

Cost Basis Tracking

Tracking cost basis is important to ensure that the Foundation is picking up all income/loss items in a given year. In addition, the Foundation still needs to track cost basis over the life of each investment in order to be able to calculate the tax gain/loss on the disposition of the investment.

Each year, during preparation of the Foundation's tax returns, the staff enters information from K-1s into one of the cost basis tracking spreadsheets. There is a separate spreadsheet for each of the following: the Legacy private equity portfolio, the Cambridge private equity portfolio, managers, and the timber portfolio. Note that the managers cost basis tracking spreadsheet is only used for managers that provide tax reporting to the Foundation on Schedule K-1 each year. Attached is one page of the cost basis calculation spreadsheet for the Legacy private equity portfolio for the year ended 12/31/2011.

The first section of the cost basis spreadsheet rolls forward the tax basis of the investment. The tax basis of the investment at the end of the year is calculated using the beginning of year tax basis along with entry of the year's contributions, distributions and taxable income and loss items. Non-tax items are included in the columns for annual unrealized gain/(loss), annual income/(loss), annual miscellaneous, or annual unknown gain/(loss). The book ending capital is then calculated and tied to the capital statement provided by the private equity investment as of the end of the year, which should also tie to what is reported in Private i. Any differences are investigated and either resolved or explained.

There are a couple of reasons why the ending capital balance per the K-1 reporting might not tie to the ending capital balance reported on the capital statement for the year. The most common reason is that the K-1 is prepared using a non-GAAP method. Because financial statements are prepared using GAAP, a K-1 that is prepared using a method other than GAAP will not match those financial statements. For the year ended 12/31/2011, the Foundation had two investments in its Legacy portfolio and eight investments in its Cambridge private equity portfolio that provided K-1s prepared using non-GAAP. The most common alternatives used are Section 704(b), tax basis, and IFRS.

Another reason why ending capital balances may not tie is differing foreign exchange rates. The Foundation has a few investments that are reported in foreign currencies, and capital calls are made in foreign currencies. Private i reports the foreign currency amount and an equivalent United States dollar amount using the exchange rate that was actually used for the capital call or distribution. However, the investment may use a slightly different exchange rate as of that date, or the investment may use an average exchange rate over the year in converting from the foreign currency to USD for its tax reporting. Because of the exchange rate differences, amounts may be slightly different. In simple cases in which it is obvious that the difference between tax reporting and Private i is due to small differences in foreign exchange rates, Foundation staff may enter a foreign currency exchange difference in the unknown gain/(loss) column of the cost basis tracking spreadsheet. In more complicated cases, such as the Bain Europe investment, the staff does a side calculation rolling forward contributions and distributions in the foreign currency to ensure that all pieces are accounted for, and that items in the capital statement and tax reporting tie to what is shown in Private i. The basis tracking spreadsheet is then completed in USD using the exchange rates provided by the investment.

Regular Domestic LPs

Information is entered into the cost basis tracking spreadsheet according to the process described above, using the K-1 received from the investment.

Alternative Investment Vehicles (AIVs)

Entry of tax information for AIVs into the cost basis tracking spreadsheet depends on what type of reporting is received from each AIV. The type of reporting received is determined by the structure of the AIV, and the AIV information may be entered in the manners described under Regular Domestic LPs, Foreign Corporations, or Foreign Limited Partnerships.

When an investment includes AIVs, cost basis information for the main investment is entered in one section, to arrive at a cost basis for the main investment as a standalone investment. Each AIV is reported separately, and a section is included on the spreadsheet that consolidates all of the separate basis calculations, in order to tie the total investment value to the end of year capital balance reported in Private i. In most cases, Private I does not track AIVs separately.

Regular Domestic LPs with Interest in Foreign LPs and/or Foreign Corporations

Information is entered into the cost basis tracking spreadsheet according to the process described above, using the K-1 received from the investment.

The K-1 also includes information regarding foreign investments. Contributions, income items, and distributions associated with each investment triggering a Form 8621 filing requirement are tracked alongside the main cost basis tracking schedule. This is maintained in addition to the more comprehensive Form 8621 tracking spreadsheet discussed in Appendix B.

