the year or] which are traded in the over-the-counter market are valued at the last reported bid and asked prices, respectively. 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. The fair value of certain foreign securities may be determined through the use of 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.



# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### **SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)**

#### 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 in 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 valued at the closing price reported in the active market in which the individual security is traded, and are categorized in Level 1 of the fair value hierarchy.

#### 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 either Level 1 or Level 2 of the fair value hierarchy.

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### **SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)**

#### Restricted Securities and Private Placements (Equity and Debt)

Restricted securities for which quotations are not readily available are valued at fair value as determined by the Partnership. 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, warrants, 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 Partnership using pricing models fall into this category and are categorized within Level 2 of the fair value hierarchy.

#### Private Investment Companies

**Describe methodology employed**

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes the inputs used to value the Partnership's assets and liabilities measured at fair value as of December 31, 20XX:

#### Assets

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks				
Banks	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx
Building Materials	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Commercial Services	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Engineering & Construction	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Financial Services	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Insurance	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Real Estate	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Technology	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Debt Instruments				
Corporate Bonds	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Equity Options	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Warrants	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Private Placements				
Banks	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Financial Services	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Investment Fund	<u>xx,xxx,xxx</u>	<u>xx,xxx,xxx</u>	<u>xx,xxx,xxx</u>	<u>xx,xxx,xxx</u>
Total Assets	<u>\$ xx,xxx,xxx</u>	<u>\$ xx,xxx,xxx</u>	<u>\$ xx,xxx,xxx</u>	<u>\$ xx,xxx,xxx</u>

#### Liabilities

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks				
Banks	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx
Building Materials	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Commercial Services	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Insurance	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Real Estate	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Technology	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Equity Options	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Warrants	<u>xx,xxx,xxx</u>	<u>xx,xxx,xxx</u>	<u>xx,xxx,xxx</u>	<u>xx,xxx,xxx</u>
Total Liabilities	<u>\$ xx,xxx,xxx</u>	<u>\$ xx,xxx,xxx</u>	<u>\$ xx,xxx,xxx</u>	<u>\$ xx,xxx,xxx</u>

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)

*The sample above breaks out the class of securities by industry. However, depending on the nature and risk of the investments the table may be broken down by; geographic concentrations, credit quality, or economic characteristics.*

*If all securities are measured at fair value using a single level technique the above tables are not necessary and the following should be disclosed:*

Investment in securities and securities sold short are measured at fair value using Level (1, 2, or 3) inputs.

The following is a reconciliation of assets and liabilities for which Level 3 inputs were used in determining value for the year ended December 31, 20XX: (Rows should reflect class of security as shown on condensed schedule)

	Opening Balance, January 1, <u>20XX</u>	Total Gain or Losses (Realized and Unrealized)	<u>Purchases</u>	<u>Sales</u>	Transfers <u>Into Level 3</u>	Transfers <u>Out of Level 3</u>	Closing Balance, December 31, <u>20XX</u>
Warrants	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx
Private Placements - Banks	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>
Total	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>

*Disclose reasons for each transfer into and out of Level 3. (Generally due to change in observability of inputs. Give reasons for the changes. Transfers with similar reasons can be grouped.)*

*If the fund has either Settlements or Issues, columns need to be added to the above table for each of these items*

The amount of gains (losses) included in income  
attributable to the change in unrealized gains (losses)  
relating to assets still held at December 31, 20XX

Warrants	\$ x,xxx,xxx
Private Placements - Banks	<u>x,xxx,xxx</u>
Total	<u>\$ x,xxx,xxx</u>

Gains and losses (realized and unrealized), if any, are included in the realized gain (loss) on investments, net and unrealized gain (loss) on investments, net change, in the statement of operations.

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)

*The following table is required under ASC Subparagraph 820-10-50-2-bbb which states: "For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment)." However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity.*

The following table summarizes the valuation techniques and significant unobservable inputs used within Level 3 of the fair value hierarchy as of December 31, 20XX: *(EXAMPLES BELOW)*

#### Quantitative Information About Level 3 Fair Value Measurements

	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
<u>Assets</u>				
<u>Private Placements</u>				
Banks	\$	Discounted cash flows	Weighted average cost of capital	10%-20% (14%)
			Long-term revenue growth rate	5%-7% (6%)
			Long-term pretax operating margin	4%-6% (5%)
			Discount for lack of marketability	3%-5% (4%)
			Control premiums	3%-5% (4%)

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### Quantitative Information About Level 3 Fair Value Measurements (Continued)

Financial Services	\$	Market comparable companies	EBITDA multiple	12x-15x (13x)
			Revenue multiples	12%-25% (16%)
			Discount for lack of marketability	10%-25% (15%)
			Control premium	10%-25% (15%)
<b><i>Debt Instruments</i></b>				
Corporate Bonds	\$	Collectability analysis	Loan performance reserve	21%-35% (27.5%)
<b><u>Liabilities</u></b>				
<b><i>Private Placements</i></b>				
Banks	\$			
Warrants	\$	Industry accepted model	Historical volatility	15% - 20% (17.5%)

The Partnership's other Level 3 investments have been valued using unadjusted third-party transactions and quotations, unadjusted historical third-party information, or the unadjusted net asset value of the investments in private investment companies. No unobservable inputs internally developed by the Partnership have been applied to those investments thus have been excluded from the above table.

#### Valuation Processes for Level 3 Fair Value Measurement

*The below narrative might include the following in accordance with 820-10-55-105:*

*a) For the group within the Partnership that decides the valuation policies and procedures; its description, to whom that group reports, the internal reporting procedures in place b) the frequency and methods for calibration, back testing, and other testing procedures of pricing models c) the process for analyzing changes in fair value measurements from period to period d) how the reporting entity determined that third-party information, such as broker quotes or pricing services, used in the fair value measurement was developed e) the methods used to develop and substantiate the unobservable inputs used.*

## SAMPLE PARTNERS, L.P.

### NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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#### SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)

##### *Valuation Processes for Level 3 Fair Value Measurement (Continued)*

##### **EXAMPLE**

The Partnership establishes valuation processes and procedures to ensure that the valuation techniques for investments that are categorized within Level 3 of the fair value hierarchy are fair, consistent, and verifiable. The General Partner/Management Company/Valuation Committee (the “Valuation Committee”) is responsible for overseeing the Partnership’s valuation process for its Level 3 investments. The Valuation Committee consists of Partnerships’ personnel, including members from the Partnership’s portfolio management. The Valuation Committee’s responsibilities include developing the Partnership’s written valuation processes and procedures, conducting periodic reviews of the valuation policies, and evaluating the overall fairness and consistent application of the valuation policies.

The Valuation Committee meets on a monthly basis, or more frequently as needed, to determine the valuations of the Partnership’s Level 3 investments. Valuations determined by the Partnership are required to be supported by market data, industry accepted third-party pricing sources, industry accepted third-party pricing models, counterparty prices, or other methods the Valuation Committee deems to be appropriate, including the use of internal proprietary valuation models.

The Partnership periodically tests its valuations of Level 3 investments through performing back testing of the sales of such investments by comparing the amounts realized against the most recent fair values reported, and if necessary, uses the findings to calibrate its valuation procedures. The Partnership performs similar procedures with respect to information obtained from brokers and/or pricing services. On an annual basis, the Partnership engages the services of a nationally recognized third-party valuation firm to perform an independent review of the valuation of the Partnership’s Level 3 investments and may adjust its valuations based on the recommendations from the valuation firm.

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### **DUE (FROM) (TO) BROKER AND CUSTODY CONCENTRATIONS**

At December 31, 20XX, the amount(s) due from broker(s) in the statement of assets and liabilities include(s) cash held at the clearing broker(s) [and collateral balances]. [Securities and cash held by the broker(s) serve as collateral for securities sold short [and margin debt balances]].

The Securities Investor Protection Corporation (SIPC) insures the brokerage account to the extent of \$500,000 (including up to \$250,000 for cash). [[Cash balances and] securities in excess of these limits are covered by additional insurance maintained by the broker in the amount of \$ \_\_\_\_\_. [Amounts in excess of insurance coverage are secured by the good faith and credit of the broker.]

### **SECURITIES SOLD SHORT AND STOCK LOAN FEES**

The Partnership is subject to certain inherent risks arising from its activities of selling securities short. The ultimate cost to the Partnership to acquire these securities may exceed the liability reflected in the financial statements.

(If applicable) The Partnership is charged fees for the securities borrowed in connection with short sales. The Partnership also pays to the lenders of securities an amount equal to any dividends paid by the underlying companies on securities borrowed.

### **BANK LINE OF CREDIT**

The Partnership has available a \$ \_\_\_\_\_ line of credit with a bank from which there were no outstanding borrowings at December 31, 20XX. The line of credit is collateralized by two of its investments. The amount of the line of credit is the lesser of \_\_\_\_% of the net assets at the end of the year or \_\_\_\_% of the assets of the two investments. Borrowings bear interest at the bank's prime rate. Interest expense was \$ \_\_\_\_\_ for the year ended December 31, 20XX.



# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### SECURITIES LOANED

The Partnership receives compensation in the form of fees, or it retains a portion of interest on the investment of any cash received as collateral. The Partnership 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 Partnership. The Partnership has the right under the lending agreement to recover the securities from the borrower on demand.

Select one of the following paragraphs and refer to the Investment Companies Guide to determine applicable disclosures.

As of December 31, 20XX, the Partnership loaned common stocks having a fair value of approximately \$ \_\_\_\_\_, and received \$ \_\_\_\_\_ of cash collateral for the loan. The cash was invested in U.S. Treasury bills with maturities ranging from **January to April 20XX**. The Partnership also received \$ \_\_\_\_\_ of **(securities, indicate type)** which can be sold or repledged as collateral for the loan. Accordingly, the collateral is included in the statement of assets and liabilities.

OR

As of December 31, 20XX, the Partnership loaned common stocks having a fair value of approximately \$ \_\_\_\_\_, and received \$ \_\_\_\_\_ of **(securities, indicate type)** as collateral for the loan. The Partnership does not have the right to sell or repledge the collateral. Accordingly, the collateral is not included in the statement of assets and liabilities.

***SEE NOTE REGARDING OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES AND INCLUDE IN THIS NOTE ONLY IF APPLICABLE***

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments traded by the Partnership (the value of which is based upon an underlying asset, index or reference rate) include [foreign currency forward exchange contracts, futures contracts, interest rate swaps, total return swaps, credit default swaps, equity swaps, options, and warrants].

Derivatives are used for trading purposes and for managing risks associated with the portfolio of investments and are not designated as hedging instruments. They are subject to various risks similar to those related to the underlying financial instruments, including market and credit risks.

Market risk is the potential for changes in the value of derivative financial instruments due to market changes, including interest and foreign exchange rate movements, and fluctuations in security prices.

Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of a contract. Credit risk is limited to amounts recorded by the Partnership as assets.

The Partnership's derivatives are presented on a gross basis which excludes the effects of both netting under enforceable netting agreement and netting of cash received or posted as collateral, and therefore are not representative of the Partnership's net credit risk exposure. (If derivatives are shown net, do not include this paragraph)

**BELOW ARE EXAMPLES OF VARIOUS DISCLOSURES FOR DERIVATIVES. USE AS APPROPRIATE:**

#### Foreign Currency Forward Exchange Contracts

The Partnership enters into foreign currency forward exchange contracts primarily to manage foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities. When entering into forward currency contracts, the Partnership agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. The Partnership'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, in excess of the amount recognized in the statement of assets and liabilities. Such 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.

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### Futures Contracts

The Partnership uses futures contracts for hedging and non-hedging purposes. Upon entering into futures contracts, the Partnership is required to deposit with the broker an amount (“initial margin”) equal to a certain percentage of the contract value. Pursuant to the contract, the Partnership agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in the value of the contract. Such receipts or payments are known as “variation margin” and are recorded by the Partnership as unrealized gain (loss) on investments, net change, in the statement of operations. When the contract is closed the Partnership records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The use of futures transactions includes the risk of imperfect correlation in movements in the price of futures contracts, interest rates, and the underlying assets.

#### Swaps

The Partnership enters into various swap contracts. A swap is an agreement that obligates two parties to exchange cash flows (or a series of cash flows) at specified intervals based upon changes for a specified amount of an underlying asset or a risk factor related to the underlying asset, such as interest rates, credit default, dividend yields, variance or correlation. The fair value of open swaps reported in the statement of assets and liabilities may differ from that which would be realized in the event the Partnership terminated its position in the contract. Risks may arise as a result of the failure of the counterparty to the swap contract to comply with the terms of the swap agreement. The loss incurred by the failure of a counterparty is generally limited to the aggregate fair value of swap contracts in an unrealized gain position as well as any collateral posted with the counterparty. The risk is mitigated by having a master netting arrangement between the Partnership and the counterparty and by the posting of collateral by the counterparty to the Partnership to cover the Partnership’s exposure to the counterparty. Therefore, the Partnership considers the creditworthiness of each counterparty to a swap contract in evaluating potential credit risk. Additionally risks may arise from unanticipated movements in the fair value of the underlying investments.

#### Interest Rate Swaps

The Partnership enters into interest rate swaps. Interest rate swaps involve the exchange by the Partnership with another party of their respective commitments to pay or receive interest based on a notional amount. The differential to be paid or received on the interest rate swap is recognized over the term of the agreement as a realized gain or loss with the payments made or received on a net basis on the stated payment dates. Unrealized gains are reported as an asset and unrealized losses are recorded as a liability in the statement of assets and liabilities.

# **SAMPLE PARTNERS, L.P.**

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### **DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

#### *Total Return Swaps*

The Partnership enters into total return swaps. Total return swaps involve an exchange of cash flows based on a commitment to pay an amount based on a referenced interest rate in exchange for a market-linked return, both based on a notional amount. The market-linked return may include, among other things, the total return of a security or index. The net amount received (paid) during the term of the swap is included in net realized gain (loss) on investments and the change in unrealized value of the swaps is reflected in unrealized gain (loss) on investments, net change, in the statement of operations.

#### *Credit Default Swaps*

The Partnership enters into credit default swaps to manage its exposure to the market or certain sectors of the market, to reduce its exposure to the 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 referenced 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.

#### *Equity Swaps*

The Partnership enters into equity swaps. Under such contracts one party holds the rights to any appreciation on the underlying assets and has an obligation to the counterparty for any depreciation in valuation of the underlying assets.

# **SAMPLE PARTNERS, L.P.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### **DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

#### **Options**

The Partnership may buy or sell short put and call options through listed exchanges and over-the-counter markets. The buyer has the right to purchase (in the case of a call option) or sell (in the case of a put option) a specified quantity of a specific security or other underlying asset at a specified price prior to or on a specified expiration date. In connection with selling options short, the Partnership is exposed to the risk of loss if the market price of the underlying asset declines (in the case of a put option) or increases (in the case of a call option). The market and credit risk associated with purchasing put and call options is limited to the amount originally paid.

Amounts paid on purchasing options are recorded as assets while proceeds received from selling options short are recorded as liabilities on the statement of assets and liabilities which are both subsequently adjusted to fair value. The difference between the fair value of an option and the amount paid or proceeds received is treated as unrealized gain (loss) on investment, net change.

#### **Warrants**

The Partnership may receive warrants in connection with its investment in the debt or equity of certain companies or may purchase warrants on the open market. A warrant is a security that entitles the holder to buy stock of the company that issued it at a specified price with a pre-determined time period. The warrants provide the Partnership with exposure and potential gains upon equity appreciation of the portfolio company's share price.

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following tables summarize the fair value of derivative instruments on the statement of assets and liabilities and the effect of derivative instruments on the statement of operations:

#### Fair Value of Derivative Instruments on the Statement of Assets and Liabilities as of December 31, 20XX:

<u>Derivative</u>	<u>Asset Derivative</u>		<u>Liability Derivative</u>	
	<u>Classification</u>	<u>Fair Value</u>	<u>Classification</u>	<u>Fair Value</u>
		\$ x,xxx,xxx		\$ x,xxx,xxx
		x,xxx,xxx		x,xxx,xxx
		x,xxx,xxx		x,xxx,xxx
		x,xxx,xxx		x,xxx,xxx

For additional detail on the above derivative instruments, see the accompanying condensed schedule of investments.

#### Effect of Trading Activities on the Statement of Operations for the Year:

<u>Type of Instrument</u>	<u>Classification</u>	<u>Trading Revenue</u>
		\$ x,xxx,xxx
		x,xxx,xxx
		x,xxx,xxx
		x,xxx,xxx
		x,xxx,xxx

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

*If there are any credit risk contingent features under ASC Subparagraph 815-10-50-4H, additional disclosures may be required as follows:*

#### Example

#### Credit-Risk-Related Contingent Features

Certain of the Partnership's derivative instruments contain provisions that require the Partnership to maintain a predetermined level of (net assets, capital), and/or provide limits regarding the decline of the Partnership's (net asset value, partners' capital). If the Partnership was to violate such provisions, the counterparties to the derivative instruments could request immediate payment or demand immediate collateralization on derivative instrument in net liability positions. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position on December 31, 20xx is \$XX million for which the Partnership has posted collateral of \$XX million in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on December 31, 20XX, the Partnership would be required to post an additional \$XX million of collateral to its counterpart.

