



The Fund seeks long-term capital appreciation through investments and advocacy that promote the American system of free enterprise.

Annual Report
Dated December 31, 2005

FREE ENTERPRISE ACTION FUND

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This report must be preceded or accompanied by a prospectus of the Fund. The prospectus contains more complete information, including investment objective, risks, fees and expenses and should be read carefully before investing or sending any money.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to the portfolio securities and information regarding how the Fund voted proxies relating to the portfolio securities during the most recent 12-month period ended June 30 is available without charge, upon request, by calling 1-800-766-3960 or on the Securities and Exchange Commission's ("SEC") website at <http://www.sec.gov>.

The Fund files a Form N-Q with the SEC no more than sixty days after the Fund's first and third quarters of its fiscal year. Form N-Q includes a schedule of the Fund's portfolio holdings as of the end of those fiscal quarters. The Fund's N-Q filings can be found on the SEC's website at <http://www.sec.gov>. The Fund's N-Q filings may also be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 800-SEC-0330 for information on the operation of the Public Reference Room.

Free Enterprise Action Fund, like all mutual funds:

- **Is NOT FDIC insured**
- **Has no bank guarantee**
- **May lose value**

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FREE ENTERPRISE ACTION FUND

Letter to Shareholders

Launched on March 1, 2005, the Free Enterprise Action Fund (FEAF) achieved its investment and advocacy goals for 2005, laying the groundwork for an even more successful 2006.

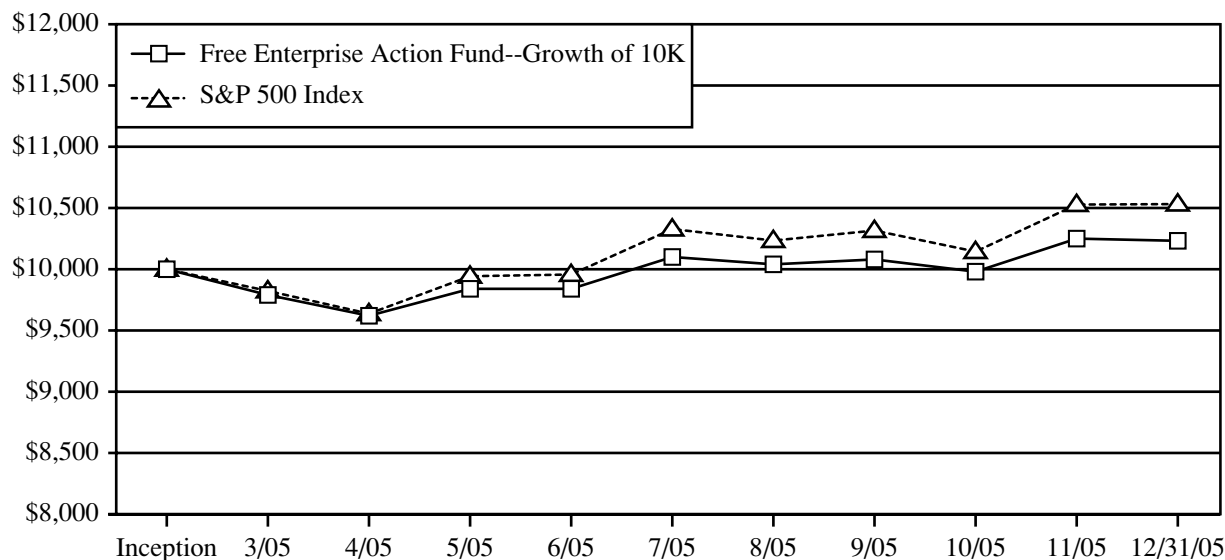
FUND PERFORMANCE AND PORTFOLIO

The Fund returned 2.32% for 2005, after expenses of 2.00%, as compared to a 4.72% return for the S&P 500 Index¹. Aside from expenses, the difference between the returns of the Fund and S&P 500 Index is attributable to the smaller cap stocks in the S&P 500 Index outperforming the Index's larger cap stocks, while the Fund's portfolio consists of the 392 largest cap stocks in the S&P 500 Index.

	FEAF	S&P 500
Value, close 3/1/05	\$10.00	\$1,203.60
Value, close 12/31/05	\$10.19	\$1,248.29
Total Return	2.32%**	4.72%

** Performance for FEAF is cumulative for the period March 1, 2005 through December 31, 2005.

GROWTH OF A \$10,000 INVESTMENT



Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be higher or lower. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. The performance information assumes reinvestment of dividends and capital gain distributions. During the period shown, the adviser waived and reimbursed certain expenses, in the absence of which, performance would have been lower. To obtain performance information current to the most recent month end, please call 1-800-766-3960 or visit the Free Enterprise Action Fund's website on the Internet at www.freeenterpriseactionfund.com.

(1) The S&P 500 Index consists of 500 common stocks chosen for market size, liquidity and industry representation, among other factors and is a measure of the U.S. stock market as a whole. The S&P 500 Index is unmanaged and does not reflect the deduction of fees associated with a mutual fund, such as investment advisory fees and administration fees, or a deduction of taxes on fund distributions. Investors cannot invest directly in an Index, although they can invest in the underlying securities.

FREE ENTERPRISE ACTION FUND

Letter to Shareholders, continued

The Fund owns common stock in 392 of the companies in the S&P 500. As of December 31, the net assets of the Fund was approximately \$4.79 million. The Fund's "Top Ten" holdings as of December 31, 2005 appear in the table below. A sector-by-sector listing of our holdings follows.

General Electric	2.91%	Procter & Gamble	1.52%
ExxonMobil	2.39%	Bank of America	1.45%
Microsoft Corp.	2.30%	American Int'l Group.....	1.41%
Citigroup	2.01%	Johnson & Johnson	1.35%
Wal-Mart Stores	1.53%	Pfizer, Inc.	1.21%

*** The Fund's composition is subject to change.

Sector Diversification (as a percentage of total investments)***

As of December 31, 2005

Financial Services	20.0%	Short-Term Investments.....	5.4%
Healthcare	12.0%	Software	3.9%
Industrial Materials	11.3%	Business Services	3.7%
Hardware	9.5%	Media	3.6%
Consumer Services	8.8%	Utilities	3.0%
Consumer Goods	8.5%	Telecommunications	2.7%
Energy.....	7.5%	Options.....	<u>0.1%</u>
			<u>100.0%</u>

*** The Fund's composition is subject to change.

Our portfolio as of December 31, 2005 is attached.

FUND ADVOCACY

The Fund's advocacy efforts are directed at promoting shareholder value over the long-term and defending the American system of free enterprise. Beginning with the fund's commencement of operations on March 1, 2005, the Fund's notable accomplishments for 2005 include:

- **Convinced JPMorgan Chase to reverse its decision to lobby for global warming regulations.** Based on pressure from the Rainforest Action Network, banking giant JP Morgan Chase announced in April that it would assemble a coalition of financial services companies to lobby state and federal governments for restrictive global warming regulation. Thanks to action by the FEAF's managers at JPM's annual shareholder meeting in May, the CEO announced that the bank would not be lobbying on global warming – a position that was reiterated to the Fund in follow-up correspondence.
- **Helped defeat shareholder resolutions concerning global warming.** In response to an activist campaign to pressure mutual fund managers to vote in favor of global warming resolutions offered at the ExxonMobil annual meeting, the FEAF's managers worked to develop institutional investor opposition to the resolutions. All global warming resolutions were defeated.
- **Opened up the Citigroup "Environmental Partners" program to pro-free enterprise input.** Citigroup announced an "Environmental Partners" program that only included environmental groups as advisers to the bank. The FEAF's managers convinced Citigroup to include the FEAF as one of its "partners." The FEAF will continue working with Citigroup to ensure that the bank receives accurate and balanced advice from its "partners" on environmental issues.

