

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**To the Shareholders and Board of Trustees
CornerCap Balanced Fund
Atlanta, Georgia**

We have audited the accompanying statement of assets and liabilities of CornerCap Balanced Fund, including the portfolio of investments, as of March 31, 2001, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of March 31, 2001, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of CornerCap Balanced Fund as of March 31, 2001, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented in conformity with accounting principles generally accepted in the United States of America.

TAIT, WELLER & BAKER

**Philadelphia, Pennsylvania
May 9, 2001**

CORNERCAP BALANCED FUND

PORTFOLIO OF INVESTMENTS

March 31, 2001

<u>Shares</u>		<u>Value</u> <u>(Note 1-A)</u>
	<u>COMMON STOCKS</u> – 55.5%	
	Aerospace – 3.4%	
2,300	Goodrich BF Co.	\$ 88,251
1,800	Rockwell International Corp.	<u>65,430</u>
		<u>153,681</u>
	Appliances – 1.8%	
2,500	Maytag Corp.	<u>80,625</u>
	Automotive – 3.6%	
3,145	Ford Motor Co.	88,437
2,200	TRW, Inc.	<u>74,800</u>
		<u>163,237</u>
	Bank – 1.6%	
2,200	First Union Corp.	<u>72,600</u>
	Beverages – 2.7%	
2,600	Anheuser-Busch Companies, Inc.	<u>119,418</u>
	Building Materials – 1.6%	
1,600	PPG Industries, Inc.	<u>73,744</u>
	Communications – 5.0%	
6,700	Lucent Technologies	66,799
2,400	Telefonos de Mexico ADR	75,696
4,300	Worldcom *	<u>80,356</u>
		<u>222,851</u>
	Diversified – 4.6%	
2,700	ITT Industries, Inc.	104,625
4,300	National Service Industries, Inc.	<u>100,835</u>
		<u>205,460</u>
	Electric Components – 1.5 %	
4,200	LSI Logic Corp. *	<u>66,066</u>
	Electric Lighting and Wiring Equipment – 2.4%	
1,750	Johnson Controls, Inc.	<u>109,305</u>
	Electrical Utilities – 3.9%	
2,000	DTE Energy Corp.	79,600
3,400	First Energy Corp.	<u>94,928</u>
		<u>174,528</u>
	Financial Services – 3.0%	
2,960	JP Morgan Chase & Co.	<u>132,905</u>
	Food – 1.9%	
4,000	Sara Lee Corp.	<u>86,320</u>

CORNERCAP BALANCED FUND

PORTFOLIO OF INVESTMENTS – (Continued)

March 31, 2001

<u>Shares</u>		<u>Value</u> <u>(Note 1-A)</u>
	<u>COMMON STOCKS</u> – 55.5%	
	Machinery – 3.0%	
1,600	Briggs & Stratton Corp.	\$ 61,392
1,100	Eaton Corp.	<u>75,197</u>
		<u>136,589</u>
	Manufacturing – 2.7%	
2,815	Tyco International	<u>121,693</u>
	Metals – 4.5%	
3,816	Alcoa, Inc.	137,185
1,600	Phelps Dodge Corp.	<u>64,288</u>
		<u>201,473</u>
	Oil Industry – 2.0%	
2,400	Ashland, Inc.	<u>92,160</u>
	Paper & Forest Products – 1.6%	
2,000	International Paper	<u>72,160</u>
	Textile – 2.4%	
2,500	Spring Industries, Inc.	<u>107,000</u>
	Thrift – 2.3%	
4,180	Washington Federal, Inc.	<u>102,671</u>
	Total Common Stocks (Cost \$2,358,684)	<u>2,494,486</u>

CORNERCAP BALANCED FUND

PORTFOLIO OF INVESTMENTS – (Continued)