#### Volume of Derivative Activities:

At December 31, 20XX, the volume of the Partnership's derivative activities based on their notional amounts and number of contracts, categorized by derivative, are as follows:

<u>Derivative</u>	<u>Long Exposure</u>		<u>Short Exposure</u>	
	<u>Notional Amounts (a)</u>	<u>Number of Contracts</u>	<u>Notional Amounts (a)</u>	<u>Number of Contracts</u>

(a) Notional amounts are presented net of identical offsetting derivative contracts

(b) Notional amounts for options and warrants are based on the fair value of the underlying instruments as-if exercised at December 31, 20XX

*If the above information for volume of derivatives is shown in the condensed schedule of investments, it will not be necessary to repeat it although a reference to that information should be made.*

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### Volume of Derivative Activities (Continued):

*Entity specific description of the volume of derivative trading must be described here to enable users to understand the volume of its derivative activity throughout the year. This may be presented qualitatively or quantitatively, and for each derivative or in total if it is more meaningful. More material quantities of the derivatives held by the company require greater precision of disclosure. This disclosure should be made after obtaining from the client information about the quantity of trading in derivatives throughout the entire year. It could be based upon notional amounts, fair value, quantities of the instruments, etc.*

### OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES

#### **SAMPLE – WHEN THE PARTNERSHIP HAS BOTH A SECURITIES LOAN AGREEMENT AND A ISDA OR SIMILAR AGREEMENTS- MODIFY TO CONFORM TO THE PARTHERSHIP’S AGREEMENTS**

The Partnership is party to various agreements, including but not limited to International Swaps and Derivatives Association (“ISDA”) Agreements and a Securities Loan Agreement, which govern the terms of certain transactions with select counterparties (collectively the “Arrangements”). These Arrangements generally include provisions for general obligations, representations, collateral and certain events of default or termination. These Arrangements also include provisions for netting arrangements that help reduce credit and counterparty risk associated with relevant transactions. The netting arrangements are generally tied to credit related events that if triggered, would cause an event, default or termination giving the Partnership or counterparty the right to terminate early and cause settlement, on a net basis, of all transactions under the applicable Arrangements. In the event of an early termination or default event, the total market value exposure would be offset against collateral exchanged to date, which would result in a net receivable or payable that would be due from or to the counterparty. Credit related events include, but are not limited to, bankruptcy, failure to make timely payments, restructuring, obligation acceleration, obligation default, a material decline in net assets, decline in credit rating or repudiation/moratorium. An election made by a counterparty to terminate a transaction early under the Arrangements could have an adverse impact on the Partnership’s financial statements. Arrangements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Collateral under the Arrangements is usually in the form of cash but can include other types or securities. There can be no assurance that the Arrangements will be successful in limiting credit or counterparty risk.



## SAMPLE PARTNERS, L.P.

NOTES TO FINANCIAL STATEMENTS  
December 31, 20XX

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### **OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)**

**SAMPLE WHEN THE PARTNERSHIP HAS EITHER A ISDA OR SIMILAR AGREEMENTS OR A SECURITIES LOAN AGREEMENT – MODIFY TO CONFORM TO THE PARTNERSHIP’S AGREEMENT**

**IF THE PARTNERSHIP ONLY HAS SECURITIES LOANED REQUIRING THIS DISCLOSURE, MOVE AND INCLUDE THIS NOTE AND TABLE TO THE SECURITIES LOAN NOTE**

The Partnership is party to an **International Swaps and Derivatives Association (“ISDA”) Agreement** or a **Securities Loan Agreement** (the “Arrangement”) which governs the terms of the transactions with select counterparties. The Arrangement generally includes provisions for general obligations, representations, collateral and certain events of default or termination. The Arrangement also includes provisions for netting arrangements that help reduce credit and counterparty risk associated with relevant transactions. The netting arrangements are generally tied to credit related events that if triggered, would cause an event, default or termination giving the Partnership or counterparty the right to terminate early and cause settlement, on a net basis, of all transactions under the applicable Arrangement. In the event of an early termination or default event, the total market value exposure would be offset against collateral exchanged to date, which would result in a net receivable or payable that would be due from or to the counterparty. Credit related events include, but are not limited to, bankruptcy, failure to make timely payments, restructuring, obligation acceleration, obligation default, a material decline in net assets, decline in credit rating or repudiation/moratorium. An election made by a counterparty to terminate a transaction early under the Arrangement could have an adverse impact on the Partnership’s financial statements. Arrangements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Collateral under the Arrangement is usually in the form of cash but can include other types of securities. There can be no assurance that the Arrangement will be successful in limiting credit or counterparty risk.

## SAMPLE PARTNERS, L.P.

### NOTES TO FINANCIAL STATEMENTS December 31, 20XX

#### OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

The following table(s) show(s) the financial and derivative instruments of the Partnership that is subject to an Arrangement(s) and the collateral received and pledged in connection with the netting arrangements at December 31, 2013:

<u>Description</u>	<u>Gross Recognized Assets</u>	<u>Gross Amounts Offset on the Statement of Assets and Liabilities</u>	<u>Net Amounts Presented on the Statement of Assets and Liabilities</u>	<u>Gross Amounts Not Offset on the Statement of Assets and Liabilities</u>		<u>Net Amount</u>
				<u>Financial Instruments</u>	<u>Cash Collateral Received <sup>(1)</sup></u>	
Securities loaned	\$ 869,960	\$ -	\$ 869,960	\$ -	\$ (869,960)	\$ -
Forward currency contracts	\$ 750,000	\$ -	\$ 750,000	\$ (50,000)	\$ (600,000)	\$ 100,000

<u>Description</u>	<u>Gross Recognized Liabilities</u>	<u>Gross Amounts Offset on the Statement of Assets and Liabilities</u>	<u>Net Amounts Presented on the Statement of Assets and Liabilities</u>	<u>Gross Amounts Not Offset on the Statement of Assets and Liabilities</u>		<u>Net Amount</u>
				<u>Financial Instruments</u>	<u>Cash Collateral Pledged <sup>(1)</sup></u>	
Forward currency contracts	\$ 50,000	\$ -	\$ 50,000	\$ (50,000)	\$ -	\$ -

<sup>(1)</sup> Excess of collateral received or pledged from the individual counterparty may not be shown for financial reporting purposes.

#### RELATED PARTY TRANSACTIONS

The Partnership Agreement provides for management fees payable to the General Partner at a rate of .25% of the net asset value of the Limited Partners' capital at the (beginning, end, other) of each quarter (1% per annum). The accompanying statement of assets and liabilities includes unpaid fees of \$ \_\_\_\_\_ in accrued expenses.

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### ADMINISTRATION

The Partnership has entered into an Administration Agreement with \_\_\_\_\_ (the "Administrator"). Under this agreement, the Administrator is responsible for various administrative, registrar, and transfer agency services, including calculation of the partners' capital balances of the Partnership and the processing of contributions, withdrawals, and transfers of the Partnership's capital. (Refer to agreement for responsibilities)

### ALLOCATION OF INCOME (LOSS)

The net income (loss) of the Partnership is allocated to the partners in proportion to their respective capital accounts. However, the General Partner is entitled to an additional allocation of 20% of net income allocated to each Limited Partner to be credited at the end of each calendar year. This additional allocation reduces the Limited Partners' share of net income. As discussed in the Partnership Agreement, if there is a loss for an accounting period, the additional allocation will not apply to future periods until the loss has been recovered. [The amount of the loss carryforward at December 31, 20XX is \$\_\_\_\_\_.]

### NEW ISSUES

Participation by partners in investments in "new issues" (defined, in part, as equity securities which are the subject of a public distribution) are allocated to non-restricted partners and to the extent allowed, to restricted partners in accordance with the Conduct Rules of the Financial Industry Regulatory Authority.

### PARTNERS' CAPITAL

[Included in Limited Partners' capital at December 31, 20XX is \$\_\_\_\_\_ of accounts under the control of the General Partner(s).]

The Agreement contains certain provisions with respect to restrictions on Limited Partner withdrawal rights. (May describe certain of these rights such as gates, lock-ups, early withdrawal fees, or suspensions. May also elaborate on the nature of these rights if desired.)

# SAMPLE PARTNERS, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### FINANCIAL HIGHLIGHTS

#### Ratio of Expenses To Average Limited Partners' Capital

Investment Expenses	xx.xx %
Operating Expenses*	<u>xx.xx</u>
Total Expenses	xx.xx
Performance Reallocation	<u>xx.xx</u>
Total Expenses and Performance Reallocation	<u>xx.xx</u> %

#### Ratio of Net Investment Income [(Loss)] To Average Limited Partners' Capital

Net Investment Income [(Loss)]	<u>xx.xx</u> %
--------------------------------	----------------

#### Total Return

Total Return Before Performance Reallocation	xx.xx %
Performance Reallocation	<u>xx.xx</u>
Total Return	<u>xx.xx</u> %

The expense and performance reallocation ratios, the net investment income (loss) ratio, and the total return percentage are calculated for the Limited Partners taken as a whole. The computation of such ratios and return based on the amount of expenses charged to, and performance fee reallocated from, any specific Limited Partner may vary from the overall ratios presented in the financial statements as a result of such items as differing management fee and performance reallocation arrangements, loss carryforwards, eligibility for new issue income, and the timing of capital contributions and withdrawals. The net investment income ratio does not reflect the effects of any performance reallocations.

\*Operating expense ratio is after expenses paid by third parties, equal to **x.xxxx%** of average Limited Partners' Capital.

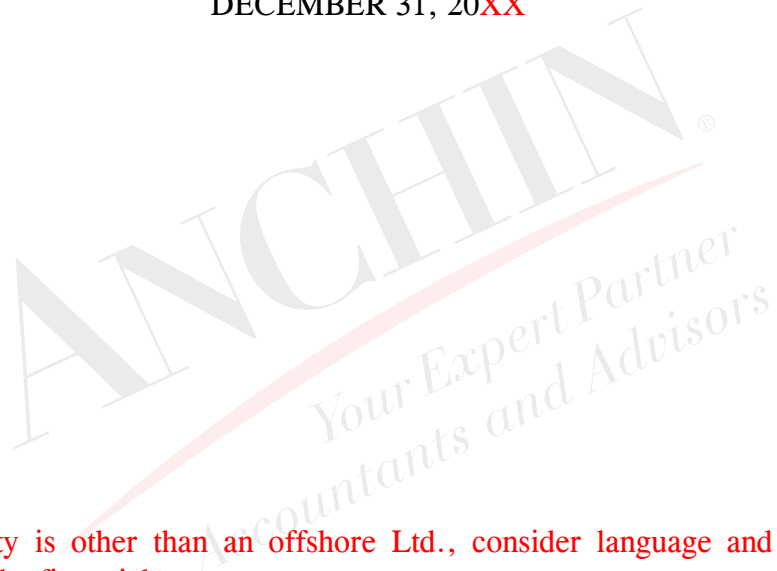
### SUBSEQUENT EVENTS

Effective January 1, 20XX capital of approximately \$ \_\_\_\_\_ was contributed to the Partnership, including \$ \_\_\_\_\_ received prior to December 31, 20XX, which is shown as prepaid capital contributions in the accompanying statement of assets and liabilities. For the period January 1, 20XX until (Auditors' Report Date) \$ \_\_\_\_\_ was withdrawn from the Partnership. In addition, \$ \_\_\_\_\_ of General Partner's capital was transferred to Limited Partners' capital.

Subsequent events have been evaluated through (Auditors' Report Date), which is the date the financial statements were available to be issued.

**SAMPLE MASTER FUND, LTD.**

FINANCIAL STATEMENTS  
DECEMBER 31, 20XX



\*If the entity is other than an offshore Ltd., consider language and format changes throughout the financial statements.

**(FOR CFTC REGISTERED FUNDS ONLY)**

*[The Investment Manager of the Company is registered as a Commodity Pool Operator under the Commodity Exchange Act. A claim of exemption pursuant to Commodity Futures Trading Commission (“CFTC”) Rule \_\_\_\_ has been made with respect to the Investment Manager. The exemption relieves the Company of certain disclosure and reporting obligations under the Commodity Pool Rules of the CFTC.]*

# **SAMPLE MASTER FUND, LTD.**

## INDEX TO FINANCIAL STATEMENTS DECEMBER 31, 20XX

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Affirmation of the Commodity Pool Operator *(FOR CFTC FUNDS ONLY)*

	<b><u>PAGE</u></b>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statement of Assets and Liabilities	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Condensed Schedule of Investments	6
Notes to Financial Statements	9

# **SAMPLE MASTER FUND, LTD.**

## STATEMENT OF ASSETS AND LIABILITIES

December 31, 20XX

(Expressed in United States Dollars)

### **ASSETS**

Investment in securities, at fair value	\$
Investment in private investment companies, at fair value	
Cash [and cash equivalents]	
Due from broker(s)	
Receivable for securities sold	
Dividends and interest receivable	
Collateral for securities loaned	
Other assets	
	<hr/>
<b>TOTAL ASSETS</b>	<b>0</b>

### **LIABILITIES**

Securities sold short, at fair value	
Payable for securities purchased	
Payable upon return of securities loaned	
Accrued expenses	
Payable to feeder funds for shareholder redemptions	
Prepaid subscriptions	
	<hr/>
<b>TOTAL LIABILITIES</b>	<b>0</b>

<b>NET ASSETS</b>	<b>\$ 0</b>
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### **NET ASSETS ATTRIBUTABLE TO**

XXXXXX Class A Shares - NAV per share \$ xxxxxxxx	\$
XXXXXX Class B Shares - NAV per share \$ xxxxxxxx	
	<hr/>
	<b>\$ 0</b>

*See Notes to Financial Statements*

# **SAMPLE MASTER FUND, LTD.**

## STATEMENT OF OPERATIONS For the Year Ended December 31, 20XX (Expressed in United States Dollars)

### **REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS**

Realized gain [(loss)] on investments, net	\$	
Realized gain [(loss)] on foreign currency, net		
Unrealized gain [(loss)] on investments, net change		
Unrealized gain [(loss)] on foreign currency, net change		
Income [(loss)] from private investment companies, unrealized		
Total Realized and Unrealized Gain [Loss] on Investments	\$	0

### **INVESTMENT INCOME [LOSS]**

Income		
Dividends (net of \$ foreign taxes withheld)		
Interest		
Income from securities loaned, net		
Total Investment Income		0
Expenses		
Dividends on securities sold short		
Interest		
Total Investment Expenses		0
Investment Income (Loss) Before Operating Expenses		0
Operating Expenses		
Administrative fees		
Management fees		
Professional fees		
Other		
Total Operating Expenses		0
Less Operating Expenses Paid by Third Parties		
Net Operating Expenses		0
Net Investment Income [Loss]		0
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$</b>	<b>0</b>

See Notes to Financial Statements



# **SAMPLE MASTER FUND, LTD.**

## STATEMENT OF CHANGES IN NET ASSETS

For the Year Ended December 31, 20XX

(Expressed in United States Dollars)

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<b>NET ASSETS - Beginning of year</b>		\$
<b>OPERATIONS</b>		
Realized gain [(loss)] on investments, net	\$	
Realized gain [(loss)] on foreign currency, net		
Unrealized gain [(loss)] on investments, net change		
Unrealized gain [(loss)] on foreign currency, net change		
Unrealized gain [(loss)] on private investment companies, net change		
Net investment income (loss)		_____
Net Increase (Decrease) From Operations		0
<b>CAPITAL SHARE TRANSACTIONS</b>		
Issuance of shares		
Capital transfers		_____
Net Increase (Decrease) From Capital Share Transactions		0
<b>NET ASSETS - End of year</b>		<b>\$ 0</b>

*See Notes to Financial Statements*

# **SAMPLE MASTER FUND, LTD.**

## STATEMENT OF CASH FLOWS For the Year Ended December 31, 20XX (Expressed in United States Dollars)

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### **CASH FLOWS FROM OPERATING ACTIVITIES**

Net increase (decrease) in net assets resulting from operations	\$
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:	
Cost of securities purchased	
Cost of private investment companies purchased	
Proceeds from securities sold	
Proceeds from private investment companies sold	
Proceeds from securities sold short	
Purchase of securities sold short	
Realized gain (loss) on investments (and foreign currency), net	
Unrealized gain (loss) on investments (and foreign currency), net change	
(Increase) decrease in:	
Due from broker(s)	
Receivable for securities sold	
Dividends and interest receivable	
Collateral for securities loaned	
Other assets	
Increase (decrease) in:	
Payable for securities purchased	
Payable upon return of securities loaned	
Accrued expenses	
Net Cash Provided by (Used in) Operating Activities	<u>0</u>

### **CASH FLOWS FROM FINANCING ACTIVITIES**

Issuance of shares	
Redemption of shares	
Net Cash Provided by (Used in) Financing Activities	<u>0</u>

### **NET INCREASE (DECREASE) IN CASH**

**[AND CASH EQUIVALENTS]** 0

### **CASH [AND CASH EQUIVALENTS]**

Beginning of year	
End of year	<u>\$ 0</u>

### **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid during the year for interest \$

### **SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITY (IES)**

Payable incurred for shareholders' redemptions \$  
Subscriptions received in advance in prior year \$

*See Notes to Financial Statements*

**SAMPLE MASTER FUND, LTD.**

CONDENSED SCHEDULE OF INVESTMENTS  
December 31, 20XX  
(Expressed in United States Dollars)