FREE ENTERPRISE ACTION FUND

Letter to Shareholders, continued

The FEAF helped file a number of shareholder resolutions for the 2005 annual meeting season, including:

- **Charitable Contributions.** Corporate support for pro-free enterprise think tanks has declined over the last few years while support for Left-wing activist groups appears to have increased. The FEAF helped file shareholder resolutions requesting disclosure of the business purposes of corporate charitable contributions in hopes of exposing contributions to Left-wing activist groups as efforts to appease these groups. Resolutions were filed with Coca-Cola, PepsiCo and Citigroup.
- **Corporate Governance.** Goldman Sachs has a policy banning personal conflicts of interest with firm business. In 2004, Goldman Sachs donated 680,000 acres in Chile to an environmental group, admittedly for no business purpose. An official of the group is the daughter of the Goldman Sachs' CEO. In 2005, Goldman Sachs announced it would lobby governments for restrictive global warming regulation, a policy also advocated by the Nature Conservancy. The Goldman Sachs CEO is also chairman of the Nature Conservancy. The FEAF helped file a shareholder resolution requesting Goldman Sachs's corporate governance committees to investigate the CEO's potential personal conflicts of interest.
- **Flat Tax Report.** Significant reform of the tax code is not likely to occur without the participation of corporations. The FEAF supported the filing of shareholder resolutions requesting reports on the impacts to the companies and shareholders of the flat tax as discussed in "Flat Tax Revolution: Using a Postcard to Abolish the IRS" by Steve Forbes (Regnery 2005). Resolutions were filed with General Electric, Citigroup, Johnson & Johnson and Verizon.
- **Global Warming Report.** In 2005, General Electric announced that it would be supporting restrictive global warming regulation. The FEAF supported the filing of a shareholder resolution with GE requesting a report justifying GE's position on global warming in terms of the costs and benefits to shareholders.
- **Lobbying Priorities Report.** Over the past several years, JPMorgan Chase & Co. agreed to settle various lawsuits, including Enron and WorldCom litigation, for billions of dollars, despite claiming that it had meritorious defenses to the lawsuits. The Company spent at least \$500 million in attorney's fees during 2004. Rather than launching a lobbying effort to focus on lawsuit reform that might reduce unmeritorious litigation that harms shareholder value, JPMorgan Chase announced in April 2005 that it would lobby governments for restrictive global warming regulation. The FEAF is supporting a shareholder resolution filed with JPMorgan Chase that requests a report to shareholders on the Company's process for identifying and prioritizing legislative and regulatory public policy advocacy activities.

The FEAF has also commenced a number of other advocacy activities during 2005 addressing a variety of free enterprise-related issues including:

- Financial services companies intimidated by external activists from participating in the public policy debate over social security reform;
- The CEO-member Business Roundtable's failure to defend businesses in the face of congressional attacks on oil company profits and pharmaceutical company patent rights;
- Utility holding companies harming shareholders by supporting regional initiatives for restricting greenhouse gas emissions;
- New York Stock Exchange succumbing to pressure from animal rights extremists and not listing Life Sciences Research, Inc.;
- An effort by the New York Times to investigate the adoption of children by Supreme Court Justice John Roberts;
- Property and casualty insurers being pressured by environmental activist efforts to support claims that natural disasters, such as Hurricane Katrina, are linked with global warming; and
- Microsoft capitulation to anti-chemical activists concerning the use of PVC plastic packaging.

The FEAF has attracted interest from the media during 2005 including:

- CNBC (Kudlow & Company), March 28, "Steven Milloy of the Free Enterprise Action Fund discusses his organization's work against corporate social responsibility"
- New York Sun, April 1, "Big Labor Targets Wall Street"

FREE ENTERPRISE ACTION FUND

Letter to Shareholders, continued

- Wall Street Journal, April 25, “JP Morgan Adopts “Green” Lending Policies”
- American Banker, May 20, “JPM Enviro Pact Leaves Complexity In Its Wake”
- Financial Post (Canada), May 26, “A Fund for Profit Activists”
- “Human Events, June 13, “Free Enterprise Action Fund”
- National Review, July 4, “Birkenstocks and Stocks”
- Fox News Channel, August 2, “Your World With Neil Cavuto”
- Washington Post, October 5, “A New Worry for Insurers: Firms Looking at Whether Climate Change Could Affect Their Bottom Lines”
- Human Events, November 8, 2005, “Corporate Social Responsibility: Another Cover for the Leftist Political Agenda”
- American Spectator, November 10, “The Permanent Shakedown Left”
- Inside EPA, December 2, 2005, “Goldman Sachs’ Novel Climate Plan Is Latest Target Of Free-Market Fire”

The FEAF issued the following media releases during 2005:

- Microsoft Called on to Reverse Phase-out of PVC Plastic; Mutual Fund Sees Move as Unwarranted and Harmful, PR Web, December 13, 2005
- Free Enterprise Action Fund Requests Review of Goldman Sachs’ Environmental Policy, PR Web, November 30, 2005
- Free Enterprise Action Fund Urges Business Roundtable to Defend Capitalism Against Congressional Overreaching, PR Web, November 10, 2005
- Free Enterprise Action Fund Urges Insurers to Conduct Independent Analyses of Alleged Link Between Global Warming and Weather-Related Losses, PR Web, November 1, 2005
- Free Enterprise Action Fund Asks “Why are the leaders of the socially responsible investment industry stonewalling target of violent hate speech?”, PR Web, October 20, 2005
- Free Enterprise Action Fund Calls on Calvert Investments and KLD Research to Withdraw Sponsorship of “Socially Responsible” Conference Featuring Speaker Who Advocated Violence Against Fund Managers, PR Web, October 10, 2005
- Free Enterprise Action Fund Warns Business Roundtable Member Companies To Focus On Real Business Growth Strategies, Not “Feel-Good” Public Relations Stunts, PR Web, September 28, 2005
- Free Enterprise Action Fund Calls on Citigroup to Diversify the Bank’s “Environment Partners” Program, PR Web, September 22, 2005
- Free Enterprise Action Fund Questions GE Decision To Side With Global Warming Activists, PR Web, September 14, 2005
- Free Enterprise Action Fund asks ConEd, PG&E to disclose involvement with state global warming initiatives, PR Web, September 7, 2005
- Free Enterprise Action Fund Asks Financial Service Companies Whether Their Support For Social Security Reform Has Been Impacted By Activist-Investor Pressure, PR Web, August 17, 2005
- A Pioneering Mutual Fund for Pro-Free-Market Investors, State Policy Network News, July/August 2005
- Free Enterprise Action Fund, Human Events, June 13, 2005
- Free Enterprise Action Fund Requests Audit Committee Review of JPMorgan Chase Capitulation to Social Activist Demands, Business Wire, April 26, 2005

FREE ENTERPRISE ACTION FUND

Letter to Shareholders, continued

LOOKING AHEAD TO 2006

The Free Enterprise Action Fund is looking forward to a productive 2006. In terms of investment performance, we intend to continue holding our diversified portfolio of large-cap companies and managing the portfolio so as to produce a market-based return.

In terms of advocacy, we intend to support the shareholder resolutions that have been filed, participate in annual shareholder meetings and to continue and expand upon the Fund's advocacy efforts so as to promote shareholder value and defend our system of free enterprise.