March 31, 2001

<u>Principal Amount</u>		<u>Value (Note 1-A)</u>
	<u>CORPORATE BONDS – 29.5%</u>	
	Electrical Utilities – 3.4%	
\$150,000	National Rural Utilities Cooperative Finance Group 6.375%, Due 10/15/04	\$ <u>153,949</u>
	Electronic Components – 3.4%	
150,000	Sony Corp. 6.125%, Due 03/04/03	<u>152,817</u>
	Entertainment – 4.7%	
200,000	Walt Disney Co. 6.750%, Due 03/30/06	<u>211,161</u>
	Financial Service – 18.0%	
150,000	General Motors Acceptance Corp. 6.700%, Due 04/30/01	150,164
150,000	Merrill Lynch & Co., Inc. 6.375%, Due 10/15/08	150,439
200,000	Nations Bank Corp. 6.375%, Due 05/15/05	203,048
150,000	Norwest Financial, Inc. 6.250%, Due 12/15/07	151,097
150,000	Walmart Stores, Inc. 6.750%, Due 05/15/02	<u>152,715</u>
		<u>807,463</u>
	Total Corporate Bonds (Cost \$1,339,878)	<u>1,325,390</u>
	 <u>U.S. GOVERNMENT BONDS – 10.4%</u>	
\$140,000	U.S. Treasury Notes 6.50%, Due 08/15/05	\$ 150,450
100,000	6.50%, Due 10/15/06	108,598
200,000	5.50%, Due 05/15/09	<u>207,104</u>
	Total Government Bonds (Cost \$455,758)	<u>466,152</u>

CORNERCAP BALANCED FUND

PORTFOLIO OF INVESTMENTS – (Continued)

March 31, 2001

<u>Principal Amount</u>			<u>Value (Note 1-A)</u>
	<u>SHORT-TERM INVESTMENTS</u> – 7.1%		
	Federated Treasury		
\$320,345	(Cost \$320,345)		\$ 320,345
	Total Investments (Cost \$4,474,665) (a)	102.5%	4,606,373
	Other Assets and Liabilities, Net	<u>2.5%</u>	<u>(110,587)</u>
	Net Assets	<u>100.00%</u>	<u>\$ 4,495,786</u>

* *Non-income producing security*

ADR – American Depository Receipt

(a) Aggregate cost for federal income tax purpose is \$4,511,219.

At March 31, 2001, unrealized appreciation (depreciation) of securities for federal income tax purposes is as follows:

Gross unrealized appreciation	\$ 373,556
Gross unrealized depreciation	<u>(278,402)</u>
Net unrealized appreciation	<u>\$ 95,154</u>

See accompanying notes to financial statements

CORNERCAP BALANCED FUND

STATEMENT OF ASSETS AND LIABILITIES

March 31, 2001

ASSETS

Investments at market value, (Identified cost \$4,474,665) (Note 1-A)	\$ 4,606,373
Cash	95,050
Receivable for investment securities purchased	26,889
Interest receivable	33,520
Dividends receivable	2,149
Other assets	<u>1,515</u>
Total assets	<u>4,765,496</u>

LIABILITIES

Payable for investment securities purchased	\$ 261,160
Payable for fund shares redeemed	3,500
Advisory fee payable	3,885
Service fees payable	<u>1,165</u>
Total liabilities	<u>269,710</u>

NET ASSETS

(Applicable to 398,418 shares outstanding, unlimited number of shares authorized)	<u>\$ 4,495,786</u>
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NET ASSET VALUE, OFFERING AND REPURCHASE

PRICE PER SHARE (\$4,495,786 ÷ 398,418 shares)	<u>\$11.28</u>
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NET ASSETS

At March 31, 2001, net assets consisted of:	
Paid-in capital	\$ 4,592,969
Undistributed net investment income	95,445
Accumulated net realized loss on investments	(324,336)
Net unrealized appreciation of investments	<u>131,708</u>
	<u>\$ 4,495,786</u>

See accompanying notes to financial statements

CORNERCAP BALANCED FUND

STATEMENT OF OPERATIONS

For the year ended March 31, 2001

INVESTMENT INCOME

Dividends (net of foreign tax withheld of \$348)	\$ 74,601
Interest	<u>114,971</u>
Total income	<u>189,572</u>

Expenses

Management fee (<i>Note 2</i>)	43,708
Service costs (<i>Note 2</i>)	<u>13,283</u>
Total expenses	<u>56,991</u>
Net investment income	<u>132,581</u>

NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS

Net realized loss from security transactions	(171,616)
Change in unrealized appreciation of investments	<u>402,767</u>
Net gain on investments	<u>231,151</u>