---

<b><u>INVESTMENT IN SECURITIES</u></b>	<b><u>SHARES</u></b>	<b><u>% OF NET ASSETS</u></b>	<b><u>FAIR VALUE</u></b>
<b>COMMON STOCKS</b>			
United States			
Financial Services			\$
ABC Financial			
Other			
Total United States (cost \$ )			<hr/> <hr/>
Hong Kong			
Total Hong Kong (cost \$ )			<hr/> <hr/>
Italy			
Total Italy (cost \$ )			<hr/> <hr/>
<b>TOTAL COMMON STOCKS (cost \$ )</b>			<hr/> <hr/>

*See Notes to Financial Statements*

**SAMPLE MASTER FUND, LTD.**

CONDENSED SCHEDULE OF INVESTMENTS

December 31, 20XX

(Expressed in United States Dollars)

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<b><u>INVESTMENT IN SECURITIES</u></b>	<b><u>PRINCIPAL AMOUNT</u></b>	<b><u>% OF NET ASSETS</u></b>	<b><u>FAIR VALUE</u></b>
<b>LONG-TERM DEBT SECURITIES</b>			
United States			
ABC Bonds			\$
DEF Bonds			
Other			
Total United States (cost \$                    )			<hr/> <hr/>
Spain			
Total Spain (cost \$                    )			<hr/> <hr/>
<b>TOTAL LONG-TERM DEBT SECURITIES (cost \$                    )</b>			<hr/>
<b>COLLATERAL FOR SECURITIES LOANED</b>			
United States			
U.S. Treasury bills, ____%, due ____			
Other			
<b>TOTAL COLLATERAL FOR SECURITIES LOANED</b>			<hr/>
<b>OTHER SECURITIES</b>			
United States			
<b>TOTAL OTHER SECURITIES</b>			<hr/>
<b>TOTAL INVESTMENT IN SECURITIES (cost \$                    )</b>			<hr/> <hr/> <b>\$</b>

*See Notes to Financial Statements*

**SAMPLE MASTER FUND, LTD.**

CONDENSED SCHEDULE OF INVESTMENTS

December 31, 20XX

(Expressed in United States Dollars)

<b><u>SECURITIES SOLD SHORT</u></b>	<b><u>SHARES</u></b>	<b><u>% OF NET ASSETS</u></b>	<b><u>FAIR VALUE</u></b>
<b>COMMON STOCKS</b>			
United States			
Technology			\$
IBM			
Other			
Total United States (proceeds \$            )			<hr/>
Italy			
Total Italy (proceeds \$                    )			<hr/>
<b>TOTAL SECURITIES SOLD SHORT (proceeds \$                    )</b>			<b><u><u>\$</u></u></b>
<b><u>FUTURES CONTRACTS</u></b>			
	<b><u>Expiration Dates</u></b>	<b><u>No. of Contracts</u></b>	<b><u>Fair Value</u></b>
Financial (5.2%)			
Eurodollar (5.2%)			\$
Indices (2.4%)			
S&P (2.4%)			<hr/>
<b>TOTAL FUTURES CONTRACTS</b>			<b><u><u>\$</u></u></b>

*See Notes to Financial Statements*

# **SAMPLE MASTER FUND, LTD.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### **ORGANIZATION**

Sample Master Fund, Ltd. (the “Fund”) is a mutual fund company incorporated with limited liability under the laws of \_\_\_\_\_ on \_\_\_\_\_, 20XX. The Fund was formed for the purpose of investing in securities as a master fund for \_\_\_\_\_, a mutual fund company incorporated under the laws of \_\_\_\_\_ (the “Offshore Fund”) and \_\_\_\_\_ a partnership organized in the State of \_\_\_\_\_ (the “Partnership”), collectively referred to as the “Feeder Funds”.

Under the master-feeder structure, the shareholders invest all of their assets in the Fund. At December 31, 20\_\_ the Offshore Fund and the Partnership have \_\_\_\_ % and \_\_\_\_ % interests in the Fund, respectively.

The Fund’s investment objective is to provide a superior rate of return through a \_\_\_\_\_ strategy of trading every day while maintaining core positions. The fund invests principally in \_\_\_\_\_. (Use confidential offering memorandum for wording.)

\_\_\_\_\_ acts as custodian for the Fund’s listed securities and options. \_\_\_\_\_ serves as the Administrator of the Fund (the “Administrator”) and the Offshore Fund pursuant to an Administration Agreement.

\_\_\_\_\_ (the “Investment Manager”) has been appointed and is responsible for the investment program of the Fund and Feeder Funds.

The Directors of the Fund are \_\_\_\_\_ and \_\_\_\_\_.

*(If applicable) The Fund is registered as a Commodity Pool under the rules of the Commodity Futures Trading Commission (“CFTC”) because of its investments in registered Commodity Pools.*

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### *Basis of Presentation*

The accompanying financial statements are expressed in United States (U.S.) dollars and presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

#### *Financial Statement Estimates*

The preparation of financial statements in conformity with GAAP may require 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

# SAMPLE MASTER FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Cash Equivalents

Cash equivalents include short-term highly liquid investments, such as [money market fund, certificate of deposits, other (describe)] that are readily convertible to known amounts of cash and have original maturities of three months or less.

#### Security Valuation

As more fully described elsewhere in the notes to financial statements, all investments in securities are recorded at their estimated fair value.

#### Foreign Securities

The values of securities and cash equivalents which are denominated in foreign currencies are stated using the exchange rate in effect on the last business day of the year.

Purchases and sales of securities, interest and dividend income and expense which are denominated in foreign currencies are recorded at the exchange rate as of the date of the transaction. For financial statement purposes, the Fund does not isolate that portion of the gain or loss on securities resulting from exchange rate fluctuation. Such changes are combined with changes in market prices and shown as realized or unrealized gain or loss.

#### Investment Transaction and Related Income

Purchases and sales of securities [and private investment companies] are recorded on a trade date basis. Realized gains and losses are determined using costs calculated on a [first-in, first-out or the specific identification method.] Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis. [Withholding taxes on foreign dividends have been provided for in accordance with the Fund's understanding of the applicable countries' tax rules and rates.]. Premiums and discounts on fixed income securities are amortized over the lives of the related securities.

#### Income Taxes

Under the laws of \_\_\_\_\_, the Fund is not subject to income taxes and has received an exemption through XXXXX. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Certain U.S. dividend income maybe subject to a maximum 30% withholding for those shareholders that are foreign entities or foreign individuals. (Optional). The Fund determined that there are no uncertain tax positions which would require adjustments or disclosures on the financial statements.

# **SAMPLE MASTER FUND, LTD.**

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### **SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS**

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

- Level 1 Unadjusted quoted prices in active markets that the Fund has the ability to access for identical assets or liabilities.
- 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 Fund's own assumptions about the assumptions a market participant would use in valuing the asset or liability, 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 the 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.

Transfers between levels are recognized at the [beginning/end] of the reporting period.



# **SAMPLE MASTER FUND, LTD.**

## **NOTES TO FINANCIAL STATEMENTS** December 31, 20XX

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### **SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)**

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

#### **Equity Securities (Common and Preferred Stock)**

Investments in securities and securities sold short which are traded on a national securities exchange or listed on NASDAQ are valued at the last reported sales price on the last business day of the year. Investments in securities and securities sold short [for which no sale occurred on the last business day of the year or] which are traded in the over-the-counter market are valued at the last reported bid and asked prices, respectively. 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. The fair value of certain foreign securities may be determined through the use of 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 in Level 3.

# **SAMPLE MASTER FUND, LTD.**

## **NOTES TO FINANCIAL STATEMENTS December 31, 20XX**

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### **SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)**

#### **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 valued at the closing price reported in the active market in which the individual security is traded, and are categorized in Level 1 of the fair value hierarchy.

#### **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 either Level 1 or Level 2 of the fair value hierarchy.

#### **Restricted Securities and Private Placements (Equity and Debt)**

Restricted securities for which quotations are not readily available are valued at fair value as determined by the Fund. 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.

# **SAMPLE MASTER FUND, LTD.**

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### **SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)**

#### *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, warrants, 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 Fund using pricing models fall into this category and are categorized within Level 2 of the fair value hierarchy.

#### *Private Investment Companies*

**Describe methodology employed**

# SAMPLE MASTER FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes the inputs used to value the Fund's assets and liabilities measured at fair value as of December 31, 20XX:

#### Assets

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks				
Banks	\$ XX,XXX,XXX	\$ XX,XXX,XXX	\$ XX,XXX,XXX	\$ XX,XXX,XXX
Building Materials	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Commercial Services	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Engineering & Construction	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Financial Services	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Insurance	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Real Estate	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Technology	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Debt Instruments				
Corporate Bonds	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Equity Options	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Warrants	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Private Placements				
Banks	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Financial Services	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Investment Fund	<u>XX,XXX,XXX</u>	<u>XX,XXX,XXX</u>	<u>XX,XXX,XXX</u>	<u>XX,XXX,XXX</u>
Total Assets	<u>\$ XX,XXX,XXX</u>	<u>\$ XX,XXX,XXX</u>	<u>\$ XX,XXX,XXX</u>	<u>\$ XX,XXX,XXX</u>

#### Liabilities

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks				
Banks	\$ XX,XXX,XXX	\$ XX,XXX,XXX	\$ XX,XXX,XXX	\$ XX,XXX,XXX
Building Materials	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Commercial Services	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Insurance	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Real Estate	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Technology	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Equity Options	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX	XX,XXX,XXX
Warrants	<u>XX,XXX,XXX</u>	<u>XX,XXX,XXX</u>	<u>XX,XXX,XXX</u>	<u>XX,XXX,XXX</u>
Total Liabilities	<u>\$ XX,XXX,XXX</u>	<u>\$ XX,XXX,XXX</u>	<u>\$ XX,XXX,XXX</u>	<u>\$ XX,XXX,XXX</u>

**SAMPLE MASTER FUND, LTD.**

NOTES TO FINANCIAL STATEMENTS  
December 31, 20XX

**SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)**

*The sample above breaks out the class of securities by industry. However, depending on the nature and risk of the investments the table may be broken down by; geographic concentrations, credit quality, or economic characteristics.*

*If all securities are measured at fair value using a single level technique the above tables are not necessary and the following should be disclosed:*

Investment in securities and securities sold short are measured at fair value using Level (1, 2, or 3) inputs.

The following is a reconciliation of assets and liabilities for which Level 3 inputs were used in determining value for the year ended December 31, 20XX: (Rows should reflect class of security as shown on condensed schedule)

	Opening Balance, January 1, <u>20XX</u>	Total Gain or Losses (Realized and Unrealized)	<u>Purchases</u>	<u>Sales</u>	Transfers <u>Into Level 3</u>	Transfers <u>Out of Level 3</u>	Closing Balance, December 31, <u>20XX</u>
Warrants	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx	\$ x,xxx,xxx
Private Placements - Banks	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>	<u>x,xxx,xxx</u>
Total	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>	<u>\$ x,xxx,xxx</u>

*Disclose reasons for each transfer into and out of Level 3. (Generally due to change in observability of inputs. Give reasons for the changes. Transfers with similar reasons can be grouped.)*

*If the fund has either Settlements or Issuances, columns need to be added to the above table for each of these items*

The amount of gains (losses) included in income  
attributable to the change in unrealized gains (losses)  
relating to assets still held at December 31, 20XX

Warrants	\$ x,xxx,xxx
Private Placements - Banks	<u>x,xxx,xxx</u>
Total	<u>\$ x,xxx,xxx</u>

Gains and losses (realized and unrealized), if any, are included in the realized gain (loss) on investments, net and in unrealized gain (loss) on investments, net change, in the statement of operations.

# SAMPLE MASTER FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)

*The following table is required under ASC Subparagraph 820-10-50-2-bbb which states: "For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment)." However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity.*

The following table summarizes the valuation techniques and significant unobservable inputs used within Level 3 of the fair value hierarchy as of December 31, 20XX: *(EXAMPLES BELOW)*

#### Quantitative Information About Level 3 Fair Value Measurements

	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
<u>Assets</u>				
<i>Private Placements</i>				
Banks	\$	Discounted cash flows	Weighted average cost of capital	10%-20% (14%)
			Long-term revenue growth rate	5%-7% (6%)
			Long-term pretax operating margin	4%-6% (5%)
			Discount for lack of marketability	3%-5% (4%)
			Control premiums	3%-5% (4%)

# SAMPLE MASTER FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)

#### Quantitative Information About Level 3 Fair Value Measurements (Continued)

Financial Services	\$	Market comparable companies	EBITDA multiple	12x-15x (13x)
			Revenue multiples	12%-25% (16%)
			Discount for lack of marketability	10%-25% (15%)
			Control premium	10%-25% (15%)
<b><i>Debt Instruments</i></b>				
Corporate Bonds	\$	Collectability analysis	Loan performance reserve	21%-35% (27.5%)
<b><u>Liabilities</u></b>				
<b><i>Private Placements</i></b>				
Banks	\$			
Warrants	\$	Industry accepted model	Historical volatility	15% - 20% (17.5%)

The Fund's other Level 3 investments have been valued using unadjusted third-party transactions and quotations, unadjusted historical third-party information, or the unadjusted net asset value of the investments in private investment companies. No unobservable inputs internally developed by the Fund have been applied to those investments thus have been excluded from the above table.

#### Valuation Processes for Level 3 Fair Value Measurement

*The below narrative might include the following in accordance with 820-10-55-105:*

*a) For the group within the Fund that decides the valuation policies and procedures; its description, to whom that group reports, the internal reporting procedures in place b) the frequency and methods for calibration, back testing, and other testing procedures of pricing models c) the process for analyzing changes in fair value measurements from period to period d) how the reporting entity determined that third-party information, such as broker quotes or pricing services, used in the fair value measurement was developed e) the methods used to develop and substantiate the unobservable inputs used.*

# **SAMPLE MASTER FUND, LTD.**

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### **SECURITIES VALUATION AND FAIR VALUE MEASUREMENTS (CONTINUED)**

#### *Valuation Processes for Level 3 Fair Value Measurement (Continued)*

#### **EXAMPLE**

The Fund establishes valuation processes and procedures to ensure that the valuation techniques for investments that are categorized within Level 3 of the fair value hierarchy are fair, consistent, and verifiable. The General Partner/Management Company/Valuation Committee (the “Valuation Committee”) is responsible for overseeing the Fund’s valuation process for its Level 3 investments. The Valuation Committee consists of Funds’ personnel, including members from the Fund’s portfolio management. The Valuation Committee’s responsibilities include developing the Fund’s written valuation processes and procedures, conducting periodic reviews of the valuation policies, and evaluating the overall fairness and consistent application of the valuation policies.

The Valuation Committee meets on a monthly basis, or more frequently as needed, to determine the valuations of the Fund’s Level 3 investments. Valuations determined by the Fund are required to be supported by market data, industry accepted third-party pricing sources, industry accepted third-party pricing models, counterparty prices, or other methods the Valuation Committee deems to be appropriate, including the use of internal proprietary valuation models.

The Fund periodically tests its valuations of Level 3 investments through performing back testing of the sales of such investments by comparing the amounts realized against the most recent fair values reported, and if necessary, uses the findings to calibrate its valuation procedures. The Fund performs similar procedures with respect to information obtained from brokers and/or pricing services. On an annual basis, the Fund engages the services of a nationally recognized third-party valuation firm to perform an independent review of the valuation of the Fund’s Level 3 investments and may adjust its valuations based on the recommendations from the valuation firm.



## SAMPLE MASTER FUND, LTD.

### NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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#### **DUE (FROM) (TO) BROKER AND CUSTODY CONCENTRATIONS**

At December 31, 20XX, the amount(s) due from broker(s) in the statement of assets and liabilities include(s) cash held at the clearing broker(s) [and collateral balances]. [Securities and cash held by the broker(s) serve as collateral for securities sold short [and margin debt balances]].

The Securities Investor Protection Corporation (SIPC) insures the brokerage account to the extent of \$500,000 (including up to \$250,000 for cash). [[Cash balances and] securities in excess of these limits are covered by additional insurance maintained by the broker in the amount of \$ \_\_\_\_\_. [Amounts in excess of insurance coverage are secured by the good faith and credit of the broker.]

OR

Balances with broker(s) consist principally of brokerage accounts with \_\_\_\_\_. The Securities Investor Protection Corporation (SIPC) insures the brokerage account to the extent of \$500,000 (including up to \$250,000 for cash). **Only if applicable** [Cash balance and] securities in excess of these limits are covered by additional insurance maintained by the broker in the amount of \$ \_\_\_\_\_. Amounts in excess of insurance coverage are secured by the good faith and credit of the broker.

AND (If Applicable)

The Fund maintains accounts in banks located primarily in the New York metropolitan area. The excess of deposit balances reported by XXX banks over amounts that would have been covered by federal insurance was \$XXXXXX at December 31, 20XX.

#### **SECURITIES SOLD SHORT AND STOCK LOAN FEES**

The Fund is subject to certain inherent risks arising from its activities of selling securities short. The ultimate cost to the Fund to acquire these securities may exceed the liability reflected in the financial statements.

**(If applicable)** The Fund is charged fees for the securities borrowed in connection with short sales. The Fund also pays to the lenders of securities an amount equal to any dividends paid by the underlying companies on securities borrowed.

# **SAMPLE MASTER FUND, LTD.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

---

### **BANK LINE OF CREDIT**

The Fund has available a \$ \_\_\_\_\_ line of credit with a bank from which there were no outstanding borrowings at December 31, 20XX. The line of credit is collateralized by \_\_\_\_\_ of its investments. The amount of the line of credit is the lesser of \_\_\_\_\_% of the net assets at the end of the year or \_\_\_\_\_% of the assets of the collateralized investments. Borrowings bear interest at the bank's prime rate. Interest expense was \$ \_\_\_\_\_ for the year ended December 31, 20XX.