Sincerely,



Thomas J. Borelli
Action Fund Management, LLC



Steven J. Milloy
Action Fund Management, LLC

FREE ENTERPRISE ACTION FUND
Schedule of Portfolio Investments
December 31, 2005

	Shares	Value		Shares	Value
Common Stock — 87.7%			Common Stocks — (continued)		
Advertising — 0.2%			Banks — 9.0%		
Interpublic Group of Companies, Inc.*	173	\$ 1,669	AmSouth Bancorporation	146	\$ 3,827
Omnicom Group, Inc.	66	5,619	Bank of America Corp.	1,507	69,549
		<u>7,288</u>	Bank of New York Company, Inc.	296	9,428
			BB&T Corp.	219	9,178
Aerospace & Defense — 1.6%			Citigroup, Inc.	1,985	96,333
Boeing Co.	284	19,948	Comerica, Inc.	72	4,087
General Dynamics Corp.	76	8,668	Fifth Third Bankcorp	238	8,977
Lockheed Martin Corp.	161	10,244	JPMorgan Chase & Co.	1,351	53,621
Northrop Grumman Corp.	134	8,055	KeyCorp	160	5,269
Raytheon Co.	167	6,705	M&T Bank Corp.	48	5,234
Rockwell Collins, Inc.	66	3,067	Marshall & Ilsley Corp.	100	4,304
United Technologies Corp.	364	20,351	Mellon Financial Corp.	167	5,720
		<u>77,038</u>	National City Corp.	263	8,829
			North Fork Bancorporation, Inc.	199	5,445
Agricultural Operations — 0.3%			Northern Trust Corp.	95	4,923
Archer-Daniels-Midland Co.	259	6,387	PNC Financial Services Group, Inc.	116	7,172
Monsanto Co.	95	7,365	Regions Financial Corp.	188	6,422
		<u>13,752</u>	State Street Corp.	139	7,706
			SunTrust Banks, Inc.	140	10,186
Airlines — 0.1%			Synovus Financial Corp.	134	3,619
Southwest Airlines Co.	303	4,978	U.S. Bancorp	714	21,341
Apparel/Footwear — 0.6%			Wachovia Corp.	626	33,090
Coach, Inc.*	139	4,634	Wells Fargo & Co.	650	40,840
Gap, Inc.	336	5,927			<u>425,100</u>
Jones Apparel Group, Inc.	56	1,720	Biotechnology — 1.4%		
Limited Brands, Inc.	162	3,621	Amgen, Inc.*	482	38,011
Liz Claiborne, Inc.	44	1,576	Biogen Idec, Inc.*	201	9,111
Nike, Inc. — Class B	100	8,679	Chiron Corp.*	75	3,335
V.F. Corp.	38	2,103	Genzyme Corp.*	98	6,936
		<u>28,260</u>	Gilead Sciences, Inc.*	161	8,473
			MedImmune, Inc.*	99	3,467
Automotive — 0.6%					<u>69,333</u>
AutoNation, Inc.*	116	2,521	Brewery — 0.4%		
AutoZone, Inc.*	27	2,477	Anheuser-Busch Companies, Inc.	313	13,446
Ford Motor Co.	743	5,737	Molson Coors Brewing Co.	111	7,436
General Motors Corp.	227	4,408			<u>20,882</u>
Genuine Parts Co.	70	3,074			
Johnson Controls, Inc.	75	5,468			
PACCAR, Inc.	63	4,361			
		<u>28,046</u>			

continued

FREE ENTERPRISE ACTION FUND
Schedule of Portfolio Investments
December 31, 2005

	Shares	Value		Shares	Value
Common Stocks — (continued)			Common Stocks — (continued)		
Brokerage Services — 2.0%			Computer Software & Services — (continued)		
Bear Stearns Companies, Inc.	44	\$ 5,083	Automatic Data Processing, Inc.	224	\$ 10,279
Charles Schwab Corp.	562	8,245	Computer Associates		
Goldman Sachs Group, Inc.	178	22,732	International, Inc.	231	6,512
Lehman Brothers Holdings, Inc. ...	103	13,202	Electronic Arts, Inc.*	115	6,016
Merrill Lynch & Company, Inc. ...	355	24,044	First Data Corp.	304	13,075
Morgan Stanley	415	23,547	Fiserv, Inc.*	79	3,418
		<u>96,853</u>	Intuit, Inc.*	70	3,731
			Mercury Interactive Corp.*	36	1,000
Building Materials — 0.2%			Microsoft Corp.	4,220	110,354
American Standard Companies,			Oracle Corp.*	1,990	24,298
Inc.	75	2,996	Siebel Systems, Inc.	218	2,306
Masco Corp.	187	5,645			<u>193,755</u>
Vulcan Materials Co.	38	2,575			
		<u>11,216</u>	Computers & Peripherals — 4.4%		
Casino Services — 0.1%			Apple Computer, Inc.*	272	19,554
Harrah's Entertainment, Inc.	39	2,780	Cisco Systems, Inc.*	2,487	42,577
International Game Technology,			Computer Sciences Corp.*	84	4,254
Inc.	142	4,371	Dell, Inc.*	954	28,610
		<u>7,151</u>	Electronic Data Systems Corp. ...	203	4,880
Chemicals — 0.9%			EMC Corp.*	904	12,312
Dow Chemical Co.	326	14,285	Hewlett-Packard Co.	1,082	30,978
E.I. du Pont de Nemours & Co. ...	334	14,195	IBM Corp.	626	51,458
Eastman Chemical Co.	32	1,651	Lexmark International, Inc. —		
Ecolab, Inc.	109	3,953	Class A*	54	2,421
International Flavors &			NCR Corp.*	68	2,308
Fragrances, Inc.	46	1,541	Network Appliance, Inc.*	145	3,915
PPG Industries, Inc.	66	3,821	Sun Microsystems, Inc.*	1,307	5,476
Rohm & Haas Co.	80	3,874	Symbol Technologies, Inc.	116	1,487
Sigma-Aldrich Corp.	30	1,899			<u>210,230</u>
		<u>45,219</u>	Consumer Products — 2.2%		
Commercial Services — 0.5%			Avon Products, Inc.	191	5,453
Cendant Corp.	417	7,193	Colgate-Palmolive Co.	202	11,080
Cintas Corp.	71	2,924	Fortune Brands, Inc.	58	4,525
Moody's Corp.	109	6,695	Kimberly-Clark Corp.	187	11,155
Paychex, Inc.	133	5,070	Newell Rubbermaid, Inc.	103	2,449
		<u>21,882</u>	Procter & Gamble Co.	1,260	72,929
Computer Software & Services — 4.0%					<u>107,591</u>
Adobe Systems, Inc.	158	5,840			
Affiliated Computer Services, Inc.*	51	3,018			
Autodesk, Inc.	91	3,908			

continued

FREE ENTERPRISE ACTION FUND
Schedule of Portfolio Investments
December 31, 2005

	Shares	Value		Shares	Value
Common Stocks — (continued)			Common Stocks — (continued)		
Containers — 0.1%			Financial Services — (continued)		
Ball Corp.	43	\$ 1,708	CIT Group, Inc.	91	\$ 4,712
Sealed Air Corp.*	35	1,966	Countrywide Financial Corp.	247	8,445
		<u>3,674</u>	Fannie Mae	412	20,110
Cruise Lines — 0.3%			Franklin Resources, Inc.	92	8,649
Carnival Corp.	249	<u>13,314</u>	Freddie Mac	278	18,167
Diversified Manufacturing Operations — 5.0%			H&R Block, Inc.	113	2,774
3M Co.	290	22,475	MBIA, Inc.	63	3,790
Cooper Industries Ltd. — Class A	38	2,774	MBNA Corp.	510	13,852
Danaher Corp.	116	6,470	SLM Corp.	175	9,641
Dover Corp.	79	3,199	T. Rowe Price Group, Inc.	52	<u>3,746</u>
Eaton Corp.	55	3,690			<u>134,326</u>
General Electric Co.	3,979	139,465	Food & Beverages — 2.6%		
Honeywell International, Inc.	305	11,361	Campbell Soup Co.	178	5,299
Illinois Tool Works, Inc.	106	9,327	Coca-Cola Co.	863	34,787
Ingersoll-Rand Company Ltd. —			Coca-Cola Enterprises, Inc.	194	3,719
Class A	113	4,562	ConAgra Foods, Inc.	209	4,239
ITT Industries, Inc.	35	3,599	General Mills, Inc.	150	7,398
Leggett & Platt, Inc.	80	1,837	H.J. Heinz Co.	146	4,923
Parker Hannifin Corp.	46	3,034	Hershey Foods Corp.	91	5,028
Textron, Inc.	49	3,772	Kellogg Co.	169	7,304
Tyco International Ltd.	759	<u>21,905</u>	PepsiCo, Inc.	632	37,338
		<u>257,470</u>	Sara Lee Corp.	334	6,313
Electronics — 0.7%			Wm. Wrigley Jr. Co.	91	<u>6,051</u>
Agilent Technologies, Inc.*	177	5,892			<u>122,399</u>
Emerson Electric Co.	165	12,325	Food Distributors, Supermarkets & Wholesalers — 0.4%		
Jabil Circuit, Inc.*	70	2,596	Kroger Co.*	283	5,343
L-3 Communications Holdings,			Safeway, Inc.	207	4,898
Inc.	43	3,197	Sysco Corp.	251	<u>7,793</u>
Molex, Inc.	87	2,258			<u>18,034</u>
Rockwell Automation, Inc.	72	4,260	Forest Products & Paper — 0.3%		
Sanmina-SCI Corp.*	250	1,065	International Paper Co.	190	6,386
Soletron Corp.*	367	1,343	MeadWestvaco Corp.	71	1,990
W.W. Grainger, Inc.	35	<u>2,489</u>	Temple Inland, Inc.	35	1,570
		<u>35,425</u>	Weyerhaeuser Co.	88	<u>5,838</u>
Financial Services — 2.8%					<u>15,784</u>
AMBAC Financial Group, Inc.	47	3,622	Health Care — 1.7%		
American Express Co.	485	24,957	Aetna, Inc.	90	8,488
Ameriprise Financial, Inc.	87	3,567	Caremark Rx, Inc.*	173	8,960
Capital One Financial Corp.	96	8,294	Express Scripts, Inc.*	56	4,693