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS \$ 363,732

See accompanying notes to financial statements

CORNERCAP BALANCED FUND

STATEMENT OF CHANGES IN NET ASSETS

Years ended March 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
INCREASE (DECREASE) IN NET ASSETS FROM		
Operations		
Net investment income	\$ 132,581	\$ 158,753
Net realized loss on investments	(171,616)	(93,481)
Change in unrealized appreciation/depreciation of investments	<u>402,767</u>	<u>(261,379)</u>
Net increase (decrease) in net assets resulting from operations	<u>363,732</u>	<u>(196,107)</u>
Distributions to shareholders from		
Net investment income (\$0.34 and \$0.37 per share, respectively)	(130,891)	(158,480)
Capital gains (\$0.03 and \$0.24 per share, respectively)	<u>(13,184)</u>	<u>(102,470)</u>
	<u>(144,075)</u>	<u>(260,950)</u>
Capital share transactions (a)		
Increase (decrease) in net assets resulting from capital share transactions	<u>(153,912)</u>	<u>389,089</u>
Total increase (decrease) in net assets	65,745	(67,968)
NET ASSETS		
Beginning of year	<u>4,430,041</u>	<u>4,498,009</u>
End of year		
(Including undistributed net investment income of \$95,445 and \$93,755, respectively)	<u>\$ 4,495,786</u>	<u>\$ 4,430,041</u>

(a) Summary of capital share activity follows:

	<u>2001</u>		<u>2000</u>	
	<u>Shares</u>	<u>Value</u>	<u>Shares</u>	<u>Value</u>
Shares sold	63,016	\$ 704,463	107,546	\$ 1,317,619
Shares issued on reinvestment of distributions	<u>12,883</u>	<u>144,025</u>	<u>23,199</u>	<u>260,063</u>
	75,899	848,488	130,745	1,577,682
Shares redeemed	<u>(91,282)</u>	<u>(1,002,400)</u>	<u>(104,080)</u>	<u>(1,188,593)</u>
Net increase (decrease)	<u>(15,383)</u>	<u>\$ (153,912)</u>	<u>26,665</u>	<u>\$ 389,089</u>

See accompanying notes to financial statements

CORNERCAP BALANCED FUND

FINANCIAL HIGHLIGHTS

(For a share outstanding throughout the period)

	For The Year Ended <u>March 31, 2001</u>	For The Year Ended <u>March 31, 2000</u>	For The Year Ended <u>March 31, 1999</u>	For The Period June 1, 1997 To <u>March 31, 1998(a)</u>	For the Period May 24, 1997* To <u>May 31, 1997</u>
Per Share Operating Performance					
Net asset value, beginning of period	<u>\$ 10.71</u>	<u>\$ 11.62</u>	<u>\$ 12.21</u>	<u>\$ 32.99</u>	<u>\$ 33.20</u>
Income from investment operations –					
Net investment income	.40	.36	.21	.24	.01
Net realized and unrealized gain (loss) on investments	<u>.54</u>	<u>(.66)</u>	<u>(.26)</u>	<u>2.20</u>	<u>(.22)</u>
Total from investment operations	<u>.94</u>	<u>(.30)</u>	<u>(.05)</u>	<u>2.44</u>	<u>(.21)</u>
Less distributions from –					
Net investment income	(.34)	(.37)	(.07)	(.19)	-
Realized gains	<u>(.03)</u>	<u>(.24)</u>	<u>(.47)</u>	<u>(23.03)</u>	<u>-</u>
Total distributions	<u>(.37)</u>	<u>(.61)</u>	<u>(.54)</u>	<u>(23.22)</u>	<u>-</u>
Net asset value, end of period	<u>\$ 11.28</u>	<u>\$ 10.71</u>	<u>\$ 11.62</u>	<u>\$ 12.21</u>	<u>\$ 32.99</u>
Total Return	8.91%	(2.89)%	(.46)%	19.13%	(.60)%
RATIOS/SUPPLEMENTAL DATA					
Net assets, end of period (\$000)	\$4,496	\$4,430	\$4,498	\$2,294	\$2,093
Ratios to average net assets (b)					
Expenses	1.30%	1.32%	1.30%	1.53%**	2.00%**
Net investment income	3.03%	3.16%	2.91%	2.80%**	4.50%**
Portfolio turnover rate	24.82%	16.38%	38.47%	13.38%	98.90%

* Commencement of operations

** Annualized

Per share amounts have been adjusted for the year ended May 31, 1997 to reflect a 1 for 4 reverse stock split effective June 30, 1997. On June 14, 1997, a capital gain distribution of \$22.91 per share (\$5.73 per share on a pre-split basis) was paid to shareholders. The net asset value per share on June 30, 1997, after the payment of the capital gain distribution and the effect of the 1 for 4 reverse split, was \$10.86 per share.