### **SECURITIES LOANED**

The Fund receives compensation in the form of fees, or it retains a portion of interest on the investment of any cash received as collateral. The Fund 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 Fund. The Fund has the right under the lending agreement to recover the securities from the borrower on demand.

Select one of the following paragraphs and refer to the Investment Companies Guide to determine applicable disclosures.

As of December 31, 20XX, the Fund loaned common stocks having a fair value of approximately \$ \_\_\_\_\_, and received \$ \_\_\_\_\_ of cash collateral for the loan. The cash was invested in U.S. Treasury bills with maturities ranging from **January to April 20XX**. The Fund also received \$ \_\_\_\_\_ of **(securities, indicate type)** which can be sold or repledged as collateral for the loan. Accordingly, the collateral is included in the statement of assets and liabilities.

OR

As of December 31, 20XX, the Fund loaned common stocks having a fair value of approximately \$ \_\_\_\_\_, and received \$ \_\_\_\_\_ of **(securities, indicate type)** as collateral for the loan. The Fund does not have the right to sell or repledge the collateral. Accordingly, the collateral is not included in the statement of assets and liabilities.

***SEE NOTE REGARDING OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES AND INCLUDE IN THIS NOTE ONLY IF APPLICABLE***

# **SAMPLE MASTER FUND, LTD.**

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### **DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments traded by the Fund (the value of which is based upon an underlying asset, index or reference rate) include [foreign currency forward exchange contracts, futures contracts, interest rate swaps, total return swaps, credit default swaps, equity swaps, options, and warrants].

Derivatives are used for trading purposes and for managing risks associated with the portfolio of investments and are not designated as hedging instruments. They are subject to various risks similar to those related to the underlying financial instruments, including market and credit risks.

Market risk is the potential for changes in the value of derivative financial instruments due to market changes, including interest and foreign exchange rate movements, and fluctuations in security prices.

Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of a contract. Credit risk is limited to amounts recorded by the Fund as assets.

The Fund's derivatives are presented on a gross basis which excludes the effects of both netting under enforceable netting agreement and netting of cash received or posted as collateral, and therefore are not representative of the Fund's net credit risk exposure.

**BELOW ARE EXAMPLES OF VARIOUS DISCLOSURES FOR DERIVATIVES. USE AS APPROPRIATE:**

#### **Foreign Currency Forward Exchange Contracts**

The Fund enters into foreign currency forward exchange contracts primarily to manage foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities. When entering into forward currency contracts, the Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. The Fund'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, in excess of the amount recognized in the statement of assets and liabilities. Such 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.

# **SAMPLE MASTER FUND, LTD.**

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### **DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

#### *Futures Contracts*

The Fund uses futures contracts for hedging and non-hedging purposes. Upon entering into futures contracts, the Fund is required to deposit with the broker an amount (“initial margin”) equal to a certain percentage of the contract value. Pursuant to the contract, the Fund agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in the value of the contract. Such receipts or payments are known as “variation margin” and are recorded by the Fund as net change in unrealized appreciation (depreciation) in the statement of operations. When the contract is closed the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The use of futures transactions includes the risk of imperfect correlation in movements in the price of futures contracts, interest rates, and the underlying assets.

#### *Swaps*

The Fund enters into various swap contracts. A swap is an agreement that obligates two parties to exchange cash flows (or a series of cash flows) at specified intervals based upon changes for a specified amount of an underlying asset or a risk factor related to the underlying asset, such as interest rates, credit default, dividend yields, variance or correlation. The fair value of open swaps reported in the statement of assets and liabilities may differ from that which would be realized in the event the Fund terminated its position in the contract. Risks may arise as a result of the failure of the counterparty to the swap contract to comply with the terms of the swap agreement. The loss incurred by the failure of a counterparty is generally limited to the aggregate fair value of swap contracts in an unrealized gain position as well as any collateral posted with the counterparty. The risk is mitigated by having a master netting arrangement between the Fund and the counterparty and by the posting of collateral by the counterparty to the Fund to cover the Fund’s exposure to the counterparty. Therefore, the Fund considers the creditworthiness of each counterparty to a swap contract in evaluating potential credit risk. Additionally risks may arise from unanticipated movements in the fair value of the underlying investments.

#### *Interest Rate Swaps*

The Fund enters into interest rate swaps. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest based on a notional amount. The differential to be paid or received on the interest rate swap is recognized over the term of the agreement as a realized gain or loss with the payments made or received on a net basis on the stated payment dates. Unrealized gains are reported as an asset and unrealized losses are recorded as a liability in the statement of assets and liabilities.

# **SAMPLE MASTER FUND, LTD.**

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### **DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

#### *Total Return Swaps*

The Fund enters into total return swaps. Total return swaps involve an exchange of cash flows based on a commitment to pay an amount based on a referenced interest rate in exchange for a market-linked return, both based on a notional amount. The market-linked return may include, among other things, the total return of a security or index. The net amount received (paid) during the term of the swap is included in net realized gain (loss) on investments and the change in unrealized value of the swaps is reflected in unrealized appreciation (depreciation) on investments in the statement of operations.

#### *Credit Default Swaps*

The Fund enters into credit default swaps to manage its exposure to the market or certain sectors of the market, to reduce its exposure to the 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 referenced 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.

#### *Equity Swaps*

The Fund enters into equity swaps. Under such contracts one party holds the rights to any appreciation on the underlying assets and has an obligation to the counterparty for any depreciation in valuation of the underlying assets.

# **SAMPLE MASTER FUND, LTD.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

---

### **DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

#### *Options*

The Fund may buy or sell short put and call options through listed exchanges and over-the-counter markets. The buyer has the right to purchase (in the case of a call option) or sell (in the case of a put option) a specified quantity of a specific security or other underlying asset at a specified price prior to or on a specified expiration date. In connection with selling options short, the Fund is exposed to the risk of loss if the market price of the underlying asset declines (in the case of a put option) or increases (in the case of a call option). The market and credit risk associated with purchasing put and call options is limited to the amount originally paid.

Amounts paid on purchasing options are recorded as assets while proceeds received from selling options short are recorded as liabilities on the statement of assets and liabilities which are both subsequently adjusted to fair value. The difference between the fair value of an option and the amount paid or proceeds received is treated as unrealized gain (loss) on investment, net change.

#### *Warrants*

The Fund may receive warrants in connection with its investment in the debt or equity of certain companies or may purchase warrants on the open market. A warrant is a security that entitles the holder to buy stock of the company that issued it at a specified price with a pre-determined time period. The warrants provide the Fund with exposure and potential gains upon equity appreciation of the portfolio company's share price.

# SAMPLE MASTER FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The following tables summarize the fair value of derivative instruments on the statement of assets and liabilities and the effect of derivative instruments on the statement of operations:

#### Fair Value of Derivative Instruments on the Statement of Assets and Liabilities as of December 31, 20XX:

<u>Derivative</u>	<u>Asset Derivative</u>		<u>Liability Derivative</u>	
	<u>Classification</u>	<u>Fair Value</u>	<u>Classification</u>	<u>Fair Value</u>
		\$ x,xxx,xxx		\$ x,xxx,xxx
		x,xxx,xxx		x,xxx,xxx
		x,xxx,xxx		x,xxx,xxx
		x,xxx,xxx		x,xxx,xxx

For additional detail on the above derivative instruments, see the accompanying condensed schedule of investments.

#### Effect of Trading Activities on the Statement of Operations for the Year:

<u>Type of Instrument</u>	<u>Classification</u>	<u>Trading Revenue</u>
		\$ x,xxx,xxx
		x,xxx,xxx
		x,xxx,xxx
		x,xxx,xxx
		x,xxx,xxx

# SAMPLE MASTER FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

*If there are any credit risk contingent features under ASC Subparagraph 815-10-50-4H, additional disclosures may be required as follows:*

#### Example

#### Credit-Risk-Related Contingent Features

Certain of the Fund's derivative instruments contain provisions that require the Fund to maintain a predetermined level of (net assets, capital), and/or provide limits regarding the decline of the Fund's (net asset value, partners' capital). If the Fund was to violate such provisions, the counterparties to the derivative instruments could request immediate payment or demand immediate collateralization on derivative instrument in net liability positions. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position on December 31, 20xx is \$XX million for which the Fund has posted collateral of \$XX million in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on December 31, 20XX, the Fund would be required to post an additional \$XX million of collateral to its counterpart.

#### Volume of Derivative Activities:

At December 31, 20XX, the volume of the Fund's derivative activities based on their notional amounts and number of contracts, categorized by derivative, are as follows:

<u>Derivative</u>	<u>Long Exposure</u>		<u>Short Exposure</u>	
	<u>Notional Amounts (a)</u>	<u>Number of Contracts</u>	<u>Notional Amounts (a)</u>	<u>Number of Contracts</u>

(a) Notional amounts are presented net of identical offsetting derivative contracts

(b) Notional amounts for options and warrants are based on the fair value of the underlying instruments as-if exercised at December 31, 20XX

*If the above information for volume of derivatives is shown in the condensed schedule of investments, it will not be necessary to repeat it although a reference to that information should be made.*



# **SAMPLE MASTER FUND, LTD.**

## **NOTES TO FINANCIAL STATEMENTS December 31, 20XX**

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### **DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

#### **Volume of Derivative Activities (Continued):**

*Entity specific description of the volume of derivative trading must be described here to enable users to understand the volume of its derivative activity throughout the year. This may be presented qualitatively or quantitatively, and for each derivative or in total if it is more meaningful. More material quantities of the derivatives held by the company require greater precision of disclosure. This disclosure should be made after obtaining from the client information about the quantity of trading in derivatives throughout the entire year. It could be based upon notional amounts, fair value, quantities of the instruments, etc.*

### **OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES**

#### **SAMPLE – WHEN THE FUND HAS BOTH A SECURITIES LOAN AGREEMENT AND A ISDA OR SIMILAR AGREEMENTS- MODIFY TO CONFORM TO THE FUND’S AGREEMENTS**

The Fund is party to various agreements, including but not limited to International Swaps and Derivatives Association (“ISDA”) Agreements and a Securities Loan Agreement, which govern the terms of certain transactions with select counterparties (collectively the “Arrangements”). These Arrangements generally include provisions for general obligations, representations, collateral and certain events of default or termination. These Arrangements also include provisions for netting arrangements that help reduce credit and counterparty risk associated with relevant transactions. The netting arrangements are generally tied to credit related events that if triggered, would cause an event, default or termination giving the Fund or counterparty the right to terminate early and cause settlement, on a net basis, of all transactions under the applicable Arrangements. In the event of an early termination or default event, the total market value exposure would be offset against collateral exchanged to date, which would result in a net receivable or payable that would be due from or to the counterparty. Credit related events include, but are not limited to, bankruptcy, failure to make timely payments, restructuring, obligation acceleration, obligation default, a material decline in net assets, decline in credit rating or repudiation/moratorium. An election made by a counterparty to terminate a transaction early under the Arrangements could have an adverse impact on the Fund’s financial statements. Arrangements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Collateral under the Arrangements is usually in the form of cash but can include other types or securities. There can be no assurance that the Arrangements will be successful in limiting credit or counterparty risk.

# **SAMPLE MASTER FUND, LTD.**

NOTES TO FINANCIAL STATEMENTS  
December 31, 20XX

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## **OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)**

**SAMPLE WHEN THE FUND HAS EITHER A ISDA OR SIMILAR AGREEMENTS OR A SECURITIES LOAN AGREEMENT - MODIFY TO CONFORM TO THE FUND'S AGREEMENT**

**IF THE FUND ONLY HAS SECURITIES LOANED REQUIRING THIS DISCLOSURE, MOVE AND INCLUDE THIS NOTE AND TABLE TO THE SECURITIES LOAN NOTE**

The Fund is party to an **International Swaps and Derivatives Association (“ISDA”) Agreement or a Securities Loan Agreement** (the “Arrangement”) which governs the terms of the transactions with select counterparties. The Arrangement generally includes provisions for general obligations, representations, collateral and certain events of default or termination. The Arrangement also includes provisions for netting arrangements that help reduce credit and counterparty risk associated with relevant transactions. The netting arrangements are generally tied to credit related events that if triggered, would cause an event, default or termination giving the Fund or counterparty the right to terminate early and cause settlement, on a net basis, of all transactions under the applicable Arrangement. In the event of an early termination or default event, the total market value exposure would be offset against collateral exchanged to date, which would result in a net receivable or payable that would be due from or to the counterparty. Credit related events include, but are not limited to, bankruptcy, failure to make timely payments, restructuring, obligation acceleration, obligation default, a material decline in net assets, decline in credit rating or repudiation/moratorium. An election made by a counterparty to terminate a transaction early under the Arrangement could have an adverse impact on the Fund’s financial statements. Arrangements can also help limit counterparty risk by specifying collateral posting arrangements at pre-arranged exposure levels. Collateral under the Arrangement is usually in the form of cash but can include other types of securities. There can be no assurance that the Arrangement will be successful in limiting credit or counterparty risk.

# SAMPLE MASTER FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

The following table(s) show(s) the financial and derivative instruments of the Fund that is subject to an Arrangement(s) and the collateral received and pledged in connection with the netting arrangements at December 31, 20XX:

<u>Description</u>	<u>Gross Recognized Assets</u>	<u>Gross Amounts Offset on the Statement of Assets and Liabilities</u>	<u>Net Amounts Presented on the Statement of Assets and Liabilities</u>	<u>Gross Amounts Not Offset on the Statement of Assets and Liabilities</u>		<u>Net Amount</u>
				<u>Financial Instruments</u>	<u>Cash Collateral Received <sup>(1)</sup></u>	
Securities loaned	\$ 869,960	\$ -	\$ 869,960	\$ -	\$ (869,960)	\$ -
Forward currency contracts	\$ 750,000	\$ -	\$ 750,000	\$ (50,000)	\$ (600,000)	\$ 100,000

<u>Description</u>	<u>Gross Recognized Liabilities</u>	<u>Gross Amounts Offset on the Statement of Assets and Liabilities</u>	<u>Net Amounts Presented on the Statement of Assets and Liabilities</u>	<u>Gross Amounts Not Offset on the Statement of Assets and Liabilities</u>		<u>Net Amount</u>
				<u>Financial Instruments</u>	<u>Cash Collateral Pledged <sup>(1)</sup></u>	
Forward currency contracts	\$ 50,000	\$ -	\$ 50,000	\$ (50,000)	\$ -	\$ -

<sup>(1)</sup> Excess of collateral received or pledged from the individual counterparty may not be shown for financial reporting purposes.

# **SAMPLE MASTER FUND, LTD.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### **RELATED PARTY TRANSACTIONS**

The Fund's Investment Manager is owned by members of the General Partner of the Partnership (*consult your agreement*). The Investment Manager receives management fees from the Feeder Funds and a performance fee from the Offshore Fund.

### **ADMINISTRATION**

The Fund and the Feeder Funds entered into administration agreements with the Administrator. The Administrator has responsibilities for the day-to-day administration of the affairs of the Fund and the Feeder Funds. The administrative responsibilities include, among other things, maintaining the books and records and handling investor transactions for the Fund and the Feeder Funds (*refer to agreement for responsibilities*).

### **ALLOCATION OF INCOME (LOSS)**

*(If the Fund is structured as a domestic limited partnership the following note should be added and modified according partnership agreement).* The net income (loss) of the Partnership is allocated to the partners in proportion to their respective capital accounts. *(If the performance allocation or fee is at the Master level it should be noted).* However, the General Partner is entitled to an additional allocation of 20% of net income allocated to each Limited Partner to be credited at the end of each calendar year. This additional allocation reduces the Limited Partners' share of net income. As discussed in the Partnership Agreement, if there is a loss for an accounting period, the additional allocation will not apply to future periods until the loss has been recovered. *[The amount of the loss carryforward at December 31, 20XX is \$ \_\_\_\_\_.]*

*(If the Fund is structured as a Ltd. the following note should be added and modified according to the Confidential Offering Memorandum).* If the performance allocation or fee is at the Master level it should be noted). The Investment Manager is entitled to receive an annual performance fee of 20% of the annual increase in value of each series of shares of the Fund. As discussed in the Investment Management Agreement the performance fee is calculated and paid on a "high water mark" basis, only to the extent that the increase in net asset value per series of an investor's share exceeds (i) the highest net asset value per series of such shares as of the previous date on which a performance fee was paid with respect to such series or if no increase has occurred in the net asset value of the series since the date of subscription (ii) the net asset value per series at the date of subscription. Under this method, if there is a loss for an accounting period, the performance fee will not apply until the loss has been recovered. The amount of loss carryforward at December 31, 20XX on all series aggregates \$ \_\_\_\_\_.

# SAMPLE MASTER FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### NEW ISSUES

Participation by shareholders in investments in "new issues" (defined, in part, as equity securities which are the subject of a public distribution) are allocated to non-restricted shareholders and to the extent allowed, to restricted shareholders in accordance with the Conduct Rules of the Financial Industry Regulatory Authority.

### CAPITAL SHARE TRANSACTION

As of December 31, 20XX, authorized capital share consisted of \_\_\_\_\_ ordinary shares of US \$1.00 par value, and \_\_\_\_\_ nonvoting, redeemable participating shares of US \$.01 par value.