continued

FREE ENTERPRISE ACTION FUND
Schedule of Portfolio Investments
December 31, 2005

	Shares	Value		Shares	Value
Common Stocks — (continued)			Common Stocks — (continued)		
Health Care — (continued)			Insurance — (continued)		
Humana, Inc.*	70	\$ 3,803	American International Group, Inc.	990	\$ 67,547
McKesson Corp.	108	5,572	Aon Corp.	137	4,925
Medco Health Solutions, Inc.*	105	5,859	Chubb Corp.	72	7,031
UnitedHealth Group, Inc.	457	28,397	CIGNA Corp.	48	5,362
WellPoint, Inc.*	215	17,155	Cincinnati Financial Corp.	75	3,351
		<u>82,927</u>	Hartford Financial Services Group, Inc.	107	9,190
Homebuilders — 0.2%			Lincoln National Corp.	70	3,712
Centex Corp.	48	3,432	Loews Corp.	67	6,355
KB Home	35	2,543	Marsh & McLennan Companies, Inc.	219	6,955
Pulte Homes, Inc.	86	3,385	MetLife, Inc.	281	13,768
		<u>9,360</u>	Principal Financial Group, Inc. ...	127	6,024
Hospitals — 0.2%			Progressive Corp.	75	8,759
HCA, Inc.	150	7,575	Prudential Financial, Inc.	186	13,613
Health Management Associates, Inc. — Class A	103	2,262	St. Paul Travelers Companies, Inc.	259	11,570
		<u>9,837</u>	XL Capital Ltd. — Class A	55	3,706
Hotels & Motels — 0.3%					<u>200,635</u>
Hilton Hotels Corp.	161	3,882	Internet Business Services — 0.6%		
Marriott International, Inc. — Class A	84	5,625	eBay, Inc.*	465	20,111
Starwood Hotels & Resorts Worldwide, Inc.	80	5,109	Symantec Corp.*	432	7,560
		<u>14,616</u>			<u>27,671</u>
Household Appliances — 0.1%			Machinery — 0.4%		
Whirlpool Corp.	29	2,429	Caterpillar, Inc.	229	13,229
Industrial Gases — 0.2%			Deere & Co.	96	6,539
Air Products & Chemicals, Inc. ...	80	4,735			<u>19,768</u>
Praxair, Inc.	121	6,408	Medical — Drugs — 3.9%		
		<u>11,143</u>	Abbott Laboratories	578	22,791
Instruments — Scientific — 0.1%			Allergan, Inc.	54	5,850
Fisher Scientific International, Inc.*	52	3,217	Bristol-Myers Squibb Co.	703	16,155
Waters Corp.*	48	1,814	Eli Lilly & Co.	415	23,485
		<u>5,031</u>	Forest Laboratories, Inc.*	138	5,614
Insurance — 4.2%			Merck & Company, Inc.	741	23,571
ACE Ltd.	108	5,772	Pfizer, Inc.	2,491	58,089
AFLAC, Inc.	203	9,423	Schering-Plough Corp.	556	11,593
Allstate Corp.	251	13,572	Wyeth	482	22,206
					<u>189,334</u>

continued

FREE ENTERPRISE ACTION FUND
Schedule of Portfolio Investments
December 31, 2005

	Shares	Value		Shares	Value
Common Stocks — (continued)			Common Stocks — (continued)		
Medical Information Systems — 0.0%			Multimedia — (continued)		
IMS Health, Inc.	96	\$ 2,392	Viacom, Inc. — Class B.	668	\$ 21,777
Medical Labs & Testing Services — 0.1%			Walt Disney Co.	767	18,385
Laboratory Corporation of America Holdings*	58	3,123			<u>117,099</u>
Quest Diagnostics, Inc.	75	3,861	Newspapers — 0.5%		
		<u>6,984</u>	Gannett Company, Inc.	96	5,816
Medical Products — 3.4%			Knight-Ridder, Inc.	34	2,152
AmerisourceBergen Corp.	88	5,643	New York Times Co. — Class A ..	63	1,666
Baxter International, Inc.	231	8,697	Tribune Co.	124	3,752
Becton Dickinson & Co.	95	5,708			<u>13,386</u>
Biomet, Inc.	105	3,840	Non-Hazardous Waste Disposal — 0.1%		
Boston Scientific Corp.*	375	9,184	Waste Management, Inc.	216	6,556
C.R. Bard, Inc.	47	3,098	Office Equipment & Supplies — 0.5%		
Cardinal Health, Inc.	169	11,619	Acco Brands Corp.*	12	294
Guidant Corp.	120	7,770	Avery Dennison Corp.	45	2,487
Johnson & Johnson	1,079	64,847	Office Depot, Inc.*	117	3,674
Medtronic, Inc.	449	25,849	Pitney Bowes, Inc.	85	3,591
St. Jude Medical, Inc.*	146	7,329	Staples, Inc.	293	6,654
Stryker Corp.	165	7,331	Xerox Corp.*	380	5,567
Zimmer Holdings, Inc.*	95	6,407			<u>22,267</u>
		<u>165,322</u>	Oil & Gas — 6.8%		
Metals & Mining — 0.6%			Anadarko Petroleum Corp.	86	8,149
Alcoa, Inc.	309	9,137	Apache Corp.	113	7,743
Freeport-McMoRan Copper & Gold, Inc. — Class B	66	3,551	Baker Hughes, Inc.	126	7,658
Newmont Mining Corp.	165	8,811	BJ Services Co.	130	4,767
Phelps Dodge Corp.	34	4,892	Burlington Resources, Inc.	137	11,809
		<u>26,391</u>	ChevronTexaco Corp.	844	47,914
Motorcycles — 0.1%			ConocoPhillips	425	24,727
Harley-Davidson, Inc.	109	5,612	Devon Energy Corp.	167	10,444
Multimedia — 2.4%			EOG Resources, Inc.	83	6,090
Clear Channel Communications, Inc.	216	6,793	Exxon Mobil Corp.	2,036	114,362
Comcast Corp. — Class A*	794	20,612	Halliburton Co.	190	11,772
Live Nation*	27	354	Kerr-McGee Corp.	54	4,906
News Corp. — Class A	966	15,021	Marathon Oil Corp.	113	6,890
Time Warner, Inc.	1,758	30,660	Nabors Industries Ltd.*	59	4,469
Univision Communications, Inc. — Class A*	119	3,497	Occidental Petroleum Corp.	125	9,985
			Schlumberger Ltd.	199	19,333
			Transocean, Inc.*	124	8,642