Foreign Corporations

Foreign corporations typically provide a PFIC Annual Information Statement, which is used to complete the cost basis tracking spreadsheet. PFIC statements do not always include contribution information, so contribution information from Private i is used. PFIC statements do include distribution information, as well as taxable income. The end of year capital statement is used to fill in the lines for non-tax items, and to arrive at the ending capital balance.

Foreign Limited Partnerships

Some foreign limited partnerships provide a K-1 or a Pro Forma K-1, which is then used according to the process described above to enter cost basis tracking information.

For additional information regarding the tax reporting received for the specific investments described below, please see Appendix A-2.

Form 5471 is provided to the Foundation for two foreign partnership investments that are treated as corporations. Because Form 5471 does not provide the information necessary to complete the cost basis calculation, the Foundation uses the audited financial statements and the Foundation's ownership percentage to calculate amounts in the cost basis tracking schedule. More information regarding these investments, Sankaty Credit Opportunities (Offshore) III, LP and Sankaty Credit Opportunities (Offshore) IV, LP, is available in the Tax Permanent File.

Munich Venture Partners Fund II GmbH & Co. will be included on the cost basis schedule for the first time during reporting for the 2012 tax year. MVP provides a summary of interest, expenditures, and taxable income. This summary, combined with the audited financial statements and the capital statement for the year ended 6/30/2012 will be utilized to complete the cost basis calculation.

Coller International Partners V-B, LP does not provide tax reporting information because it is the investment's policy that all distributions are considered return of capital, and there have been no taxable distributions to date. When Coller begins making taxable distributions, we anticipate that the Foundation will receive tax reporting to prepare its return. Because no tax reporting is provided by Coller, the statement of changes in partners' capital account is used to complete the basis schedule.

Hedge Funds

For the 2012 tax year, the Foundation had two hedge funds organized as partnerships, which provided K-1s for the Foundation to use in completing its tax return. In addition, one hedge fund in liquidation provided a trust grantor letter. Cost basis is not tracked for these hedge fund investments on an ongoing basis, but will be calculated upon disposal.

The majority of the Foundation's hedge fund investments are organized as corporations. Because of their structure, the cost basis of these investments is not tracked on a separate spreadsheet like the private equity investments. Rather, hedge fund investments' cost basis is reported by the Foundation's custodian bank and reviewed by Foundation staff on an annual basis. Cost basis is adjusted for contributions, reinvested income, and redemptions, which occur relatively infrequently. When a hedge fund investment is liquidated, the cost basis used to calculate the gain/loss on disposal is reviewed by Foundation staff.

The Lynde and Harry Bradley Foundation
Legacy Private Equity and Venture Capital Fund
Cost Basis Calculation
As of December 31, 2011