Transactions in capital share were as follows:

	<u>Class A</u>	<u>Class B</u>
Number of shares issued	_____	_____
Number of shares redeemed	_____	_____
Net increase in shares outstanding	_____	_____
Shares outstanding, beginning of year	_____	_____
Shares outstanding, end of year	=====	=====

The **Confidential Offering Memorandum** contains certain provisions with respect to restrictions on **shareholders** withdrawal rights. (May describe certain of these rights such as gates, lock-ups, early withdrawal fees, or suspensions. May also elaborate on the nature of these rights if desired.)

# SAMPLE MASTER FUND, LTD.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### FINANCIAL HIGHLIGHTS *(Modify if performance fees are at Master level)*

#### Selected Data For A Share of Stock Outstanding Throughout The Year (Series \_\_\_\_\_)

	<u>Class A</u>	<u>Class B</u>
Net assets value, beginning of year	<u>\$ xx.xx</u>	<u>\$ xx.xx</u>
Income (loss) from investment operations:		
Net realized and unrealized gain [(loss)]	<u>xx.xx</u>	<u>xx.xx</u>
Net investment income [(loss)]	<u>xx.xx</u>	<u>xx.xx</u>
Total From Investment Operations	<u>xx.xx</u>	<u>xx.xx</u>
Net asset value, end of year	<u>\$ xx.xx</u>	<u>\$ xx.xx</u>

#### Ratio and Supplemental Data

##### Ratio of Expenses to Average Net Assets

Investment expenses	<u>xx.xx%</u>	<u>xx.xx%</u>
Operating expenses *	<u>xx.xx</u>	<u>xx.xx</u>
Total Expenses	<u>xx.xx%</u>	<u>xx.xx%</u>

##### Ratio of Net Investment Income (Loss) to Average Net Assets

Net Investment Income [(Loss)]	<u>xx.xx%</u>	<u>xx.xx%</u>
--------------------------------	---------------	---------------

##### Total Return

Total Return	<u>xx.xx%</u>	<u>xx.xx%</u>
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\*Operating expense ratio is after expenses paid by third parties, equal to **x.xxxx%** of average Capital.

### SUBSEQUENT EVENTS

Effective January 1, 20XX share subscriptions of approximately \$ \_\_\_\_\_ was made to the Fund, including \$ \_\_\_\_\_ received prior to December 31, 20XX, which is shown as prepaid subscription in the accompanying statement of assets and liabilities. For the period January 1, 20XX until **(Auditors' Report Date)** \_\_\_\_\_ was redeemed from the Fund.

Subsequent events have been evaluated through **(Auditors' Report Date)**, which is the date the financial statements were available to be issued.

**SAMPLE DOMESTIC FEEDER, L.P.**

FINANCIAL STATEMENTS  
DECEMBER 31, 20XX

ANCHIN®  
Your Expert Partner  
Accountants and Advisors

**(FOR CFTC REGISTERED FUNDS ONLY)**

*[The General Partner of the Partnership is registered as a Commodity Pool Operator under the Commodity Exchange Act. A claim of exemption pursuant to Commodity Futures Trading Commission (“CFTC”) Rule \_\_\_\_ has been made with respect to the Partnership by the General Partner. The exemption relieves the Partnership of certain disclosure and reporting obligations under the Commodity Pool Rules of the CFTC.]*

# SAMPLE DOMESTIC FEEDER, L.P.

## INDEX TO FINANCIAL STATEMENTS DECEMBER 31, 20XX

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Affirmation of the Commodity Pool Operator *(FOR CFTC FUNDS ONLY)*

	<u>PAGE</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statement of Assets and Liabilities	2
Statement of Operations	3
Statement of Changes in Partners' Capital	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Sample Master Fund, Ltd. Financial Statements	



**SAMPLE DOMESTIC FEEDER, L.P.**

STATEMENT OF ASSETS AND LIABILITIES  
December 31, 20XX

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**ASSETS**

Investment in Sample Master Fund, Ltd., at fair value	\$
Receivable from Sample Master Fund, Ltd.	
Cash [and cash equivalents]	
Due from broker(s)	
Dividends and interest receivable	
Other assets	<hr/>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 0</u></u></b>

**LIABILITIES**

Accrued expenses	\$
Payable for capital withdrawals	
Prepaid capital contributions	<hr/>
<b>TOTAL LIABILITIES</b>	<b><u><u>\$ 0</u></u></b>

**PARTNERS' CAPITAL**

General Partner(s)	\$
Limited Partners	<hr/>
<b>TOTAL PARTNERS' CAPITAL</b>	<b><u><u>0</u></u></b>

<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b><u><u>\$ 0</u></u></b>
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*See Notes to Financial Statements*

# **SAMPLE DOMESTIC FEEDER, L.P.**

## STATEMENT OF OPERATIONS For the Year Ended December 31, 20XX

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### **REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS ALLOCATED FROM SAMPLE MASTER FUND, LTD.**

Realized gain [(loss)] on investments, net	\$	
Realized gain [(loss)] on foreign currency, net		
Unrealized gain [(loss)] on investments, net change		
Unrealized gain [(loss)] on foreign currency, net change		
Total Realized and Unrealized Gain [Loss] on Investments		<u>\$ 0</u>

### **INVESTMENT INCOME [LOSS]**

Income allocated from Sample Master Fund, Ltd.		
Dividends (net of \$ _____ withholding taxes)		
Interest		
Income from securities loaned, net		
Total Investment Income Allocated from Sample Master Fund, Ltd.		<u>0</u>

Expenses allocated from Sample Master Fund, Ltd.		
Dividends on securities sold short		
Interest		
Total Investment Expenses Allocated from Sample Master Fund, Ltd.		<u>0</u>
Net Investment Income (Loss) from Sample Master Fund, Ltd. Before Operating Expenses		<u>0</u>

Sample Domestic Feeder, L.P. Interest Income		
Net Investment Income (Loss) Before Operating Expenses		

Operating Expenses		
Operating expenses allocated from Sample Master Fund, Ltd.		
Sample Domestic Feeder, L.P. Operating Expenses		
Management fees		
Professional fees		
Other		
Total Operating Expenses		<u>0</u>

Less Operating Expenses Paid by Third Parties		
Net Operating Expenses		<u>0</u>
Net Investment Income [Loss]		<u>0</u>

### **NET INCOME (LOSS)**

Special Allocation to General Partner		
<b>INCOME AVAILABLE TO ALL PARTNERS</b>		<u><u>\$ 0</u></u>

*See Notes to Financial Statements*

## SAMPLE DOMESTIC FEEDER, L.P.

### STATEMENT OF CHANGES IN PARTNERS' CAPITAL For the Year Ended December 31, 20XX

	<u>LIMITED PARTNERS</u>	<u>GENERAL PARTNER</u>	<u>TOTAL</u>
<b>PARTNERS' CAPITAL - Beginning of year</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>CHANGES IN CAPITAL FROM</b>			
Net income (loss)			
Performance reallocation	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net Increase (Decrease) From Net Income (Loss)	<u>                    0</u>	<u>                    0</u>	<u>                    0</u>
Partners' Capital Transactions			
Capital contributions			
Capital withdrawals			
Capital transfers	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net Increase (Decrease) From Partners' Capital Transactions	<u>                    0</u>	<u>                    0</u>	<u>                    0</u>
Total Increase (Decrease) in Partners' Capital	<u>                    0</u>	<u>                    0</u>	<u>                    0</u>
<b>PARTNERS' CAPITAL - End of year</b>	<u><u>\$          0</u></u>	<u><u>\$          0</u></u>	<u><u>\$          0</u></u>

*See Notes to Financial Statements*

**SAMPLE DOMESTIC FEEDER, L.P.**

STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 20XX

---

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income (loss)	\$
Adjustments to reconcile net income to net cash used in operating activities:	
Investment in Sample Master Fund, Ltd.	\$
Redemptions from Sample Master Fund, Ltd.	
Increase (decrease) in unrealized gain (loss) on investments allocated from Sample Master Fund, Ltd.	
(Increase) decrease in:	
Receivable from Sample Master Fund, Ltd.	
Due from broker(s)	
Dividends and interest receivable	
Other assets	
Increase (decrease) in:	
Accrued expenses	
Total adjustments	0
Net Cash Provided by (Used in) Operating Activities	0

**CASH FLOWS FROM FINANCING ACTIVITIES**

Partners' capital contributions	
Partners' capital withdrawals	
Net Cash Provided by (Used in) Financing Activities	0

**NET INCREASE (DECREASE) IN CASH**

**[AND CASH EQUIVALENTS]** 0

**CASH [AND CASH EQUIVALENTS]**

Beginning of year	0
End of year	\$ 0

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid during the year for interest \$

**SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITY (IES)**

Payable incurred for partners' capital withdrawal	\$
Prior year prepaid capital contributed to capital	\$

*See Notes to Financial Statements*

# SAMPLE DOMESTIC FEEDER, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### ORGANIZATION

Sample Domestic Feeder, L.P. (the “Partnership”) was organized in the State of \_\_\_\_\_ as a limited partnership for the purpose of [trading/investing] in securities. The Partnership will continue until \_\_\_\_\_ unless sooner terminated as provided for in the Partnership Agreement. The Partnership invests substantially all of its assets through a master-feeder structure in Sample Master Fund, Ltd. (the “Master Fund”) a \_\_\_\_\_ exempted company that has the same investment objectives as the Partnership.

The Partnership’s [trading/investing] activity is the responsibility of (name of GP) (the “General Partner”) which is a registered investment adviser.

*(If applicable) The Partnership is registered as a Commodity Pool under the rules of the Commodity Futures Trading Commission (“CFTC”) because of its investments in registered Commodity Pools. Effective \_\_\_\_\_ the Partnership has deregistered.*

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

#### Financial Statement Estimates

The preparation of financial statements in conformity with GAAP may require 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash Equivalents

Cash equivalents include short-term highly liquid investments, such as [money market funds, certificate of deposits, other (describe)] that are readily convertible to known amounts of cash and have original maturities of three months or less.

# SAMPLE DOMESTIC FEEDER, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

---

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Investment in Sample Master Fund, LTD.

The Partnership's investment in the Master Fund is valued at fair value. Valuation of securities held by the Master Fund is discussed in the notes to the Master Fund's financial statements. The audited financial statements of the Master Fund, including the condensed schedule of investments, are attached and are an integral part of these financial statements. The percentage of the Master Fund owned by the Partnership at December 31, 20XX was \_\_\_\_\_%.

#### Investment Income and Expenses

The Partnership records its proportionate share of the Master Fund's income, expenses, and realized and unrealized gains and losses. In addition, the Partnership records its own income and expenses.

#### Income Taxes

The Partnership is not subject to income taxes. The partners report their distributive share of realized income or loss on their own tax returns. Certain U.S. dividend income and interest may be subject to a maximum 30% withholding for those limited partners that are foreign entities or foreign individuals. (Optional) The Partnership determined that there are no uncertain tax positions which would require adjustments or disclosures on the financial statements.

### CASH CREDIT RISK CONCENTRATIONS

The Partnership maintains accounts in banks located primarily in the New York metropolitan area. The excess of deposit balances reported by XXX banks over amounts that would have been covered by federal insurance was \$XXXXX at December 31, 20XX.

# SAMPLE DOMESTIC FEEDER, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

---

### **DUE (FROM) (TO) BROKER AND CUSTODY CONCENTRATIONS**

At December 31, 20XX, the amount(s) due from broker(s) in the statement of assets and liabilities include(s) cash held at the clearing broker(s) [and collateral balances]. [Securities and cash held by the broker(s) serve as collateral for securities sold short [and margin debt balances]].

The Securities Investor Protection Corporation (SIPC) insures the brokerage account to the extent of \$500,000 (including up to \$250,000 for cash). [[Cash balances and] securities in excess of these limits are covered by additional insurance maintained by the broker in the amount of \$ \_\_\_\_\_. Amounts in excess of insurance coverage are secured by the good faith and credit of the broker.]

#### OR

Balances with broker(s) consist principally of brokerage accounts with \_\_\_\_\_. The Securities Investor Protection Corporation (SIPC) insures the brokerage account to the extent of \$500,000 (including up to \$250,000 for cash). Only if applicable [Cash balance and] securities in excess of these limits are covered by additional insurance maintained by the broker in the amount of \$ \_\_\_\_\_. Amounts in excess of insurance coverage are secured by the good faith and credit of the broker.

### **BANK LINE OF CREDIT**

The Partnership has available a \$ \_\_\_\_\_ line of credit with a bank from which there were no outstanding borrowings at December 31, 20XX. The line of credit is collateralized by \_\_\_\_ of its investments. The amount of the line of credit is the lesser of \_\_\_\_ % of the net assets at the end of the year or \_\_\_\_ % of the assets of the two investments. Borrowings bear interest at the bank's prime rate. Interest expense was \$ \_\_\_\_\_ for the year ended December 31, 20XX.

### **RELATED PARTY TRANSACTIONS**

The Partnership Agreement provides for management fees payable to the General Partner at a rate of .25% of the net asset value of the Limited Partners' capital at the (beginning, end, other) of each quarter (1% per annum). The accompanying statement of assets and liabilities includes unpaid fees of \$ \_\_\_\_\_ in accrued expenses.

# SAMPLE DOMESTIC FEEDER, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### NEW ISSUES

Participation by partners in investments in "new issues" (defined, in part, as equity securities which are the subject of a public distribution) are allocated to non-restricted partners and to the extent allowed, to restricted partners in accordance with the Conduct Rules of the Financial Industry Regulatory Authority.

### ADMINISTRATION

The Master Fund, the Partnership and another feeder of the Master Fund entered into administration agreements with **Name of Administrator** (the "Administrator"). The Administrator has responsibilities for the day-to-day administration of the affairs of the Partnerships. The administrative responsibilities include, among other things, maintaining the books and records and handling investor transactions for the Partnership.

### ALLOCATION OF INCOME (LOSS)

The net income (loss) of the Partnership is allocated to the partners in proportion to their respective capital accounts. However, the General Partner is entitled to an additional allocation of 20% of net income allocated to each Limited Partner to be credited at the end of each calendar year. This additional allocation reduces the Limited Partners' share of net income. As discussed in the Partnership Agreement, if there is a loss for an accounting period, the additional allocation will not apply to future periods until the loss has been recovered. The amount of the loss carryforward at December 31, 20XX is \$\_\_\_\_\_. *(If the allocation or fee is charged at the Master level, this fact should be disclosed and this paragraph should be modified accordingly)*

### PARTNERS' CAPITAL

*[Included in Limited Partners' capital at December 31, 20XX is \$\_\_\_\_\_ of accounts under the control of the General Partner(s).]*

The Agreement contains certain provisions with respect to restrictions on Limited Partner withdrawal rights. *(May describe certain of these rights such as gates, lock-ups, early withdrawal fees, or suspensions. May also elaborate on the nature of these rights if desired.)*



# SAMPLE DOMESTIC FEEDER, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### FINANCIAL HIGHLIGHTS

#### Ratio of Expenses To Average Limited Partners' Capital <sup>(1)</sup>

Investment expenses	XX.XX %
Operating expenses <sup>(2)</sup>	<u>XX.XX</u>
Total expenses	XX.XX
Performance reallocation	<u>XX.XX</u>
Total Expenses and Performance Reallocation	<u>XX.XX %</u>

#### Ratio of Net Investment Income [(Loss)] To Average Limited Partners' Capital <sup>(1)</sup>

Net Investment Income [(Loss)]	<u>XX.XX %</u>
--------------------------------	----------------

#### Total Return

Total return before performance reallocation	XX.XX %
Performance reallocation	<u>XX.XX</u>
Total Return	<u>XX.XX %</u>

<sup>(1)</sup> Includes the amounts allocated from the Fund.

<sup>(2)</sup> Operating expenses allocated from the Fund are after expenses paid by third parties, equal to \_\_\_% of average limited partners' capital.

The expense and performance reallocation ratios, the net investment income (loss) ratio, and the total return percentage are calculated for the Limited Partners taken as a whole. The computation of such ratios and return based on the amount of expenses charged to, and performance fee reallocated from, any specific Limited Partner may vary from the overall ratios presented in the financial statements as a result of such items as differing management fee and performance reallocation arrangements, loss carryforwards, eligibility for new issue income, and the timing of capital contributions and withdrawals. The net investment income ratio does not reflect the effects of any performance reallocations.

# SAMPLE DOMESTIC FEEDER, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### SUBSEQUENT EVENTS

Effective January 1, 20XX capital of approximately \$\_\_\_\_\_ was contributed to the Partnership, including \$\_\_\_\_\_ received prior to December 31, 20XX, which is shown as prepaid subscription in the accompanying statement of assets and liabilities. For the period January 1, 20XX until (Auditor's Report Date) \_\_\_\_\_ was withdrawn from the Partnership. In addition, \$\_\_\_\_\_ of General Partner's capital was transferred to Limited Partners' capital.

Subsequent events have been evaluated through (Auditors' Report Date), which is the date the financial statements were available to be issued.