continued

FREE ENTERPRISE ACTION FUND
Schedule of Portfolio Investments
December 31, 2005

	Shares	Value		Shares	Value
Common Stocks — (continued)			Common Stocks — (continued)		
Oil & Gas — (continued)			Retail — (continued)		
Valero Energy Corp.	166	\$ 8,566	CVS Corp.	269	\$ 7,107
XTO Energy, Inc.	123	5,405	Dollar General Corp.	120	2,288
		<u>323,631</u>	Family Dollar Stores, Inc.	68	1,686
Paints & Coatings — 0.1%			Federated Department Stores, Inc.	93	6,169
Sherwin-Williams Co.	59	2,680	Home Depot, Inc.	846	34,246
Photo Equipment & Supplies — 0.1%			J.C. Penney Company, Inc.	105	5,838
Eastman Kodak Co.	117	2,738	Kohl's Corp.*	120	5,832
Pipelines — 0.2%			Lowe's Companies, Inc.	285	18,998
Kinder Morgan, Inc.	47	4,322	Nordstrom, Inc.	94	3,516
Williams Companies, Inc.	227	5,259	RadioShack Corp.	79	1,661
		<u>9,581</u>	Sears Holding Corp.*	300	34,659
Printing & Publishing — 0.2%			Target Corp.	322	17,700
McGraw-Hill Companies, Inc.	137	7,074	Tiffany & Co.	60	2,297
R.R. Donnelley & Sons Co.	97	3,318	TJX Companies, Inc.	190	4,414
		<u>10,392</u>	Wal-Mart Stores, Inc.	1,564	73,196
Railroads — 0.6%			Walgreen Co.	378	16,730
Burlington Northern Santa Fe					<u>258,499</u>
Corp.	132	9,349	Savings & Loans — 0.5%		
CSX Corp.	83	4,214	Golden West Financial Corp.	126	8,316
Norfolk Southern Corp.	152	6,814	Sovereign Bancorp, Inc.	162	3,502
Union Pacific Corp.	95	7,648	Washington Mutual, Inc.	322	14,007
		<u>28,025</u>			<u>25,825</u>
Real Estate Investment Trusts — 0.3%			Schools — 0.1%		
Equity Office Properties Trust	151	4,580	Apollo Group, Inc. — Class A* ...	75	4,535
Equity Residential	112	4,381	Semiconductors — 2.8%		
Simon Property Group, Inc.	87	6,667	Advanced Micro Devices, Inc.* ...	152	4,651
		<u>15,628</u>	Altera Corp.*	129	2,390
Restaurants — 0.7%			Analog Devices, Inc.	137	4,914
McDonald's Corp.	448	15,106	Applied Materials, Inc.	617	11,069
Starbucks Corp.*	310	9,303	Broadcom Corp. — Class A*	121	5,705
Wendy's International, Inc.	49	2,708	Freescale Semiconductor, Inc. —		
Yum! Brands, Inc.	101	4,735	Class B*	139	3,499
		<u>31,852</u>	Intel Corp.	2,169	54,137
Retail — 5.4%			KLA-Tencor Corp.	72	3,552
Bed Bath & Beyond, Inc.*	124	4,483	Linear Technology Corp.	119	4,292
Best Buy Company, Inc.	187	8,131	Maxim Integrated Products, Inc.	119	4,313
Costco Wholesale Corp.	193	9,548	Micron Technology, Inc.*	239	3,181
			National Semiconductor Corp. ...	113	2,936
			Novellus Systems, Inc.*	50	1,206
			NVIDIA Corp.*	67	2,450

continued

FREE ENTERPRISE ACTION FUND
Schedule of Portfolio Investments
December 31, 2005

	Shares	Value		Shares	Value
Common Stocks — (continued)			Common Stocks — (continued)		
Semiconductors — (continued)			Transportation Services — 0.9%		
QLogic Corp.*	35	\$ 1,138	FedEx Corp.	111	\$ 11,476
Teradyne, Inc.*	91	1,326	United Parcel Service, Inc. —		
Texas Instruments, Inc.	579	18,569	Class B	407	30,586
Xilinx, Inc.	127	3,202			<u>42,062</u>
		<u>132,530</u>	Travel Services — 0.0%		
Staffing — 0.1%			Sabre Holdings Corp. — Class A . .	67	1,615
Robert Half International, Inc. . . .	79	2,993	Utilities — Electric — 2.7%		
Steel — 0.1%			AES Corp.*	206	3,261
Nucor Corp.	58	3,869	Ameren Corp.	75	3,843
United States Steel Corp.	38	1,827	American Electric Power		
		<u>5,696</u>	Company, Inc.	162	6,009
Telecommunications — 3.0%			Cinergy Corp.	76	3,227
ALLTEL Corp.	113	7,130	Consolidated Edison, Inc.	100	4,633
AT&T, Inc.	1,464	35,853	Constellation Energy Group	67	3,859
Avaya, Inc.*	190	2,027	Dominion Resources, Inc.	121	9,341
BellSouth Corp.	708	19,187	DTE Energy Co.	67	2,894
Comverse Technology, Inc.*	78	2,074	Duke Energy Corp.	353	9,690
Corning, Inc.*	513	10,086	Edison International	119	5,190
Lucent Technologies, Inc.*	1,757	4,674	Entergy Corp.	84	5,767
Qwest Communications			Exelon Corp.	249	13,231
International, Inc.*	811	4,582	FirstEnergy Corp.	124	6,075
Scientific-Atlanta, Inc.	60	2,584	FPL Group, Inc.	130	5,403
Sprint Nextel Corp.	1,023	25,897	NiSource, Inc.	117	2,441
Tellabs, Inc.*	202	2,202	PG&E Corp.	155	5,754
Verizon Communications, Inc.	1,022	30,783	Pinnacle West Capital Corp.	34	1,406
		<u>145,079</u>	PPL Corp.	151	4,439
Tobacco — 1.3%			Progress Energy, Inc.	101	4,436
Altria Group, Inc.	743	55,517	Public Service Enterprise Group,		
Reynolds American, Inc.	59	5,624	Inc.	87	5,652
UST, Inc.	59	2,409	Southern Co.	297	10,254
		<u>63,550</u>	TECO Energy, Inc.	88	1,512
Tools — Hand Held — 0.1%			TXU Corp.	166	8,332
Black & Decker Corp.	32	2,782	Xcel Energy, Inc.	172	3,175
Stanley Works	39	1,874			<u>129,824</u>
		<u>4,656</u>	Utilities — Natural Gas — 0.1%		
Toys — 0.0%			KeySpan Corp.	66	2,356
Mattel, Inc.	149	2,357	Sempra Energy	85	3,811
		<u>2,357</u>			<u>6,167</u>

continued

FREE ENTERPRISE ACTION FUND
Schedule of Portfolio Investments
December 31, 2005

	<u>Shares</u>	<u>Value</u>		<u>Contracts</u>	<u>Value</u>
Common Stocks — (continued)			Options — 0.1%		
Web Portals/ISP — 0.5%			SPDR Trust Series 1 January Call		
Yahoo!, Inc.*	555	\$ 21,745	Option expiring January 21, 2006 @ \$129	350	\$ 2,625
Wireless Communications — 1.0%			Total Options		
Motorola, Inc.	941	21,257	(Cost \$31,150)		<u>2,625</u>
QUALCOMM, Inc.	624	<u>26,882</u>	Total Investments		
		48,139	(Cost \$4,363,625)(a) — 92.8%		4,450,948
Total Common Stocks			Other Assets in Excess of Liabilities — 7.2%		<u>343,735</u>
(Cost \$4,091,711)		<u>4,207,559</u>	Net Assets — 100.0%		<u>\$4,794,683</u>
Short-Term Investments — 5.0%					
Money Market Mutual Fund — 5.0%					
Huntington Money Market Fund ..	240,764	<u>240,764</u>			
Total Short-Term Investments					
(Cost \$240,764)		<u>240,764</u>			

Percentages indicated are based on net assets.

(a) Represents cost for financial reporting and for federal income tax purposes and differs from value by net unrealized appreciation of securities as follows:

Unrealized appreciation	\$ 281,381
Unrealized depreciation	<u>(194,058)</u>
Net unrealized appreciation	<u>\$ 87,323</u>

* Represents non-income producing securities.

Call Options Written

	<u>Contracts</u>	<u>Value</u>
SPDR Trust Series 1 Call Option expiring January 21, 2006 @ \$128	350	\$7,000
Total Call Options Written (premiums received \$44,975)		<u>\$7,000</u>

See notes to financial statements.

FREE ENTERPRISE ACTION FUND
Statement of Assets and Liabilities
December 31, 2005

Assets:	
Investments in securities, at value (cost \$4,363,625)	\$4,450,948
Cash	230,991
Accrued income	6,298
Receivable for investments tendered	4,654
Receivable from Adviser	103,338
Deposits with broker for call options written	42,919
Prepaid expenses	<u>8,893</u>
Total Assets	<u>4,848,041</u>
Liabilities:	
Call options written (premiums received \$44,975)	7,000
Administration fees	4,192
Chief Compliance Officer fees	872
Accounting fees	4,856
Transfer Agent fees	5,177
Trustee fees	625
Other accrued expenses	<u>30,636</u>
Total Liabilities	<u>53,358</u>
Net Assets	<u><u>\$4,794,683</u></u>
Net Assets Consist of:	
Capital	\$4,706,537
Accumulated net investment loss	(4,360)
Accumulated net realized gain/(loss) on investments	(32,792)
Net unrealized appreciation of written call options	37,975
Net unrealized appreciation/(depreciation) on investments and purchased option contracts	<u>87,323</u>
Net Assets	<u><u>\$4,794,683</u></u>
Shares Outstanding	<u>470,499</u>
Net Asset Value — Offering and Redemption Price per Share	<u>\$ 10.19</u>

See notes to financial statements.