	Tax Basis	Contributions	Distributions	Net Fundings & Distributions	Taxable Income/(Loss)	Tax Basis	Annual Unrealized Gain/(Loss)	Cumm. Unrealized Gain/(Loss)	Annual Income/(Loss)	Cumm. Annual Income/(Loss)	Annual Misc	Cumulative Misc	Annual Unknown Gain/(Loss)	Cumm. Unknown Gain/(Loss)	Book Ending Capital	Notes
GS Cap Partners III LP																
1998		196,035			(36,571)	159,464	200	200							-	159,664 per k-1 & per spreadsheet
1999	159,464	1,897,955			(29,931)	2,027,488	32,984	33,184			(239)	(239)			-	2,060,433 per k-1 & per spreadsheet
2000	2,027,488	1,138,649	(146,463)		136,156	3,155,830	652,737	685,921			(37,863)	(38,102)			-	3,803,649 per k-1 & per spreadsheet
2001	3,155,830	257,027	(184,532)		(111,695)	3,116,630	(1,334,867)	(648,946)			8,512	(29,590)			-	2,438,094 per k-1 & per spreadsheet
2002	3,116,630	54,775	(998,587)		22,878	2,195,696	(615,191)	(1,264,137)			144,463	114,873			-	1,046,432 per k-1 & per spreadsheet
2003	2,195,696		(405,776)		(146,907)	1,643,013	380,483	(883,654)			(56,006)	58,867			-	818,226 per k-1
2004	1,643,013		(573,270)		339,980	1,409,723	190,118	(693,536)			(31,527)	27,340			-	743,527 per k-1
2005	1,409,723		(507,765)		262,122	1,164,080	(109,398)	(802,934)			28,617	55,957			-	417,103 per k-1
2006	1,164,080		(148,706)		21,445	1,036,819		(802,934)			66,391	122,348			-	356,233 per k-1
2007	1,036,819		(300,029)		30,456	767,246	180,374	(622,560)			69,996	192,344			-	337,030 per k-1
2008	767,246		(47,048)		12,744	732,942	(148,105)	(770,665)			(2,953)	189,391			-	151,668 per k-1
2009	732,942				(26,448)	706,494	77,564	(693,101)			942	190,333			-	203,726 per k-1
2010	706,494		(86,038)		(118,745)	501,711	277,457	(415,644)			(33,639)	156,694			-	242,761 per k-1
2011	501,711		(132,992)		(42,281)	326,438		(415,644)			(10,627)	146,067			-	56,861 per k-1
K-1 Total		3,544,441	(3,531,206)		313,203											
Total per Private i		3,555,079	(3,546,689)													56,861 per Private i
Difference		(10,638)	15,483	4,845												- Difference
GS Private Equity Partners, LP																
1997		218,864	(153)		(48,764)	169,947	3,643	3,643			(1,071)	(1,071)			-	172,519 per k-1 & per spreadsheet
1998	169,947	1,054,095	(33,529)		(20,744)	1,169,769	1,036	4,679			(10,542)	(11,613)			-	1,162,835 per k-1 & per spreadsheet
1999	1,169,769	1,132,262	(137,879)		(17,356)	2,146,796	562,195	566,874			(50,551)	(62,164)			-	2,651,506 per k-1 & per spreadsheet
2000	2,146,796	962,029	(288,828)		24,499	2,844,496	(168,023)	398,851			6,990	(55,174)			-	3,188,173 per k-1 & per spreadsheet
2001	2,844,496	374,783	(175,393)		(118,154)	2,925,732	(209,990)	188,861			(86,114)	(141,288)			-	2,973,305 per k-1 & per spreadsheet
2002	2,925,732	438,018	(218,396)		(283,724)	2,861,630	(244,619)	(55,758)			6,128	(135,160)			-	2,670,712 per k-1 & per spreadsheet
2003	2,861,630	143,863	(497,432)		146,061	2,654,122	429,888	374,130			35,803	(99,357)			-	2,928,895 per k-1
2004	2,654,122	47,584	(1,194,527)		599,939	2,107,118	(310,485)	63,645			34,762	(64,595)			-	2,106,168 per k-1
2005	2,107,118	48,954	(1,069,177)		525,453	1,612,348	(184,104)	(120,459)			(41,206)	(105,801)			-	1,386,088 per k-1
2006	1,612,348	33,459	(509,444)		97,951	1,234,314	166,442	45,983			32,265	(73,536)	(1)	(1)	1,206,760 per k-1: \$1 adj. made to balance	
2007	1,234,314	16,943	(437,276)		217,754	1,031,735	(95,888)	(49,905)			(12,864)	(86,400)		(1)	895,429 per k-1	
2008	1,031,735	31,255	(210,062)		(93,975)	758,953	(39,953)	(89,858)			21,690	(64,710)		(1)	604,384 per k-1	
2009	758,953				(111,167)	647,786	69,583	(20,275)			21,474	(43,236)		(1)	584,274 per k-1	
2010	647,786	43,401	(99,534)		16,119	607,772	16,413	(3,862)			(2,076)	(45,312)		(1)	558,597 per k-1 & GS PE Partners 12/31/10	
2011	607,772	10,287	(355,686)		118,489	380,862	(130,026)	(133,888)			(11)	(45,323)		(1)	201,650 per k-1	
K-1 Total		4,555,797	(5,227,316)		1,052,381											
Total per Private i		4,500,540	(5,162,140)													201,650 per Private i
Difference		55,257	(65,176)	(9,919)												- Difference
GS PEP Tech Fund 2000, LP																
2000		500,124	(3,477)		(30,630)	466,017	(4,186)	(4,186)			(2,060)	(2,060)	(862)	(862)	458,909 per spreadsheet	
2001	466,017	180,348	(2,728)		(93,609)	550,028	(113,420)	(117,606)			(3,273)	(5,333)	158	(704)	426,385 per k-1 & per spreadsheet	
2002	550,028				(92,485)	457,543	(78,311)	(195,917)			3,121	(2,212)	160	(544)	258,870 per k-1 & per spreadsheet	
2003	457,543	197,563	(23,514)		(106,107)	525,485	53,016	(142,901)			(1,081)	(3,293)	160	(384)	378,907 per k-1	
2004	525,485	238,921	(83,960)		(50,393)	630,053	32,538	(110,363)			11,302	8,009	160	(224)	527,475 per k-1	
2005	630,053	143,655	(99,812)		(27,957)	645,939	31,125	(79,238)			(8,736)	(727)	40	(184)	565,790 per k-1	
2006	645,939	104,230	(84,070)		11,678	677,777	59,109	(20,129)			(28,888)	(29,615)	-	(184)	627,849 per k-1	
2007	677,777	70,821	(133,605)		(33,066)	581,927	108,400	88,271			20,059	(9,556)	(5)	(189)	660,453 per k-1	
2008	581,927	26,102	(46,452)		(26,888)	534,689	(95,964)	(7,693)			(9,400)	(18,956)	(2)	(191)	507,849 per k-1	
2009	534,689				(4,062)	530,627	(6,005)	(13,698)			(3,226)	(22,182)	(9)	(200)	494,547 per k-1	
2010	530,627	56,425	(164,550)		20,750	443,252	21,852	8,154			(9,364)	(31,546)	(4)	(204)	419,656 per k-1	
2011	443,252	12,223	(112,985)		6,833	349,323	(8,346)	(192)			-	(31,546)	(2)	(206)	317,379 per k-1	
K-1 Total		1,530,412	(755,153)		(425,936)											
Total per Private i		1,523,375	(748,116)													317,379 per Private i
Difference		7,037	(7,037)													- Difference