ANCHIN®  
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**SAMPLE OFFSHORE FEEDER, LTD.**

FINANCIAL STATEMENTS  
DECEMBER 31, 20XX

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Accountants and Advisors

**(FOR CFTC REGISTERED FUNDS ONLY)**

*[The Investment Manager of the Company is registered as a Commodity Pool Operator under the Commodity Exchange Act. A claim of exemption pursuant to Commodity Futures Trading Commission (“CFTC”) Rule \_\_\_ has been made with respect to the Investment Manager. The exemption relieves the Company of certain disclosure and reporting obligations under the Commodity Pool Rules of the CFTC.]*

# **SAMPLE OFFSHORE FEEDER, LTD.**

## INDEX TO FINANCIAL STATEMENTS DECEMBER 31, 20XX

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Affirmation of the Commodity Pool Operator *(FOR CFTC FUNDS ONLY)*

	<b><u>PAGE</u></b>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statement of Assets and Liabilities	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Sample Master Fund, Ltd. Financial Statements	

# **SAMPLE OFFSHORE FEEDER, LTD.**

## STATEMENT OF ASSETS AND LIABILITIES

December 31, 20XX

(Expressed in United States Dollars)

### ASSETS

Investment in Sample Master Fund, Ltd., at fair value	\$
Receivable from Sample Master Fund, Ltd.	
Cash [and cash equivalents]	
Due from broker(s)	
Dividends and interest receivable	
Other assets	
	<hr/>
<b>TOTAL ASSETS</b>	<b>0</b>

### LIABILITIES

Accrued expenses	
Deferred performance fee payable	
Prepaid subscriptions	
Redemption payable	
	<hr/>
<b>TOTAL LIABILITIES</b>	<b>0</b>

**NET ASSETS** **\$ 0**

### NET ASSET VALUE PER SHARE

<u>Class</u>	<u>Shares Outstanding</u>	<u>Net Assets</u>	<u>Net Asset Value</u>
Class A			
Series 1		\$	\$
Class B			
Series 1		\$	\$

*See Notes to Financial Statements*

## **SAMPLE OFFSHORE FEEDER, LTD.**

STATEMENT OF OPERATIONS  
For the Year Ended December 31, 20XX  
(Expressed in United States Dollars)

---

### **REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS ALLOCATED FROM SAMPLE MASTER FUND, LTD.**

Realized gain [(loss)] on investments, net	\$	
Realized gain [(loss)] on foreign currency, net		
Unrealized gain [(loss)] on investments, net change		
Unrealized gain [(loss)] on foreign currency, net change		
Total Realized and Unrealized Gain [Loss] on Investments		<u>\$ 0</u>

### **INVESTMENT INCOME [LOSS]**

Income allocated from Sample Master Fund, Ltd.		
Dividends (net of \$ _____ withholding taxes)		
Interest		
Income from securities loaned, net		
Total Investment Income Allocated from Sample Master Fund, Ltd.		<u>0</u>

Expenses allocated from Sample Master Fund, Ltd.		
Dividends on securities sold short		
Interest		
Total Investment Expenses Allocated from Sample Master Fund, Ltd.		<u>0</u>
Net Investment Income (Loss) from Sample Master Fund, Ltd. Before Operating Expenses		<u>0</u>

Sample Offshore Feeder, Ltd. Interest Income		
Net Investment Income (Loss) Before Operating Expenses		

Operating Expenses		
Operating expenses allocated from Sample Master Fund, Ltd.		
Sample Offshore Feeder, Ltd. Operating Expenses		
Management fees		
Performance fee		
Income attributable to deferred performance fee		
Professional fees		
Other		
Total Operating Expenses		<u>0</u>

Less Operating Expenses Paid by Third Parties		
Net Operating Expenses		<u>0</u>
Net Investment Income [Loss]		<u>0</u>

### **NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS**

*See Notes to Financial Statements*

\$ 0

**SAMPLE OFFSHORE FEEDER, LTD.**

STATEMENT OF CHANGES IN NET ASSETS  
For the Year Ended December 31, 20XX  
(Expressed in United States Dollars)

---

<b>NET ASSETS - Beginning of year</b>		<b>\$</b>
<b>OPERATIONS</b>		
Realized gain [(loss)] on investments, net	\$	
Realized gain [(loss)] on foreign currency, net		
Unrealized gain [(loss)] on investments, net change		
Unrealized gain [(loss)] on foreign currency, net change		
Net investment income (loss)		
	<hr/>	
Net Increase (Decrease) From Operations		0
<b>CAPITAL SHARE TRANSACTIONS</b>		
Issuance of shares		
Redemptipon of shares		
	<hr/>	
Net Increase (Decrease) from Capital Share Transaction		0
		<hr/>
<b>NET ASSETS - End of year</b>		<b>\$ 0</b>

*See Notes to Financial Statements*

## SAMPLE OFFSHORE FEEDER, LTD.

STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 20XX  
(Expressed in United States Dollars)

---

### CASH FLOWS FROM OPERATING ACTIVITIES

Net increase (decrease) in net assets resulting from operations	\$
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash provided by (used in) operating activities:	
Investment in Sample Master Fund	\$
Redemptions from Sample Master Fund	
Increase (decrease) in unrealized gain (loss) on investments allocated from Sample Master Fund	
(Increase) decrease in:	
Receivable from Sample Master Fund	
Due from broker(s)	
Dividends and interest receivable	
Other assets	
Increase (decrease) in:	
Accrued expenses	
Deferred performance fee payable	
Redemptions payable	
Total adjustments	<u>0</u>
Net Cash Provided by (Used in) Operating Activities	<u>0</u>

### CASH FLOWS FROM FINANCING ACTIVITIES

Issuance of shares	
Prepaid subscriptions	
Redemption of shares	
Net Cash Provided by (Used in) Financing Activities	<u>0</u>

### NET INCREASE (DECREASE) IN CASH

**[AND CASH EQUIVALENTS]** 0

### CASH [AND CASH EQUIVALENTS]

Beginning of year	
End of year	<u>\$ 0</u>

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest \$

### SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITY (IES)

Payable incurred for shareholders' redemptions \$

Prior year prepaid subscription contributed to Net Assets \$

*See Notes to Financial Statements*



# **SAMPLE OFFSHORE FEEDER, LTD.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

---

### **ORGANIZATION**

Sample Offshore Feeder, Ltd. (the “Fund”) is a **mutual fund company** incorporated with limited liability under the laws of \_\_\_\_\_ on \_\_\_\_\_, 20XX for the purpose of **[trading/investing]** in securities. The Fund invests substantially all of its assets through a master-feeder structure in Sample Master Fund, Ltd. (the “Master Fund”) a \_\_\_\_\_ exempted company that has the same investment objectives as the Fund.

*The Fund’s **[trading/investing]** activity is the responsibility of \_\_\_\_\_ the Investment Manager who is a registered investment advisor.*

The Directors of the Fund are \_\_\_\_\_ and \_\_\_\_\_.

*(If applicable) The Fund is registered as a Commodity Pool under the rules of the Commodity Futures Trading Commission (“CFTC”) because of its investments in registered Commodity Pools. Effective \_\_\_\_\_ the Fund has deregistered.*

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### *Basis of Presentation*

The accompanying financial statements are expressed in United States (U.S.) dollars and are presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

#### *Financial Statement Estimates*

The preparation of financial statements in conformity with GAAP may require 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Cash Equivalents*

Cash equivalents include short-term highly liquid investments, such as **[money market funds, certificate of deposits, other (describe)]** that are readily convertible to known amounts of cash and have original maturities of three months or less.

# **SAMPLE OFFSHORE FEEDER, LTD.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

---

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### *Investment in Sample Master Fund, LTD.*

The Fund's investment in the Master Fund is valued at fair value. Valuation of securities held by the Master Fund is discussed in the notes to the Master Fund's financial statements. The audited financial statements of the Master Fund, including the condensed schedule of investments, are attached and are an integral part of these financial statements. The percentage of the Master Fund owned by the Fund at December 31, 20XX was \_\_\_\_\_%.

#### *Investment Income and Expenses*

The Fund records its proportionate share of the Master Fund's income, expenses, and realized and unrealized gains and losses. In addition, the Fund records its own income and expenses.

#### *Income Taxes*

Under the Laws of \_\_\_\_\_, the Fund is not subject to income taxes and has received an exemption through \_\_\_\_\_. Accordingly, no provision for income taxes has been made in the accompanying financial statements. (Optional) The Fund determined that there are no uncertain tax positions which would require adjustments or disclosures on the financial statements.

### **CASH CREDIT RISK CONCENTRATIONS**

The Fund maintains accounts in banks located primarily in the New York metropolitan area. The excess of deposit balances reported by XXX banks over amounts that would have been covered by federal insurance was \$XXXXX at December 31, 20XX.

# SAMPLE OFFSHORE FEEDER, LTD.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

---

### **DUE (FROM) (TO) BROKER AND CUSTODY CONCENTRATIONS**

At December 31, 20XX, the amount(s) due from broker(s) in the statement of assets and liabilities include(s) cash held at the clearing broker(s) [and collateral balances]. [Securities and cash held by the broker(s) serve as collateral for securities sold short [and margin debt balances]].

The Securities Investor Protection Corporation (SIPC) insures the brokerage account to the extent of \$500,000 (including up to \$250,000 for cash). **[[Cash balances and] securities in excess of these limits are covered by additional insurance maintained by the broker in the amount of \$ \_\_\_\_\_. Amounts in excess of insurance coverage are secured by the good faith and credit of the broker.]**.

#### OR

Balances with broker(s) consist principally of brokerage accounts with \_\_\_\_\_. The Securities Investor Protection Corporation (SIPC) insures the brokerage account to the extent of \$500,000 (including up to \$250,000 for cash). **Only if applicable** [Cash balance and] securities in excess of these limits are covered by additional insurance maintained by the broker in the amount of \$ \_\_\_\_\_. Amounts in excess of insurance coverage are secured by the good faith and credit of the broker.

### **BANK LINE OF CREDIT**

The Fund has available a \$ \_\_\_\_\_ line of credit with a bank from which there were no outstanding borrowings at December 31, 20XX. The line of credit is collateralized by \_\_\_\_ of its investments. The amount of the line of credit is the lesser of \_\_\_\_% of the net assets at the end of the year or \_\_\_\_% of the assets of the collateralized investments. Borrowings bear interest at the bank's prime rate. Interest expense was \$ \_\_\_\_\_ for the year ended December 31, 20XX.

### **RELATED PARTY TRANSACTIONS**

The Fund has entered into an Investment Management Agreement (the "Agreement") with \_\_\_\_\_, an entity under common control with the Fund, (the "Investment Manager"). The Agreement provides for management fees calculated monthly and paid quarterly, in arrears, at a rate of \_\_\_\_\_% (1.5% per annum), of the average monthly net asset value of the Fund at the end of each quarter (prorated for redemptions and new subscriptions during the quarter *check your document*). The accompanying statements of assets and liabilities include unpaid management fees \$ \_\_\_\_\_ in accrued expenses.

# SAMPLE OFFSHORE FEEDER, LTD.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### RELATED PARTY TRANSACTIONS (CONTINUED)

(If the performance allocation or fee is charged at the Master level, this fact should be disclosed and this paragraph should be modified accordingly). The Investment Manager is also entitled to receive an annual performance fee of 20% of the annual increase in value of each series of shares of the Fund. As discussed in the Investment Management Agreement, the performance fee is calculated and paid on a “high water mark” basis, only to extent that the increase in net asset value per series of an investor’s shares exceeds (i) the highest net asset value per series of such shares as of the previous date on which a performance fee was paid with respect to such series or if no increase has occurred in the net asset value of the series since the date of subscription (ii) the net asset value per series at the date of subscription. Under this method, if there is a loss for an accounting period, the performance fee will not apply until the loss has been recovered. The amount of loss carryforward at December 31, 20XX on all series aggregates \$ \_\_\_\_\_.

In accordance with the Agreement, the Investment Manager has elected to defer XXX of the performance fee payable at December 31, 20XX. The assets associated with the deferred performance fee are invested in the same manner as the investments made by the Fund. At December 31, 20XX, the deferred incentive fee payable is comprised of the following:

<u>Year Deferred</u>	<u>Deferred Performance Fee</u>	<u>Allocation of Income Prior Year</u>	<u>Allocation of Income in Current Year</u>	<u>Total Deferral</u>	<u>Deferred Through</u>
2003	\$	\$	\$	\$	12/31/13
2004					12/31/14
2005					12/31/15

### NEW ISSUES

Participation by shareholders in investments in "new issues" (defined, in part, as equity securities which are the subject of a public distribution) are allocated to non-restricted shareholders and to the extent allowed, to restricted shareholders in accordance with the Conduct Rules of the Financial Industry Regulatory Authority.

# SAMPLE OFFSHORE FEEDER, LTD.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

### ADMINISTRATION

The Master Fund, the Fund and another feeder of the Master Fund entered into administration agreements with **Name of Administrator** (the “Administrator”). The Administrator has responsibilities for the day-to-day administration of the affairs of the Fund. The administrative responsibilities include, among other things, maintaining the books and records and handling investor transactions for the Fund.

### CAPITAL SHARE TRANSACTIONS

As of December 31, 20XX, authorized capital share consisted of \_\_\_\_\_ ordinary shares of US \$1.00 par value, and \_\_\_\_\_ nonvoting, redeemable participating shares of US \$.01 par value. The Board of Directors has reserved the right to issue additional classes of shares.

The nonvoting, shares are divided into multiple Class and Series. Class A shares and Class B shares are identical in all respects except that only holders of Class A shares may participate in profits and losses from new issues.

Transactions in capital share were as follows:

	<u>Class A</u>	<u>Class B</u>
Number of shares issued		
Number of shares redeemed		
Net increase (decrease) in shares outstanding		
Shares outstanding, beginning of year		
Shares outstanding, end of year	<u>                    </u>	<u>                    </u>

For the purpose of accounting for the management fee and the performance fee, shares issued at different times are issued in series, a different series being issued on each subscription date during the fiscal year. At the end of each fiscal year, any issued and outstanding series of a class of shares (other than the series issued in connection with the initial offering of such class of shares (the “Benchmark Series”)) are redesignated and converted into the Benchmark Series (after the payment of any management fee and performance fee). No redesignation and conversion shall occur with respect to a series of shares if, at the end of such fiscal year, a loss carryforward exists. Any such redesignation and conversion will be effected at the prevailing net asset value per share of the Benchmark Series.

The Confidential Offering Memorandum contains certain provisions with respect to restrictions on shareholder withdrawal rights. **(May describe certain of these rights such as gates, lock-ups, early withdrawal fees, or suspensions. May also elaborate on the nature of these rights if desired.)**

# SAMPLE OFFSHORE FEEDER, LTD.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### FINANCIAL HIGHLIGHTS

#### Selected data for a share of stock outstanding throughout the year (Series \_\_\_\_)

	<u>Class A Series One</u>	<u>Class B Series One</u>
<u>Per share operating performance</u>		
Net asset value, beginning of year	\$ x,xxx.xx	\$ x,xxx.xx
Income (loss) from investment operations:		
Net realized and unrealized gain [(loss)] on investment allocated from Master Fund	xxx.xx	xxx.xx
Net investment income [(loss)]	<u>xxx.xx</u>	<u>xxx.xx</u>
Total income (loss) from investment operations	<u>xxx.xx</u>	<u>xx.xx</u>
Net asset value, end of year	<u>\$ x,xxx.xx</u>	<u>\$ x,xxx.xx</u>

#### Ratio and Supplemental Data

Total return before performance fee	xx.xx %	xx.xx %
Performance fee	<u>xx.xx</u>	<u>xx.xx</u>
Total return after performance fee	<u>xx.xx %</u>	<u>xx.xx %</u>
Average net assets (000's omitted)	\$ x,xxx	\$ x,xxx
Net assets, end of year (000's omitted)	\$ x,xxx	\$ x,xxx

#### Ratio of Expenses to Average Net Assets<sup>(1)</sup>:

Investment expenses	xx.xx %	xx.xx %
Operating expenses <sup>(2) (3)</sup>	<u>xx.xx</u>	<u>xx.xx</u>
Total expenses before performance fee	xx.xx	xx.xx
Performance fee	<u>xx.xx</u>	<u>xx.xx</u>
Total expenses after performance fee	<u>xx.xx %</u>	<u>xx.xx %</u>
Net Investment Income (Loss)	<u>(xx.xx) %</u>	<u>(xx.xx) %</u>

<sup>(1)</sup> Includes the amounts allocated from the Master Fund

<sup>(2)</sup> Operating expenses allocated from the Master Fund are after expenses paid by third parties, equal to \_\_\_\_ % of average net assets.

<sup>(3)</sup> Operating expenses incurred by the Fund are after expenses paid by third parties, equal to \_\_\_\_\_ % of average net assets.

# **SAMPLE OFFSHORE FEEDER, LTD.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### **FINANCIAL HIGHLIGHTS (CONTINUED)**

The expense and performance fee ratios, the net investment income (loss) ratio, and the total return percentage are calculated for the Class and Series taken as a whole. The computation of such ratios and returns based on the amount of expenses charged to any specific shareholder may vary from the overall ratios presented in the financial statements as a result of such items as differing management and performance fee arrangements, eligibility for new issue income, and the timing of subscriptions and redemptions.