FREE ENTERPRISE ACTION FUND
Statement of Operations
Period Ended December 31, 2005(a)

Investment Income:	
Dividends	\$ 62,059
Total Investment Income	<u>62,059</u>
Expenses:	
Investment advisory fees	44,727
Administration fees	35,237
Chief Compliance Officer fees	4,167
Accounting fees	41,219
Audit fees	15,550
Insurance fees	9,544
Legal fees	52,639
Registration and filing fees	20,473
Printing fees	26,147
Transfer agent fees	36,042
Trustees' fees	8,125
Other fees	<u>8,247</u>
Total Expenses	<u>302,117</u>
Expenses waived by the Adviser	(44,727)
Expenses reimbursed by the Adviser	<u>(185,616)</u>
Net Expenses	<u>71,774</u>
Net Investment Loss	<u>(9,715)</u>
Realized and Unrealized Gain/(Loss) on Investments:	
Net realized losses on written call options transactions	(13,834)
Net realized gain on investment transactions and purchased option contracts	2,771
Change in unrealized appreciation of written call options	37,975
Change in unrealized appreciation/(depreciation) on investments and purchased option contracts	<u>87,323</u>
Net Realized and Unrealized Gain/(Loss) on Investments	<u>114,235</u>
Change in Net Assets Resulting from Operations	<u><u>\$104,520</u></u>

(a) From the commencement of operations on March 1, 2005 to December 31, 2005.

See notes to financial statements.

FREE ENTERPRISE ACTION FUND
Statement of Changes in Net Assets

	<u>Period Ended December 31, 2005(a)</u>
Change in Net Assets:	
Operations:	
Net investment loss	\$ (9,715)
Net realized gains on written call option transactions	(13,834)
Net realized gain on investment transactions and option contracts	2,771
Change in unrealized appreciation of written call options	37,975
Change in unrealized appreciation/(depreciation) on investments and purchased option contracts	<u>87,323</u>
Change in net assets from operations	<u>104,520</u>
Dividends to Shareholders:	
From net investment income	(1,652)
From net realized gain on investment	<u>(18,374)</u>
Change in net assets from shareholder distributions	<u>(20,026)</u>
Capital Transactions:	
Proceeds from shares issued	4,694,570
Dividends reinvested	15,729
Cost of shares redeemed	<u>(110)</u>
Change in net assets from capital transactions	<u>4,710,189</u>
Change in Net Assets	<u>4,794,683</u>
Net Assets:	
Beginning of period	<u>—</u>
End of period	<u>\$4,794,683</u>
Accumulated Net Investment Loss	<u>\$ (4,360)</u>
Share Transactions:	
Issued	468,977
Reinvested	1,533
Redeemed	<u>(11)</u>
Change in fund shares	<u>470,499</u>

(a) From the commencement of operations on March 1, 2005 to December 31, 2005.

See notes to financial statements.

FREE ENTERPRISE ACTION FUND

Financial Highlights

(For a share outstanding throughout the period indicated)	<u>March 1, 2005(c)</u> <u>to December 31, 2005</u>
Net Asset Value, Beginning of Period	\$10.00
Investment Activities:	
Net investment loss	(0.02)
Net realized and unrealized gain on investments and options	<u>0.25</u>
Total from investment activities	<u>0.23</u>
Distributions:	
Net investment income	—(d)
Net realized gains	<u>(0.04)</u>
Total distributions	<u>(0.04)</u>
Change in Net Asset Value per Share	<u>0.19</u>
Net Asset Value, End of Period	<u>\$10.19</u>
Total Return	2.32%(b)
Ratios/Supplemental Data:	
Net Assets at end of period (000's omitted)	\$4,795
Ratio of net expenses to average net assets	2.00%(a)
Ratio of total expenses to average net assets*	8.42%(a)
Ratio of net investment loss to average net assets	(0.27%)(a)
Portfolio turnover rate	0%(e)

(a) Annualized.

(b) Not annualized.

(c) Commencement of operations.

(d) Amount is less than \$.005.

(e) Rate is less than 0.5%.

* During the period, certain fees were contractually reduced and/or reimbursed. If such contractual fee reductions and/or reimbursements had not occurred, the ratio would have been as indicated.

See notes to financial statements.

FREE ENTERPRISE ACTION FUND

Notes to Financial Statements

1. Organization:

The Variable Insurance Funds (the “Trust”) was organized on July 20, 1994, and is registered under the Investment Company Act of 1940, as amended (the “Act”), as an open-end management investment company established as a Massachusetts business trust.

The Trust is authorized to issue an unlimited number of shares without par value. As of the date of this report, the Trust offered multiple separate series, each with its own investment objective. The accompanying financial statements are for the Free Enterprise Action Fund (the “Fund”).

The Free Enterprise Action Fund commenced operations on March 1, 2005.

Under the Trust’s organizational documents, its officers and trustees are indemnified against certain liabilities arising out of the performance of their duties to the Trust. In addition, in the normal course of business, the Trust enters into contracts with their vendors and others that provide for general indemnifications. The Trust’s maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Trust. However, based on experience, the Trust expects that risk of loss is remote.

2. Significant Accounting Policies:

The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements. The policies are in conformity with Generally Accepted Accounting Principles of the United States of America (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses for the period. Actual results could differ from those estimates.

Securities Valuation: Portfolio securities, the principal market for which is a securities exchange, generally will be valued at the closing price on that exchange on the day of computation, or, if there have been no sales during such day, at the last sales price on any other exchange or trading system. Portfolio securities, the principal market for which is not a securities exchange, generally will be valued on the basis of the mean between the last bid and ask quotes furnished by primary market makers for those securities. For NASDAQ/NMS traded securities, market value may also be determined on the basis of the Nasdaq Official Closing Price instead of the closing price. Foreign securities generally are valued based on quotations from the primary market in which they are traded and are translated from the local currency into U.S. dollars using current exchange rates. The value of foreign securities may be affected significantly on a day that the New York Stock Exchange is closed and an investor is unable to purchase or redeem shares. Shares of investment companies are valued on the basis of their net asset values, subject to any applicable sales charge. Portfolio securities with a remaining maturity of 60 days or less will be valued either at amortized cost or original cost plus accrued interest, which approximates current value.

All other assets and securities, including securities for which market quotations are not readily available, will be valued at their fair market value as determined in good faith under the general supervision of the Board of Trustees. If a significant market event impacting the value of a portfolio security occurs subsequent to the close of trading in the security, but prior to the calculation of the Fund’s net asset value per share, market quotations for that security may not be readily available. If the impact of such a significant market event materially affects the net asset value per share of the Fund, an affected portfolio security will be valued at fair market value as determined in good faith under the general supervision of the Board of Trustees.

Securities Transactions and Related Income: Security transactions are accounted for no later than one business day after trade date. However, for financial reporting purposes, security transactions are accounted for on trade date. Dividend income is recorded on the ex-dividend date. Interest income, which includes amortization of premium and accretion of discounts, is accrued as earned. Realized gains and losses from security transactions and unrealized appreciation and depreciation of investments are determined on the basis of identified cost.

Expenses: Expenses that are directly related to the Fund are charged directly to the Fund, while general Trust expenses are allocated to the Fund and other series of the Trust based on their relative net assets or another appropriate method.

FREE ENTERPRISE ACTION FUND

Notes to Financial Statements, continued

Distributions to Shareholders: The Fund intends to declare and pay applicable dividends from net investment income and to make distributions of applicable net realized capital gains, if any, on an annual basis. Dividends from net investment income and distributions from net realized gains are determined in accordance with federal income tax regulations, which may differ from GAAP. These "book/tax" differences are considered to be either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the composition of net assets based on their federal tax-basis treatment; temporary differences do not require reclassifications.

Options: The Fund may purchase put and call options on securities. The Fund may write only covered call options. This means that the Fund will only write a call option on a security which it already owns. Such options must be listed on recognized U.S. exchanges and issued by the Options Clearing Corporation. The purpose of writing covered call options is to generate additional premium income for the Fund. This premium income will serve to enhance the Fund's total return and will reduce the effect of any price decline of the security involved in the option. Covered call options will generally be written on securities which are not expected to make any major price moves in the near future but which, over the long term, are deemed to be attractive investments for the Fund.

