**Appendix A. K-1 Process for Preparation of Federal Forms 990-PF and 990-T**

The goal of the K-1 process is to:

1. Aggregate all K-1 information in one location to make one adjustment for income reported on K-1s
2. Determine which investments require the Foundation to file additional forms
3. Aggregate UBTI to report on form 990-T and to report separately from other income types on Form 990-PF

Note that for the purposes of this Appendix, the term “alternative investment” is meant to describe investments in the Foundation’s private equity portfolios. Reporting provided by the Foundation’s hedge fund investments is slightly different, and is handled in a different manner. For information on tax reporting related to hedge funds, please see discussion at Appendix C.

In addition, for the purposes of this Appendix, the term “K-1” is used to identify any tax reporting informational items that are provided by the Foundation’s alternative investments. For a listing of the various types of tax reporting that may be provided to the Foundation, please see Appendix A-2.

A flow chart of the K-1 process is available at Appendix A-1.

K-1s may be received via e-mail or hard copy, or a notification may be sent via e-mail that the K-1 has been posted online. The Accounting Assistant prints out the K-1, then logs it into the appropriate K-1 tracking spreadsheet on the network.

The Accounting Assistant periodically enters amounts from Page 1 of a batch of K-1s into a spreadsheet template and imports the data into the C-TRAC AIM system. The purpose of C-TRAC AIM is to summarize each reported item by line for all of the K-1s.

The Senior Accountant reviews the entry of each K-1 in C-TRAC AIM. Many K-1s include a taxable income total at the beginning of the K-1 footnotes. If the K-1 does provide such a total, the Senior Accountant confirms that the check figure total from the K-1 entry in C-TRAC AIM ties to the taxable income total reported on the K-1. If these amounts do not tie, the Senior Accountant identifies the source of the discrepancy. Entries in C-TRAC AIM are either adjusted to remove the difference, or a note is made to explain the difference. Amounts on the following pages of the K-1 are also reviewed by the Senior Accountant to determine whether amounts on page 1 need to be broken down in greater detail when entered into the system. The Senior Accountant also enters state information.

The Senior Accountant then reviews the K-1 to identify Unrelated Business Taxable Income (UBTI) items. These items will typically be noted in Box 20V on the page 1 of the K-1, with detail provided in the K-1 footnotes. Some K-1s report the total UBTI amount, which is compared to the line total to confirm that all UBTI amounts have been entered for the investment. The Senior Accountant makes a photocopy of each K-1 reporting UBTI that also has Alternative Minimum Tax reporting to be included in the 990-T tax return work papers.

In addition, the Senior Accountant reads through the remaining pages of the K-1 to determine whether there is additional information to be reported. Information regarding additional form filing is found in Appendix B. This Appendix also includes information on the inclusion of QEF income from K-1s.

While reviewing the footnotes of the K-1, the Accountant also flags any K-1 reporting that may need to be included in the return, additional research, or which may require additional clarification with either the partnership or the Foundation’s tax consultant.

Some private equity investments have alternative investment vehicles (AIVs). Each AIV may provide separate tax reporting. In order to ensure that all tax reporting for an investment has been received, the Senior Accountant reviews the capital contributions and distributions/withdrawals reported on the K-1(s) for the investment. A transaction summary report for the year is printed from Private i, and the contribution, distribution, and outside expense amounts in the Private i report are reconciled to the amount(s) reported on the K-1(s) received for the investment. Any discrepancies are investigated and resolved by the Accountant and/or the Controller. This investigation often involves review of the capital call and distribution documentation for the year. It may also require follow up with a contact at the investment for clarification or further information.

Taxable income, contribution, distribution, and book income information from the K-1 is also entered into the cost basis tracking spreadsheet by the Senior Accountant. For more information regarding maintenance of the cost basis tracking spreadsheet, see the separate discussion regarding cost basis tracking. The tax basis portion of the cost basis spreadsheet is reviewed to determine whether there are additional gains or losses to be included on the Form 990-PF.

Depending upon the structure of the Foundation’s investment, the Foundation may receive different tax reporting. Below is more detailed information.

**Regular Domestic LPs**

Regular domestic limited partnerships provide tax reporting on Schedule K-1. The above discussion regarding the K-1 process applies to these investments: the K-1s are logged in, contributions and distributions are reviewed, and amounts are entered into C-TRAC AIM and the cost basis spreadsheet. Footnotes are reviewed for UBTI and any other items that may require further clarification or reporting. The K-1s for regular domestic limited partnerships may have information regarding filing Form 8886, but this type of investment would not have any foreign investment-related additional form filing requirements detailed in its tax reporting.

**Alternative Investment Vehicles (AIVs)**

Several private equity investments’ capital commitments are split with AIVs. The AIVs are typically set up to block UBTI to tax exempt entities, and are separately tracked with respect to contributions and distributions. AIVs may be structured in a number of different ways. The structure of each AIV is analyzed to determine the type of reporting that might be expected from that AIV, and depending on the structure of the AIV, the discussion in this Appendix with regard to Regular Domestic LPs, Foreign Corporations, and/or Foreign Limited Partnerships may apply. The structure of the AIV is also reviewed to anticipate the types of additional forms that need to be filed (e.g., if foreign). Additional form filing may include forms 926, 8865, and/or 8621. The Foundation has been given the option to aggregate fees and performance on multiple AIVs with a private equity manager fund. The Foundation elected not to aggregate fees and performance.