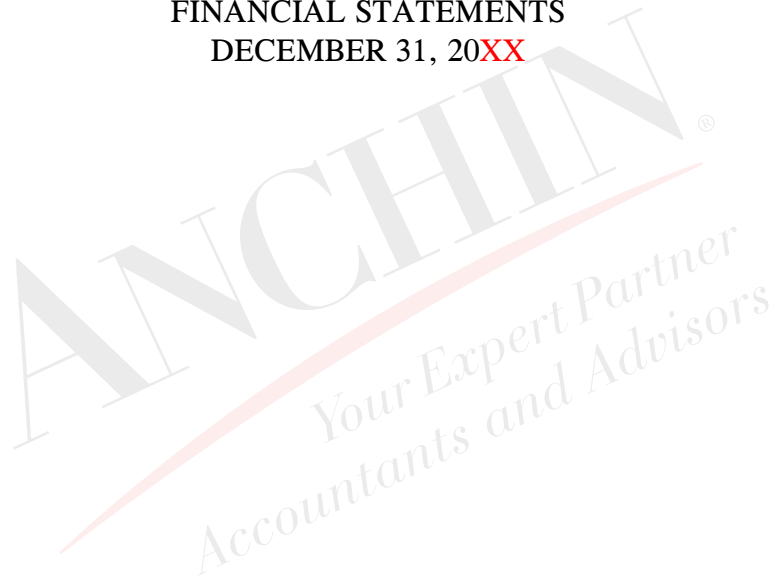
### **SUBSEQUENT EVENTS**

Effective January 1, 20XX share subscriptions of approximately \$ \_\_\_\_\_ was made to the Fund, including \$ \_\_\_\_\_ received prior to December 31, 20XX, which is shown as prepaid subscriptions in the accompanying statement of assets and liabilities. For the period January 1, 20XX until (Auditors Report Date) \$ \_\_\_\_\_ was redeemed from the Fund.

Subsequent events have been evaluated through (Auditors' Report Date), which is the date the financial statements were available to be issued.

**SAMPLE FUND OF FUNDS, L.P.**

FINANCIAL STATEMENTS  
DECEMBER 31, 20XX





# SAMPLE FUND OF FUNDS, L.P.

## INDEX TO FINANCIAL STATEMENTS December 31, 20XX

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	<u>PAGE</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements:</b>	
Statement of Assets and Liabilities	2
Statement of Operations	3
Statement of Changes in Partners' Capital	4
Statement of Cash Flows	5
Condensed Schedule of Investments	6
Notes to Financial Statements	7

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**SAMPLE FUND OF FUNDS, L.P.**

STATEMENT OF ASSETS AND LIABILITIES

December 31, 20XX

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**ASSETS**

Investment in funds, at fair value	\$
Cash [and cash equivalents]	
Redemptions receivable from investment funds	
Prepaid investments in funds	
Other assets	
	<hr/>

<b>TOTAL ASSETS</b>	<b>\$ -</b>
---------------------	-------------

**LIABILITIES**

Accrued expenses	\$
Payable for capital withdrawals	
Contributions received in advance	
Line of credit	
	<hr/>

<b>TOTAL LIABILITIES</b>	<b>-</b>
--------------------------	----------

**PARTNERS' CAPITAL**

General Partner	
Limited Partners	
	<hr/>

<b>TOTAL PARTNERS' CAPITAL</b>	<b>-</b>
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<b>TOTAL LIABILITIES AND PARTNERS' CAPITAL</b>	<b>\$ -</b>
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*See Notes to Financial Statements*

**SAMPLE FUND OF FUNDS, L.P.**

STATEMENT OF OPERATIONS  
For the Year Ended December 31, 20XX

---

**REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS**

Realized gain [loss] on investments in funds, net	\$	
Unrealized gain [loss] on investments in funds, net change		
Realized gain [loss] on other investments, net		
Unrealized gain [loss] on other investments, net change		
Total Realized and Unrealized Gain [Loss] on Investments	\$	-

**INVESTMENT INCOME (LOSS)**

Income		
Interest		
Dividends (net of \$ _____ foreign taxes withheld)		
Total Investment Income		-
Expenses		
Interest		
Investment Income [Loss] Before Operating Expenses		-
Operating Expenses		
Management fees		
Administration fees		
Professional fees		
Other		
Total Operating Expenses		-
Net Investment Income [Loss]		-

**NET INCOME [LOSS]** \$ -

*See Notes to Financial Statements*

## SAMPLE FUND OF FUNDS, L.P.

### STATEMENT OF CHANGES IN PARTNERS' CAPITAL

For the Year Ended December 31, 20XX

	<u>LIMITED PARTNERS</u>	<u>GENERAL PARTNER</u>	<u>TOTAL</u>
<b>PARTNERS' CAPITAL - Beginning</b>	<u>\$</u>	<u>\$</u>	<u>\$ -</u>
<b>CHANGES IN CAPITAL FROM</b>			
Net income [loss]			-
Performance reallocation			-
Net Increase [(Decrease)] From Net Income [(Loss)]	<u>-</u>	<u>-</u>	<u>-</u>
Partners' Transactions			
Capital contributions			-
Capital withdrawals			-
Capital transfers			-
Net Increase [(Decrease)] From Partners' Capital Transactions	<u>-</u>	<u>-</u>	<u>-</u>
Total Increase [(Decrease)] in Partners' Capital	<u>-</u>	<u>-</u>	<u>-</u>
<b>PARTNERS' CAPITAL - Ending</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

*See Notes to Financial Statements*

# **SAMPLE FUND OF FUNDS, L. P.**

## STATEMENT OF CASH FLOWS For the Year Ended December 31, 20XX

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### **CASH FLOWS FROM OPERATING ACTIVITIES**

Net income [loss]		\$
Adjustments to reconcile net income [loss] to net cash provided by [used in] operating activities:		
Purchases of investments in funds	\$	
Proceeds from disposition of investments in funds		
Realized gain [loss] on other investments in funds		
Unrealized gain [loss] on investments in funds, net change		
Purchase of other investments		
Proceeds from disposition of other investments		
Realized gain [loss] on other investments		
Unrealized gain [loss] on other investments, net change		
(Increase) decrease in operating assets:		
Redemption receivable from investment funds		
Prepaid investments in funds		
Other assets		
Increase (decrease) in operating liabilities:		
Accrued expenses		
Total adjustments		-
Net Cash Provided by [Used in] Operating Activities		-

### **CASH FLOWS FROM FINANCING ACTIVITIES**

Partners' capital contributions		
Partners' capital withdrawals		
Contributions received in advance		
Line of credit		
Net Cash Provided by [Used in] Financing Activities		-

### **NET INCREASE [DECREASE] IN CASH**

**[AND CASH EQUIVALENTS]** -

### **CASH [AND CASH EQUIVALENTS]**

Beginning of year		
End of year		\$ -

### **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid during the year for Interest \$ -

### **SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES**

Contributions received in advance in prior year \$ -  
Payable to withdrawing partners \$ -

*See Notes to Financial Statements*

**SAMPLE FUND OF FUNDS, L.P.**

CONDENSED SCHEDULE OF INVESTMENTS

December 31, 20XX

<u>INVESTMENT IN FUNDS</u>	<u>% OF PARTNERS' CAPITAL</u>	<u>FAIR VALUE</u>	<u>LIQUIDITY PROVISIONS</u>
United States			
Equity Long/Short			
Sample Partners, L. P.		\$	1-year lockup; 45 day notice; monthly redemptions
Other	_____	_____	
	-	-	
Event Driven			
Sample Partners, L.P. II			2-year lockup; 90 day notice; annual redemptions
Other	_____	_____	
	-	-	
Global Opportunities	_____	_____	
	-	-	
Multi-Strategy			
Sample Partners, L.P. III			3 year lockup; 180 day notice, annual redemptions
Other	_____	_____	
	-	-	
Real Estate	_____	_____	
	-	-	
Private Equity - International	_____	_____	
	-	-	
<b>TOTAL INVESTMENTS IN FUNDS</b>			
(COST \$ _____)	_____	\$ _____	

[Disclose underlying fund investment information if greater than 5%]

Note: Unfunded commitments are required to be disclosed.

**NOTE: For scenario #2, unfunded commitments should not be included in this schedule. It should be included in the footnotes.)**

See Notes to Financial Statements

Note: If preferable, liquidity provisions can be disclosed in footnote at bottom of this schedule

# SAMPLE FUND OF FUNDS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### ORGANIZATION

Sample Fund of Funds, L.P. (the “Partnership”) was organized in the State of \_\_\_\_\_ to invest in a variety of investment Funds that may have differing investment strategies and techniques. The Partnership will continue until December 31, \_\_\_\_\_ unless sooner terminated or extended as provided for in the Partnership Agreement.

The Partnership’s investment objective is to achieve capital appreciation (net of fees) while attempting to reduce risk and volatility. The Partnership seeks to accomplish this objective by allocating its assets primarily among a selected group of private investments Funds (the “Funds”) that are managed by portfolio managers (the “Portfolio Managers”) that invest in a variety of financial markets.

The Partnership’s investing activity is the responsibility of (name of GP) (the “General Partner”) who is a registered investment adviser.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

#### Recently Adopted Accounting Pronouncement

In May 2015, the Financial Accounting Standards Board, issued Accounting Standards Update (“ASU 2015-07”), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), modifying ASC 820, Fair Value Measurements. The Partnership has (early) adopted and retrospectively applied ASU 2015-07 in (2015 or) 2016. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (“NAV”) per share practical expedient, and also removes the requirements to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using the practical expedient.

# **SAMPLE FUND OF FUNDS, L.P.**

## **NOTES TO FINANCIAL STATEMENTS December 31, 20XX**

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### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### *Financial Statement Estimates*

The preparation of financial statements in conformity with GAAP may require 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Cash Equivalents*

Cash equivalents include short-term highly liquid investments, such as [money market funds, certificate of deposits, other (describe)] that are readily convertible to known amounts of cash and have original maturities of three months or less.

#### *Income Taxes*

The Partnership is not subject to income taxes. The partners report their distributive share of realized income or loss on their own tax returns. Certain U.S. dividend income and interest may be subject to a maximum 30% withholding for those limited partners that are foreign entities or foreign individuals. (Optional) The Partnership determined that there are no uncertain tax positions which would require adjustments or disclosures on the financial statements.



# SAMPLE FUND OF FUNDS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

---

### FUND VALUATIONS AND FAIR VALUE MEASUREMENTS

The Partnership utilizes the authoritative guidance under GAAP for estimating the fair value of investments in the Funds that have calculated net asset value (“NAV”) per share in accordance with the specialized accounting guidance for investment companies. Accordingly, the Partnership estimates the fair value of an investment in a Fund using the NAV of the investment (or its equivalent) without further adjustment unless the General Partner determines that the NAV is deemed to be not reflective of fair value. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods. Investments in Funds are classified within the level of the lowest significant input considered in determining fair value. The three levels of input are:

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

Level 2 Quoted prices which are not considered to be active, or inputs that are observable (either directly or indirectly) for substantially the full term of the asset or liability.

Level 3 Prices, inputs or modeling techniques which are both significant to the fair value measurement and unobservable (supported by little or no market activity).

[(Scenario #1) If after adopting in 2016 and retroactively applying ASU 2015-07, there are no other investments then delete the paragraphs highlighted in light blue in the *Fund Valuations and Fair Value Measurements* footnote and *Investments in Funds* footnote and add:

As a result of adopting ASU 2015-07, investments in Funds with a fair value of \$xxx,xxx,xxx are excluded from the fair value hierarchy as of December 31, 2016.

The retrospective application of ASU 2015-07 results in the Level 3 investments included in the December 31, 2015, audited financial statements also being excluded from the fair value hierarchy. (\*)

(Scenario #2) If after adopting in 2016 and retroactively applying ASU 2015-07, there are other investments that do not fall under ASU 2015-07 then disclose the remaining paragraphs in the *Fund Valuations and Fair Value Measurements* footnote, as applicable, and include the items highlighted in light blue.

[(Scenario #3) If Fund early adopted in 2015 the ASU 2015-07 and there are no other investments as under Scenario #1, disclose and delete same paragraphs as under Scenario #1, if applicable, delete the paragraphs in pink and delete the sentence that ends with (\*) in green above OR if the Fund early adopted in 2015 the ASU 2015-07 under Scenario #2, disclose same paragraphs as under Scenario #2 and delete the sentence that ends with (\*) in blue (on p.11), as applicable.

**SAMPLE FUND OF FUNDS, L.P.**

NOTES TO FINANCIAL STATEMENTS  
December 31, 20XX

**FUND VALUATIONS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

Transfers between levels are recognized at the [beginning/end] of the reporting period.

The following table summarizes the inputs used to value the Partnership's assets and liabilities measured at fair value as of December 31, 2016, excluding investments in Funds for which ASU 2015-07 is applicable:

Description	Level 1	Level 2	Level 3	Total
<b>Investments in Funds:</b>				
Equity Long/Short	\$ -	\$ -	\$ xx,xxx,xxx	\$ xx,xxx,xxx
Event Driven	-	-	xx,xxx,xxx	xx,xxx,xxx
Global Opportunities	-	-	xx,xxx,xxx	xx,xxx,xxx
Multi-Strategy	-	-	xx,xxx,xxx	xx,xxx,xxx
Real Estate	-	-	xx,xxx,xxx	xx,xxx,xxx
Private Equity - International	-	-	xx,xxx,xxx	xx,xxx,xxx
Other Investments in Funds measured at net asset value (1)				xx,xxx,xxx
<b>Total Investments in Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ xx,xxx,xxx</b>	<b>\$ xx,xxx,xxx</b>
<b>Investments in Securities:</b>				
Equity	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx

(1) – In accordance with Subtopic 820-10, certain investments that are measured at fair value using net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of assets and liabilities.

# SAMPLE FUND OF FUNDS, L.P.

## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

### FUND VALUATIONS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of assets and liabilities for which Level 3 inputs were used in determining value for the year ended December 31, 2016: (Rows should reflect class of security as shown on condensed schedule):

	Beginning Balance, January 1, 2016 (a)	Total Gain or Losses (Realized and Unrealized)	Purchases	Sales	Transfers Into Level 3 (b)	Transfers Out of Level 3 (b)	Ending Balance, December 31, 2016
<b>Investments in Funds:</b>							
Equity							
Long/Short	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx	\$ xx,xxx,xxx
Event Driven	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Global Opportunities	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Multi-Strategy	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Real Estate	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
Private Equity - International	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx	xx,xxx,xxx
<b>Total</b>	<b>\$ xx,xxx,xxx</b>	<b>\$ xx,xxx,xxx</b>	<b>\$ xx,xxx,xxx</b>	<b>\$ xx,xxx,xxx</b>	<b>\$ xx,xxx,xxx</b>	<b>\$ xx,xxx,xxx</b>	<b>\$ xx,xxx,xxx</b>

(a) Balance at January 1, 2016 represent updated balances after application of ASU 2015-07 as described previously in the footnotes. (\*)

(b) Transfers represent investments in Funds that have been reclassified from Level 2 to Level 3, or Level 3 to Level 2. Reclassification is being made due to changes in the Fund's redemption terms or the Partnership's ability to redeem from these investments within three months of the year end.

	The amount of gains (losses) included in income attributable to the change in unrealized gains (losses) relating to investments in funds still held at December 31, 2016
Equity Long/Short	\$ xx,xxx,xxx
Event Driven	xx,xxx,xxx
Global Opportunities	xx,xxx,xxx
Multi-Strategy	xx,xxx,xxx
Real Estate	xx,xxx,xxx
Private Equity - International	xx,xxx,xxx
<b>Total</b>	<b>\$ xx,xxx,xxx</b>

# SAMPLE FUND OF FUNDS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

### **FUND VALUATIONS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

Gains and losses (realized and unrealized), if any, are included in the realized gain (loss) on investments in funds, net and unrealized gain (loss) on investment in funds, net change, in the statement of operations.

*The following table is required under 820-10-50-2-bbb which states:*

*“For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. A reporting entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the reporting entity when measuring fair value (for example, when a reporting entity uses prices from prior transactions or third-party pricing information without adjustment).” However, when providing this disclosure, a reporting entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the reporting entity.*

The following table summarizes the valuation techniques and significant unobservable inputs used within Level 3 of the fair value hierarchy as of December 31, 2016: *(EXAMPLES BELOW)*

#### **Quantitative Information About Level 3 Fair Value Measurements**

	<b>Fair Value</b>	<b>Valuation Techniques</b>	<b>Unobservable Inputs</b>	<b>Range (Weighted Average)</b>
<b>Assets</b>				
<b>Investment in Funds</b>				
Equity Long/Short	\$x,xxx,xxx	Discounted cash flows	Discount for lack of marketability	5%-7% (6%)
Event Driven	\$x,xxx,xxx	Discounted cash flows	Discount for lack of marketability	5%-7% (6%)

# **SAMPLE FUND OF FUNDS, L.P.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

### **FUND VALUATIONS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

The Partnership's other Level 3 investments have been valued using the unadjusted net asset value of the investments in private investment companies (or if applicable unadjusted third-party transactions and quotations or unadjusted historical third-party information). No unobservable inputs internally developed by the Partnership have been applied to those investments and thus have been excluded from the above table.

#### **Valuation Processes for Level 3 Fair Value Measurement**

*The below narrative might include the following in accordance with 820-10-55-105:*

*a) For the group within the Partnership that decides the valuation policies and procedures; its description, to whom that group reports, the internal reporting procedures in place b) the frequency and methods for calibration, back testing, and other testing procedures of pricing models c) the process for analyzing changes in fair value measurements from period to period d) how the reporting entity determined that third-party information, such as broker quotes or pricing services, used in the fair value measurement was developed e) the methods used to develop and substantiate the unobservable inputs used.*

#### **EXAMPLE**

The Partnership establishes valuation processes and procedures to ensure that the valuation techniques for investments that are categorized within Level 3 of the fair value hierarchy are fair, consistent, and verifiable. The General Partner/Management Company/Valuation Committee (the "Valuation Committee") is responsible for overseeing the Partnership's valuation process for its Level 3 investments. The Valuation Committee consists of Partnerships' personnel, including members from the Partnership's portfolio management. The Valuation Committee's responsibilities include developing the Partnership's written valuation processes and procedures, conducting periodic reviews of the valuation policies, and evaluating the overall fairness and consistent application of the valuation policies.