Cambridge Private Equity and Venture Capital Fund
Cost Basis

	Tax Basis Roll Forward	Contributions	Distributions	Taxable Income/(Loss)	Tax Basis	Annual Unrealized Gain/(Loss)	Cumulative Unrealized Gain/(Loss)	Annual Misc Gain/(Loss)	Cumulative Misc Gain/(Loss)	Annual Unknown Gain/(Loss)	Cumulative Unknown Gain/(Loss)	Book Ending Capital	Notes	Capital Balance per Individual capital stmt	Capital Balance per Private I	Unrealized Gain/(Loss)	Capital Balance with Adj for Unrealized G/L
Merced Partners III, LP																	
GAAP																	
2010	-	1,164,931	(300,000)	(8,083)	856,848	10,479	10,479	-	-	-	-	867,327	per k-1				
2011	856,848	1,049,716	-	15,304	1,921,868	(35,196)	(24,717)	-	-	-	-	1,897,151	per k-1				
2012	1,921,868	300,000	(300,082)	111,632	2,033,418	122,307	97,590	8,772	8,772	-	-	2,139,780	per k-1				
		2,514,647	(600,082)	118,853		97,590		8,772		-							
Merced Partners III (Cayman), LP																	
GAAP																	
2010	-	185,069	-	(16)	185,053	(1,192)	(1,192)	-	-	-	-	183,861	per k-1				
2011	185,053	284	-	24,877	210,214	(15,232)	(16,424)	(2)	(2)	-	-	193,788	per k-1				
2012	210,214	-	-	87,631	297,845	28,930	12,506	(1)	(3)	-	-	310,348	per k-1				
		185,353	-	112,492		12,506		(3)		-							
Merced Partners III, LP and Cayman Combined																	
GAAP																	
2010	-	1,350,000	(300,000)	(8,099)	1,041,901	9,287	9,287	-	-	-	-	1,051,188	per Private I at 12/31/10 is \$1,051,319. Difference of \$131				
2011	1,041,901	1,050,000	-	40,181	2,132,082	(50,428)	(41,141)	(2)	(2)	-	-	2,090,939		2,090,939	2,090,939		
2012	2,132,082	300,000	(300,082)	199,263	2,331,263	151,237	110,096	8,771	8,769	-	-	2,450,128		2,450,129	2,450,129		
		2,700,000	(600,082)	231,345		110,096		8,769		-							