(a) The Fund changed its year-end from May 31st to March 31st.

(b) Fee waivers reduced the expense ratio and increased the net investment income ratio by 1.25% in 1998.

See accompanying notes to financial statements

CORNERCAP BALANCED FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2001

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CornerCap Balanced Fund (the “*Fund*”) is a series of shares of the CornerCap Group of Funds. CornerCap Group of Funds was organized on January 6, 1986 as a Massachusetts Business Trust and is registered under the Investment Company Act of 1940 as a diversified open-end management investment company. Investment operations commenced on May 24, 1997 as a result of the reorganization of the Atlanta Growth Fund (*Note 4*). The investment objective of the Fund is to obtain capital appreciation and current income. The following is a summary of significant accounting policies followed by the Fund in the preparation of the financial statements. The policies are in conformity with accounting principles generally accepted in the United States of America.

- A. *Security Valuation*** – Portfolio securities that are listed on national securities exchanges or the NASDAQ National Market System are valued at the last sale price as of 4:15 p.m. Eastern time, or in the absence of recorded sales, at the average of readily available closing bid and asked prices on such exchanges or such System. Unlisted securities that are not included in such System are valued at the mean of the quoted bid and asked prices in the over-the-counter-market. Securities and other assets for which market quotations are not readily available are valued at fair value as determined in good faith by the Advisor under procedures established by and under the general supervision and responsibility of the Fund’s Board of Trustees. Short-term investments are valued at amortized cost, if their original maturity was 60 days or less, or by amortizing the values as of the 61st day prior to maturity, if their original term to maturity exceeded 60 days.
- B. *Security Transactions, Investment Income and Other*** – Security transactions are recorded on the trade date. Realized gains and losses on sales of investments are calculated on the identified cost basis. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis.
- C. *Federal Income Taxes*** – It is the Fund’s policy to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its taxable net income to its shareholders. In addition, the Fund intends to pay distributions as required to avoid imposition of excise tax. Therefore, no federal income tax provision is required.

The difference between the federal income tax cost of portfolio investments and the financial statement cost is due to certain timing differences in the recognition of capital losses under income tax regulations and accounting principles generally accepted in the United States of America.

The Fund had approximately \$288,000 in capital losses available to offset future gains which expire in 2009.

- D. *Distributions to Shareholders*** – Distributions from net investment income and realized gains, if any, are recorded on the ex-dividend date. Income distributions and capital gain distributions are determined in accordance with income tax regulations which may differ from accounting principles generally accepted in the United States of America.
- E. *Accounting Estimates*** – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
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CORNERCAP BALANCED FUND

NOTES TO FINANCIAL STATEMENTS – (Continued)

(2) TRANSACTIONS WITH AFFILIATES

INVESTMENT ADVISORY AND ADMINISTRATION AGREEMENTS

The Fund has an investment advisory agreement with CornerCap Investment Counsel, Inc. (the “*Advisor*”), pursuant to which the Advisor receives a fee, computed daily and payable monthly, at an annual rate of 1.00% of the average daily net assets.

In addition, the Fund has a service agreement with the Advisor, pursuant to which the Advisor receives a fee, computed daily and payable monthly at an annual rate of .30% of average net assets.

The Advisor will provide day-to-day operational services to the Fund including, but not limited to, providing or arranging to provide accounting, administrative, legal (except litigation), dividend disbursing, transfer agent, registrar, custodial, shareholder reporting, sub accounting and recordkeeping services. All fees and expenses associated with these and other functions including, but not limited to, expenses of legal compliance, shareholder communication and meetings of the Shareholders and the Board of Trustees will be paid by the Advisor.

(3) PURCHASES AND SALES OF SECURITIES

For the year ended March 31, 2001, the cost of purchases and the proceeds from sales of securities, excluding short-term securities, were \$1,021,375 and \$1,180,105, respectively.

(4) STOCK SPLIT

Effective June 30, 1997, the Fund had a reverse stock split of 1 share for every 4 shares owned. The financial highlights for the period ended May 31, 1997 have been adjusted retroactively to reflect this split.