The Valuation Committee meets on a monthly basis, or more frequently as needed, to determine the valuations of the Partnership's Level 3 investments. Valuations determined by the Partnership are required to be supported by the Funds NAV, changes at the Fund level such as imposition of a gate or significant changes in key terms of the Fund, market data, industry accepted third-party pricing sources, counterparty prices, or other methods the Valuation Committee deems to be appropriate.

# **SAMPLE FUND OF FUNDS, L.P.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

---

### **FUND VALUATIONS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

The Partnership periodically tests its valuations of Level 3 investments through performing back testing of the sales of such investments by comparing the amounts realized against the most recent fair values reported, and if necessary, uses the findings to calibrate its valuation procedures. The Partnership performs similar procedures with respect to information obtained from brokers and/or pricing services.

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# **SAMPLE FUND OF FUNDS, L.P.**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 20XX

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### **INVESTMENTS IN FUNDS**

As of December 31, 2016 the Partnership invested in other Funds, none of which were related parties [revise as necessary]. The investment objectives of the Funds primarily relate to the maximization of appreciation through the investments in equity, debt, derivatives and other financial instruments.

Cost is determined based on capital contributions to, and withdrawals from the Funds.

The Funds may carry investments for which market quotations are not readily available and are valued at their fair value as determined in good faith by their respective Portfolio Managers and are generally classified as Level 3 investments as defined by GAAP. At December 31, 20XX, the Partnership's pro rata share of Level 3 investments from the Funds was approximately \$\_\_\_\_\_. A change in the estimated value may occur in the near term.

Income from Funds is recognized based upon the Partnership's allocable share of the earnings of the Funds which carry their investments at fair value, which include unrealized gains and losses.

Amounts shown as expenses in the statement of operations and financial highlights include only those expenses charged directly to the Partnership and do not reflect management fees, advisory fees, brokerage commissions and other fees and expenses incurred by the Funds in which the Partnership is invested. These amounts are included in the realized gain (loss) on investments in funds, net and unrealized gain (loss) on investment in funds, net change, in the statement of operations.

Substantially all of the Funds in which the Partnership invests are charged management fees at varying rates, principally between 1% to 2% annually of periodic net asset values.

Substantially all of the Funds in which the Partnership invests provide for a specific allocation or fee to their respective Portfolio Manager or affiliate, which is calculated at various rates, primarily 20% of appreciation, as defined in their respective Fund agreements.

The activities of certain Funds include the purchase and sale of a variety of derivative financial instruments such as equity options, index options, swap agreements, futures and forward contracts, and other similar instruments. These derivatives are used for trading purposes and for managing risk associated with their portfolio of securities and securities sold short. The use of derivative instruments may involve elements of market risk in excess of the amount recognized in the statement of assets and liabilities of these Funds. In many cases, these Funds limit their risk by holding offsetting security or option positions.

**SAMPLE FUND OF FUNDS, L.P.**

NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

**INVESTMENTS IN FUNDS (CONTINUED)**

The Partnership, through its investments in other Funds, is also subject to certain inherent risks arising from their investing activities of selling securities short and entering into forward contracts. The ultimate cost to acquire these securities or settle these contracts may exceed the liability reflected in their financial statements.

Set forth below is certain information with respect to the Funds for which fair value is measured using NAV per share as a practical expedient, in which the Partnership was invested as of and for the year ended December 31, 2016:

**[NOTE: INCLUDE THIS PARAGRAPH FOR SCENARIO #2. THIS DISCLOSURE IS ONLY FOR THOSE INVESTMENTS THAT ARE MEASURED AT FAIR VALUE USING NET ASSET VALUE PER SHARE AS A PRATICAL EXPEDIENT. DO NOT INCLUDE OTHER FUNDS THAT ARE INLCUED IN THE HIERARCHY LEVEL TABLE]**

<u>Investment Category (1)</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (2)</u>	<u>Redemption Notice Period (2)</u>
Equity Long/Short	\$ xx,xxx,xxx	\$ xx,xxx,xxx	Quarterly, Annually	30 – 60 days
Event Driven	xx,xxx,xxx	xx,xxx,xxx	Quarterly, Semi-annually	30 – 90 days
Global Opportunities	xx,xxx,xxx	xx,xxx,xxx	Quarterly, Annually	30 – 120 days
Multi-Strategy	xx,xxx,xxx	xx,xxx,xxx	Quarterly, Semi-annually	60 – 90 days
Real Estate	xx,xxx,xxx	xx,xxx,xxx	Quarterly, Annually	30 – 60 days
Private Equity - International	xx,xxx,xxx	xx,xxx,xxx	Quarterly, Semi-annually	30 – 60 days
<b>Total</b>	<b>\$ xx,xxx,xxx</b>	<b>\$ xx,xxx,xxx</b>		

(1) – See Investment in Funds footnote for additional disclosures about the investment category.

(2) – The information summarized in the table above represents the general terms of the specific investment category. Individual Funds may have terms that are more or less restrictive than those terms indicated for the asset class as a whole. In addition, most Funds have the flexibility, as provided for in



# **SAMPLE FUND OF FUNDS, L.P.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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their constituent documents, to modify and waive such terms.

**NOTE: THE BELOW DESCRIPTIONS ARE EXAMPLES ONLY. THEY NEED TO BE TAILORED TO YOUR ENTITY SPECIFICS.**

### Funds' Investment Strategies and Liquidity:

- Equity Long/Short:

The Funds in this class have redemption notice periods ranging from \_\_\_\_\_ months to one year and are redeemable on a quarterly, semi-annual or annual basis. Certain Funds may charge redemption penalties of [1% to 8%] of net assets during or after the lock-up period. This class includes investments in Funds that invest both long and short primarily in U.S. common stocks. Management of the Funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Investments representing approximately 22 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first 12 to 18 months after acquisition. The remaining restriction period for these investments ranged from three to seven months at December 31, 2016.

# **SAMPLE FUND OF FUNDS, L.P.**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 20XX

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### **INVESTMENTS IN FUNDS (CONTINUED)**

#### Funds' Investment Strategies and Liquidity (Continued):

- **Event Driven:**

The Funds in this class have redemption notice periods ranging from \_\_\_\_\_ months to one year and are redeemable on a quarterly, semi-annual or annual basis. Certain Funds may charge redemption penalties of [1% to 8%] of net assets during or after the lock-up period. This class includes investments in Funds that invest in approximately 60 percent equities and 40 percent bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions. The fair values of the investments in this class have been estimated using the net asset value per share of the investments.

- **Global Opportunities:**

The Funds in this class have redemption notice periods ranging from \_\_\_\_\_ months to one year and are redeemable on a quarterly, semi-annual or annual basis. Certain Funds may charge redemption penalties of [1% to 8%] of net assets during or after the lock-up period. This class includes investments in Funds that hold approximately 80 percent of the Funds' investments in non-U.S. common stocks in the healthcare, energy, information technology, utilities, and telecommunications sectors and approximately 20 percent of the Funds' investments in diversified currencies. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. For one investment, valued at \$8.75 million, a gate has been imposed by the Portfolio Manager and no redemptions are currently permitted. This redemption restriction has been in place for six months and the time at which the redemption restriction might lapse cannot be estimated.

# **SAMPLE FUND OF FUNDS, L.P.**

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

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### **INVESTMENTS IN FUNDS (CONTINUED)**

#### Funds' Investment Strategies and Liquidity (Continued):

- **Multi-Strategy:**

The Funds in this class have redemption notice periods ranging from \_\_\_\_\_ months to one year and are redeemable on a quarterly, semi-annual or annual basis. Certain Funds may charge redemption penalties of [1% to 8%] of net assets during or after the lock-up period. This class invests in Funds that pursue multiple strategies to diversify risks and reduce volatility. The Funds' composite portfolio for this class includes investments in approximately 50 percent U.S. common stocks, 30 percent global real estate projects, and 20 percent arbitrage investments. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Investments representing approximately 15 percent of the value of the investments in this class cannot be redeemed because the investments include restrictions that do not allow for redemption in the first year after acquisition. The remaining restriction period for these investments ranged from four to six months at December 31, 2016.

- **Real Estate:**

This class includes several Real Estate Funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class have been estimated using the net asset value of the Company's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the fund will be liquidated over the next 7 to 10 years. Twenty percent of the total investment in this class is planned to be sold. However, the individual investments that will be sold have not yet been determined. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been estimated using the net asset value of the Company's ownership interest in partners' capital. Once it has been determined which investments will be sold and whether those investments will be sold individually or in a group, the investments will be sold in an auction process. The investee fund's management must approve of the buyer before the sale of the investments can be completed.

# **SAMPLE FUND OF FUNDS, L.P.**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 20XX

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### **INVESTMENTS IN FUNDS (CONTINUED)**

#### Funds' Investment Strategies and Liquidity (Continued):

- Private Equity – International:

This class includes several Private Equity Funds that invest primarily in foreign technology companies. These investments can never be redeemed with the funds. Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 5 to 8 years. However, as of December 31, 2016, it is probable that all of the investments in this class will be sold at an amount different from the net asset value of the Company's ownership interest in partners' capital. Therefore, the fair values of the investments in this class have been estimated using recent observable transaction information for similar investments and non-binding bids received from potential buyers of the investments. As of December 31, 2016, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the investee fund's management must approve of the buyer before the sale of the investments can be completed.

**NOTE: THE ABOVE DESCRIPTIONS ARE EXAMPLES ONLY. THEY NEED TO BE TAILORED TO YOUR ENTITY SPECIFICS.**

### **BANK LINE OF CREDIT**

The Partnership has a line of credit agreement with a bank expiring \_\_\_\_\_, 20YY. There was \$\_\_\_\_\_ of outstanding borrowings at December 31, 2016. The line of credit is collateralized by \_\_\_\_\_ (describe collateral). The amount of the line of credit is the lesser of \_\_\_% of the net assets at the end of the year or \_\_\_% of the assets of the collateral (revise to the specific of the agreement). The agreement contains various covenants including \_\_\_\_\_ (disclose more significant covenants, i.e. – maintenance of a minimum net equity, restrictions on investments, borrowings, liens on assets, capital withdrawals, etc...). Borrowings bear interest at the bank's prime rate (revise to the specific of the agreement). Interest expense was \$\_\_\_\_\_ for the year ended December 31, 2016.

# **SAMPLE FUND OF FUNDS, L.P.**

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 20XX

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### **RELATED PARTY TRANSACTIONS**

The Partnership Agreement provides for management fees payable to the General Partner at a rate of .\_\_% of the Limited Partners' capital at the (beginning, end, other) of each quarter (\_\_% per annum). The accompanying statement of assets and liabilities includes unpaid fees of \$ \_\_\_\_\_ in accrued expenses.

### **ADMINISTRATION**

The Partnership has entered into an Administration Agreement with \_\_\_\_\_ (the "Administrator"). Under this agreement, the Administrator is responsible for various administrative, registrar, and transfer agency services, including calculation of the partners' capital balances of the Partnership and the processing of contributions, withdrawals, and transfers of the Partnership's capital. (Refer to agreement for responsibilities)

### **ALLOCATION OF INCOME (LOSS)**

The net income (loss) of the Partnership is allocated to the partners in proportion to their respective capital accounts. However, the General Partner is entitled to an additional allocation of \_\_% of the net income allocated to each Limited Partner to be credited at the end of each calendar year. This additional allocation reduces the Limited Partners' share of net income. As discussed in the Partnership Agreement, if there is a loss for an accounting period, the additional allocation will not apply to future periods until the loss has been recovered. [The amount of the loss carryforward at December 31, 2016 is \$ \_\_\_\_\_.]

### **NEW ISSUES**

Participation by partners in investments in "new issues" (defined, in part, as equity securities which are the subject of a public distribution) will be allocated to non-restricted partners and to the extent allowed, to restricted partners in accordance with the Conduct Rules of the Financial Industry Regulatory Authority.

# SAMPLE FUND OF FUNDS, L.P.

## NOTES TO FINANCIAL STATEMENTS

December 31, 20XX

### PARTNERS' CAPITAL

[Included in Limited Partners' capital at December 31, 2016 is \$ \_\_\_\_\_ of accounts under the control of the General Partner(s).]

The Agreement contains certain provisions with respect to restrictions on Limited Partner withdrawal rights. (May describe certain of these rights such as gates, lock-ups, early withdrawal fees, or suspensions. May also elaborate on the nature of these rights if desired.)

### FINANCIAL HIGHLIGHTS

#### Ratio of Expenses To Average Limited Partners' Capital

Investment expenses	XX.XX %
Operating expenses *	<u>XX.XX</u>
Total expenses	XX.XX
Performance reallocation	<u>XX.XX</u>
Total Expenses and Performance Reallocation	<u>XX.XX</u> %

#### Ratio of Net Investment Income [Loss] To Average Limited Partners' Capital

Net Investment Income [Loss]	<u>XX.XX</u> %
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#### Total Return

Total return before performance reallocation	XX.XX %
Performance reallocation	<u>XX.XX</u>
Total Return	<u>XX.XX</u> %

The expense and performance reallocation ratios, the net investment income [loss] ratio, and the total return percentage are calculated for the Limited Partners taken as a whole. The computation of such ratios and return based on the amount of expenses charged to and performance fee reallocated from any specific Limited Partner may vary from the overall ratios presented in the financial statements as a result of such items as differing management fee and performance reallocation arrangements, loss carry forwards, eligibility for new issue income, and the timing of capital contributions and withdrawals. The ratios do not reflect the partnership's proportionate share of expenses of the Funds. The net investment income [loss] ratio does not reflect the effects of any performance reallocation.

\*Operating expense ratio is after expenses paid by third parties, equal to x.xx% of average Limited Partners' capital.

# SAMPLE FUND OF FUNDS, L.P.

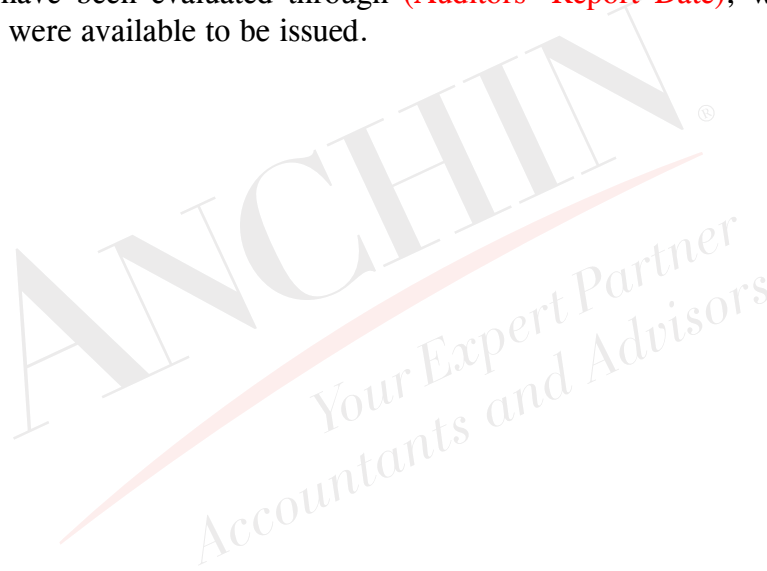
## NOTES TO FINANCIAL STATEMENTS December 31, 20XX

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### SUBSEQUENT EVENTS

Effective January 1, 2017, capital of approximately \$\_\_\_\_\_ was contributed to the Partnership, including \$\_\_\_\_\_ received prior to December 31, 2016, which is shown as prepaid capital contributions in the accompanying statement of assets and liabilities. For the period January 1, 2017 until (Auditors' Report Date) \$\_\_\_\_\_ was withdrawn from the Partnership. In addition, \$\_\_\_\_\_ of General Partner's capital was transferred to Limited Partners' capital.

Subsequent events have been evaluated through (Auditors' Report Date), which is the date the financial statements were available to be issued.



## About Anchin

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Founded in 1923 in New York, Anchin, Block & Anchin LLP is recognized as a top-tier firm nationwide in terms of its quality, management, scope of services and work environment. With a staff of approximately 350 and highly specialized industry and service teams, Anchin provides privately-held businesses and high net worth individuals with a wide range of traditional and non-traditional advisory services. Services include accounting and auditing; tax planning and compliance services; tax credits and incentives; management and succession advisory services; and litigation support, forensic accounting and valuation services.

Our size and culture allows us to provide this full range of services while offering personalized attention to the diverse needs of our clients. By offering superior service and a quality work product, Anchin has enjoyed long-term relationships with our clients – some for over 50 years. Our industry expertise and our commitment to client service have also earned Anchin a stellar reputation in the business, financial and legal communities.

Anchin has been consistently named one of the “best of the best” accounting firms in the nation (*Inside Public Accounting*), best accounting firms in the nation to work for (*Accounting Today*), best accounting firm in North America (*Hedgeweek Magazine*), one of the top largest accounting firms in the United States (*Inside Public Accounting*), best place to work in New York State (*Society for Human Resource Management*) and best place to work in New York City (*Crain’s New York Business*).

Our mission is to be our client’s Expert Partner, accomplishing this through objectivity, innovation and care. We are committed to connecting clients with partners who provide them with industry knowledge and innovative insights. Let us connect you with **Your Expert Partner** in Financial Services.



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