A call option gives the purchaser the right to buy, and the writer the obligation to sell the underlying security at the stated exercise price at any time prior to the expiration of the option, regardless of the market price of the security. A put option gives the purchaser the right to sell, and the writer the obligation to buy the underlying security at the stated exercise price at any time prior to the expiration of the option, regardless of the market price of the security.

Transactions in written covered call options for the year ended December 31, 2005 were as follows:

	<u>Number of Contracts</u>	<u>Premiums Received</u>
Options at beginning of period	0	\$ 0
Options written	3,851	432,231
Options terminated in closing purchase transactions	3,481	387,256
Options expired	0	0
Options exercised	<u>0</u>	<u>0</u>
Options outstanding at December 31, 2005	<u>350</u>	<u>\$ 44,975</u>

Federal Income Taxes: It is the intention of the Fund to qualify as a regulated investment company by complying with the provisions available to certain investment companies, as defined in applicable sections of the Internal Revenue Code, and to make distributions of net investment income and net realized capital gains sufficient to relieve it from all, or substantially all, federal income taxes.

The tax character of dividends paid to shareholders during the fiscal year ended December 31, 2005, was as follows:

<u>Ordinary Income</u>	<u>Net Long- Term Capital Gains</u>	<u>Total Taxable Distributions</u>	<u>Tax Return of Capital</u>	<u>Total Distributions Paid</u>
\$ 20,026	\$ —	\$20,026	\$ —	\$ 20,026

As of December 31, 2005, the components of accumulated earnings on a tax basis were as follows:

<u>Undistributed Ordinary Income</u>	<u>Undistributed Long-Term Capital Gains</u>	<u>Distributions Payable</u>	<u>Accumulated Capital and Other Losses</u>	<u>Unrealized Appreciation/ (Depreciation)</u>	<u>Total Accumulated Earning</u>
\$ —	\$ —	\$ —	\$(32,792)	\$125,298	\$ 92,506

FREE ENTERPRISE ACTION FUND

Notes to Financial Statements, continued

Capital losses after October 31 (“post-October losses”) within the taxable year are deemed to arise on the first business day of the Fund’s next taxable year. After October 31, 2005, Free Enterprise Action Fund incurred and will elect to defer net capital losses in the approximate amount of \$32,792.

3. Purchases and Sales of Securities:

The aggregate purchases and sales of portfolio securities (excluding short-term securities) for the period ended December 31, 2005, were as follows:

<u>Purchases</u>	<u>Sales</u>
\$4,107,256	\$18,316

4. Related Party Transactions:

Action Fund Management, LLC (“AFM” or the “Adviser”) provides investment advisory services to the Fund. Under the terms of the investment advisory agreement, the Adviser is entitled to receive a fee computed daily and paid monthly at the annual rate of 1.25% of the average daily net assets of the Fund.

The Adviser has contractually agreed to waive all or a portion of its fees and reimburse certain expenses for the Fund through April 30, 2006 to the extent that expenses exceed 2.00% of the average daily net assets of the Fund. Under the terms of this agreement, the Adviser may request and receive reimbursement of the investment advisory fees waived and other expenses reimbursed by it at a later date not to exceed three years from the period ending April 30 in which they were taken. Such reimbursement shall be made monthly, but only if the operating expenses of the Fund are at an annualized rate less than the expense limit for the payments made through the period ended December 31. As of the period ended December 31, 2005, the reimbursement that may potentially be made by the Fund is as follows:

<u>Expires 2008</u>
\$230,343

Thinkorswim Advisors, Inc. (“TOS” or the “Sub-adviser”) serves as the investment sub-adviser to the Fund pursuant to an Investment Subadvisory Agreement entered into between the Sub-adviser and the Adviser. The Sub-adviser assists the Adviser in making day-to-day investment decisions for the Fund, subject to the general supervision of the Adviser, the Fund’s Board of Trustees, and in accordance with the investment objective, policies, and restrictions of the Fund. The Sub-adviser conducts all research relating to potential options positions for the Fund, makes recommendations to the Adviser, and assists the Adviser in making investment decisions with respect to all options trading.

BISYS Fund Services Ohio, Inc. (“BISYS Ohio”) with which certain officers and trustees (with the exception of the Chief Compliance Officer) of the Trust are affiliated, serves the Trust as Fund Accountant, Administrator and Transfer Agent. Such officers and trustees are paid no fees directly by the Trust for serving as officers and trustees of the Trust. Under the Fund Accounting Agreement, BISYS Ohio receives a fee from the Trust based upon a tiered fee structure, subject to a minimum fee of \$37,500 per annum, plus applicable reimbursement of certain expenses. Under the Administration Agreement, BISYS Ohio receives a fee from the Trust based upon a tiered fee structure, subject to a minimum fee of \$45,000 per annum. Under the Transfer Agent Agreement, BISYS Ohio receives \$17,000 per annum, plus applicable reimbursement of certain expenses.

BISYS Fund Services Limited Partnership (“BISYS”) serves, without compensation, as principal underwriter and distributor of the Fund’s shares.

BISYS Ohio also provides an employee to serve the Trust as Chief Compliance Officer for which BISYS Ohio receives compensation and reimbursement from the Trust for certain expenses as approved by the Trust’s Board of Trustees. BISYS, an Ohio limited partnership, and BISYS Ohio are subsidiaries of The BISYS Group, Inc.

FREE ENTERPRISE ACTION FUND

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders
of the Free Enterprise Action Fund of the Variable Insurance Funds (the "Trust")

We have audited the accompanying statement of assets and liabilities, including the schedule of portfolio investments, of the Free Enterprise Action Fund (the "Fund") of the Variable Insurance Funds (the "Trust") as of December 31, 2005, and the related statements of operations, changes in net assets and financial highlights for the period from March 1, 2005 (commencement of operations) through December 31, 2005. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. According, we express no such opinion. An audit also includes examining, of a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit procedures included confirmation of securities owned as of December 31, 2005, by correspondence with the custodians. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Free Enterprise Action Fund of the Variable Insurance Funds at December 31, 2005, the results of its operations, the changes in its net assets, and the financial highlights for the period from March 1, 2005 through December 31, 2005 in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Columbus, Ohio
February 10, 2006

FREE ENTERPRISE ACTION FUND Supplemental Information (unaudited)

FREE ENTERPRISE ACTION FUND MANAGEMENT

The Trustees and Officers of the Fund, their date of birth, the position they hold with the Fund, their term of office and length of time served, a description of their principal occupations during the past five years, the number of portfolios in the fund complex that the Trustee oversees and any other directorships held by the Trustee are listed in two tables immediately following. The business address of the persons listed below is 3435 Stelzer Road, Columbus, Ohio 43219-3035.

Trustees and Officers of the Trust

Name, Address, and Date of Birth	Position(s) Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Trusteeships Held by Trustee*
Non-Interested Trustees					
James H. Woodward Date of Birth: 11/24/1939	Trustee	Indefinite; 4/97 to present	Chancellor, University of North Carolina at Charlotte—7/89 to present	5	The Coventry Group
Michael Van Buskirk Date of Birth: 2/22/1947	Trustee and Chairman of the Board	Indefinite; 4/97 to present	Chief Executive Officer, Ohio Bankers Assoc. (industry trade association) — 5/91 to present	5	The Coventry Group
Maurice Stark Date of Birth: 9/23/1935	Trustee	Indefinite; 3/04 to present	Consultant, (part-time) Battelle Memorial Institute — 1/95 to present	5	The Coventry Group
Interested Trustee					
Walter B. Grimm ¹ Date of Birth: 6/30/1945	Trustee	Indefinite; 4/97 to present	Employee of BISYS Fund Services — 6/92 to 9/05	5	American Performance Funds, The Coventry Group, Legacy Funds Group, Performance Funds Trust, United American Cash Reserves

* Not reflected in prior column.

¹ Mr. Grimm may be deemed to be an “interested person,” as defined by the Investment Company Act, of the Trust due to his previous employment with BISYS Fund Services, the Fund’s distributor.

FREE ENTERPRISE ACTION FUND Supplemental Information (unaudited)

Executive Officers

Name, Address, and Date of Birth	Position(s) Held with Trust	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
R. Jeffrey Young 3435 Stelzer Road Columbus, OH 43219 Date of Birth: 8/22/1964	President	Indefinite; 9/05 to present	Employee of BISYS Fund Services (10/95 to present).
Alaina Metz 3435 Stelzer Road Columbus, OH 43219 Date of Birth: 4/4/1967	Secretary	Indefinite; 4/97 to present	Employee of BISYS Fund Services (6/95 to present).
Rodney Ruehle 3435 Stelzer Road Columbus, OH 43219 Date of Birth: 4/26/1968	Anti-Money Laundering Officer and Chief Compliance Officer	Indefinite; 8/04 to present	Employee of BISYS Fund Services (8/95 to present).
Aaron J. Masek 3435 Stelzer Road Columbus, OH 43219 Date of Birth: 1/26/74	Treasurer	Indefinite; 10/05 to present	Employee of BISYS Fund Services (3/97 to present).
Chris Sabato 3435 Stelzer Road Columbus, OH 43219 Date of Birth: 12/15/1968	Assistant Treasurer	Indefinite; 5/03 to present	Employee of BISYS Fund Services (2/93 to present).

The officers of the Trust are interested person (as defined in the 1940 Act) and receive no compensation directly from the Funds for performing the duties of their offices.

The Statement of Additional Information contains more information about the Fund and the Trustees and can be obtained free of charge by calling 1-800-766-3960.

Additional Tax Information

For the taxable year ended December 31, 2005, the following percentage of income dividends paid by the Fund qualify for the dividends received deduction available to corporations:

	<u>Percentage</u>
Free Enterprise Action Fund	100%

For the fiscal year ended December 31, 2005, the Free Enterprise Action Fund paid qualified dividend income of \$20,026.

FREE ENTERPRISE ACTION FUND

Supplemental Information (unaudited)

Expense Examples

As a shareholder of the Fund, you incur ongoing costs, which include investment advisory fees, administration fees and other Fund expenses. These examples are intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds.

These examples are based on an investment of \$1,000 invested at the beginning of the period and held for the entire period from July 1, 2005 through December 31, 2005.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only and do not reflect any transactional costs, such as sales charges (loads), redemption fees, or exchange fees, if applicable. Therefore, the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

Actual Expenses

The table below provides information about actual account values and actual expenses. You may use the information below, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the table under the heading entitled "Expenses Paid During Period" to estimate the expenses you paid on your account during this period.

Beginning Account Value 7/1/05	Ending Account Value 12/31/05	Expenses Paid During Period* 7/1/05-12/31/05	Expense Ratio During Period** 7/1/05-12/31/05
\$1,000.00	\$1,039.90	\$10.28	2.00%

Hypothetical Example for Comparison Purposes

The table below provides information about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. However, you may use this information to compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Beginning Account Value 7/1/05	Ending Account Value 12/31/05	Expenses Paid During Period* 7/1/05-12/31/05	Expense Ratio During Period** 7/1/05-12/31/05
\$1,000.00	\$1,015.12	\$10.16	2.00%

* Expenses are equal to the average account value times the Fund's annualized expense ratio multiplied by the number of days in the most recent fiscal half-year (184) divided by the number of days in the fiscal year (365).

** Absent waiver of fees and/or reimbursement of expenses during the period, expenses would have been higher and ending account values would have been lower.

FREE ENTERPRISE ACTION FUND

Supplemental Information (unaudited)

INVESTMENT ADVISORY AND SUB-ADVISORY AGREEMENTS — REVIEW AND APPROVAL

At a meeting of the Board of Trustees on June 3, 2004, the Board reviewed and considered the Investment Advisory Agreement between the Trust, on behalf of the Fund, and Action Fund Management, LLC (“Action”), as well as the Investment Sub-Advisory Agreement with respect to the Fund between Action and Thinkorswim Advisors, Inc. (the “Sub-Adviser”), to determine whether the agreements should be approved for an initial two-year period. Following their review and consideration, the Trustees determined that the Investment Advisory Agreement and the Investment Sub-Advisory Agreement will enable shareholders of the Fund to obtain high quality services at a cost that is appropriate, reasonable, and in the best interests of its shareholders. The Board, including the independent members of the Board, unanimously approved the Investment Advisory Agreement and the Investment Sub-Advisory Agreement. In reaching their decision, the Trustees requested and obtained from Action and the Sub-Adviser such information as they deemed reasonably necessary to evaluate the proposed agreements. In considering the proposed Investment Advisory Agreement and Investment Sub-Advisory Agreement, the Trustees evaluated a number of considerations that they believed, in light of the legal advice furnished to them by Fund counsel and their own business judgment, to be relevant. They based their decisions on the following considerations, among others, although they did not identify any consideration or particular information that was controlling of their decisions:

The nature, extent and quality of the advisory service to be provided. The Board considered the nature and quality of the services anticipated to be provided by Action and the Sub-Adviser. The Board concluded that Action and the Sub-Adviser are capable of providing high quality services to the Fund, as indicated by the unique package of advisory and advocacy services to be provided by Action and the innovative investment product to be offered to investors, the financial resources of Action and the Sub-Adviser, Action’s management capabilities and retention of personnel with significant public policy experience, and the professional qualifications and experience of the Sub-Adviser’s portfolio management team. The Trustees also concluded that Action and the Sub-Adviser proposed to provide investment and related services that are appropriate in scope and extent in light of the Fund’s operations, the competitive landscape of the investment company business and investor needs.

The investment performance of the Fund. The Board noted that, as a new mutual fund, the Fund had no performance track record. On the basis of the Trustees’ assessment of the nature, extent and quality of advisory and other services to be provided or procured by Action and the Sub-Adviser, the Trustees concluded that Action and the Sub-Adviser should be capable of generating a level of investment performance and shareholder advocacy that is appropriate in light of the Fund’s investment objective, policies and strategies and competitive with the investment performance of many other investment companies.

The cost of advisory services provided and the level of profitability. The Board reviewed information regarding Action’s costs of procuring portfolio management services, as well as the costs of provision of management and advocacy services. The Trustees reviewed data regarding the Fund’s management fees and projected operating expenses (gross and net of expense limitation arrangements) at projected asset levels. Based on such information, the Trustees determined that the management fees and projected overall expense ratio of the Fund generally were competitive with other mutual funds, although such a comparison was of limited utility in light of the unique package of advisory and advocacy services to be provided or procured by Action. In addition, on the basis of the Board’s review of the management fees to be charged by Action for investment advisory and advocacy services, Action’s estimated management income resulting from its management of the Fund, and the estimated income to the Sub-Adviser to be derived from the relationship with the Fund, the Board concluded that the level of investment management fees are appropriate in light of the services to be provided or procured and the management fees and overall expense ratios of other investment companies. The Trustees also concluded that Action and the Sub-Adviser were unlikely to derive any significant profit from their services to the Fund in the near-term future.

Whether fee levels reflect economies of scale and the extent to which economies of scale would be realized as the Fund grows. The Board concluded that the inclusion of asset-based breakpoints in the Fund’s advisory fee schedule appropriately benefits investors by eventually realizing economies of scale in the form of lower management fees as the level of assets grows. However, the Trustees concluded that the Fund was unlikely to achieve economies of scale in the reasonably foreseeable future. In addition, the Board concluded that the Fund’s management fees appropriately reflect the Fund’s anticipated size, the current economic environment for Action, and the competitive nature of the investment company market. The Trustees also concluded that they will have the opportunity to periodically re-examine whether the Fund has achieved economies of scale, and the appropriateness of management fees payable to Action and fees payable by Action to the Sub-Adviser, in the future.

FREE ENTERPRISE ACTION FUND

Supplemental Information (unaudited)

Benefits (such as soft dollars) to Action, its affiliates, or the Sub-Adviser from their relationship with the Fund. The Board concluded that any other benefits that may be derived by Action, its affiliates, and the Sub-Adviser from their relationship with the Fund are reasonable and fair, and are consistent with industry practice and the best interests of the Fund and its shareholders. In this regard, the Board noted that neither Action nor the Sub-Adviser is expected to realize “soft dollar” benefits from its relationship with the Fund.

Other considerations. The Board determined that Action had made a substantial commitment to the recruitment of high quality personnel, and maintained the financial and operational resources reasonably necessary to manage the Fund in a professional manner that is consistent with the best interests of the Fund and its shareholders. The Trustees also determined that Action had made a significant entrepreneurial commitment to the management and success of the Fund, reflected by Action’s expense limitation and fee waiver arrangement with the Fund, which was expected to result in Action waiving a substantial amount of advisory fees and/or reimbursing Fund expenses for the benefit of shareholders while the Fund was in its start-up phase.