**Regular Domestic LPs with Interests in Foreign LPs and/or Foreign Corporations**

These investments provide tax reporting on Schedule K-1, and the above discussion regarding the K-1 process applies. Additional form filing related to this type of investment might include forms 926, 8865, and/or 8621 to report information regarding the partnership’s foreign investments.

**Foreign Corporations**

Because they are foreign entities, investments structured as foreign corporations do not provide a Schedule K-1 for the Foundation’s use in preparing its tax return. Instead, foreign corporations typically provide PFIC Annual Information Statements. In these cases, the PFIC statement is used in the same way that K-1 Form 8621 reporting would be used. Appendix B contains more information on how this information is reported, and what income, if any, is to be included in C-TRAC AIM.

**Foreign Limited Partnerships**

Foreign limited partnerships do not frequently provide Schedule K-1 to the Foundation because these investments are not required to file a partnership return in the United States. However, some foreign limited partnerships do provide a pro forma K-1 to the Foundation for its use in preparing tax returns. For example, Clyde Blowers Capital Fund III LP provided a pro forma K-1 to the Foundation for the 2012 tax year. However, some foreign partnerships provide alternative tax reporting; see the “Other” section of Appendix A-2 for more information on the type of reporting that might be provided. When alternative reporting is provided, the Senior Accountant references the Tax Permanent File, which contains information on any unique investment structures and/or reporting that have been identified. The Tax Permanent File contains information on what reporting the Foundation has received from the partnership in the past as well as how this reporting was utilized in preparation of Form 990-PF. If the Tax Permanent File contains no historical information regarding the partnership in question, the Senior Accountant discusses with the Controller and Vice President for Finance to determine a course of action.

**Hedge Funds**

For information on tax reporting related to hedge funds, please see discussion at Appendix C.

When the Senior Accountant has completed a review of the information entered in C-TRAC AIM, reports summarizing the information are printed for the Controller’s review. The Controller may or may not review the additional forms at this time, depending on upcoming deadlines. The Controller reviews C-TRAC AIM reports and provides notes on changes and questions to the Senior Accountant. Once all changes are made and all questions are resolved, the C-TRAC AIM reporting is provided to the Vice President for Finance for review.

When all changes and questions per the Vice President for Finance’s review are resolved, then the K-1 information is incorporated into the tax return preparation process for the 990-PF.

**Appendix A-2: Types of Alternative Investment Tax Reporting**

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| **K-1** | Schedule K-1 (“Partner’s Share of Income, Deductions, Credits, Etc.”) is received from partnership investments, and it is the most frequently provided form of tax information reporting received from the Foundation’s alternative investments. Page 1 of the K-1 includes a summary of taxable income and expense items, including Box 20V, which details UBTI income. This income is included on the K-1 summary spreadsheet according to the categorizations provided on the K-1. Page 1 also includes contribution and distribution information for the year. Further information is provided on additional pages. Information regarding transfers to and from foreign entities and foreign entity income information is included for foreign investments that are made through the partnership. Some investments also provide state K-1s for the Foundation’s use in preparing state returns, while some provide only a summary of state income information. For the 2015 tax year, the Foundation received approximately 100 K-1s. Of these, approximately 30 of the K-1s included some type of foreign investment reporting.  |
| **PFIC Statement** | A Passive Foreign Investment Company (PFIC) Annual Information Statement for Shareholder is provided by alternative investments structured as foreign corporations. A handful of these statements are received by the Foundation each year. The statement is one page, and it includes the beginning and end dates of the taxable year, the shareholder’s pro-rata share of ordinary earnings and capital gains, and the amount of cash and non-cash distributions made to the shareholder during the year. Information from the PFIC statement is used in conjunction with capital contribution information from the capital statement provided by the investment, which is not reported on the PFIC statement itself. Information from these sources is entered into the Form 8621 tracking spreadsheet to determine how much income is to be reported on the current year’s return. The income amount is then recorded in C-TRAC AIM as dividend income. A Form 8621 is filed for each investment from which the Foundation receives a PFIC Statement. The investment may also provide the Foundation with a statement of information to complete Form 926 for the Foundation’s contributions during the year. For the 2012 tax year, 16 of the Foundation’s investments provided PFIC statements. |
| **Form 5471** | Form 5471 is provided to the Foundation for a couple of investments which are foreign partnerships treated as corporations. When the Form 5471 is provided to the Foundation, the sender also provides the Foundation’s ownership in the entity. The Foundation’s ownership percentage in the entity is multiplied by the current year E&P and the accumulated E&P reported on the Form 5471 to determine the Foundation’s amounts. Because contribution and distribution information is not included on Form 5471, the capital statement provided by the investment is used to determine the distributions made to the Foundation during the year. This amount is compared to the Foundation’s accumulated E&P, and the smaller amount is the Foundation’s taxable income for the year. If the distribution is smaller than the accumulated E&P, then the remaining accumulated E&P will be included in taxable income when distributed in future years. If the distribution is in excess of the accumulated E&P, then the excess is return of capital. The taxable income amount is reported on the K-1 summary spreadsheet as dividend income. Note that the Foundation may also request the K-1 of the underlying investment(s) in order to determine whether there are any additional form filing requirements. Only two of the Foundation’s investments reported tax information on Form 5471 for the 2012 tax year: Sankaty Credit Opportunities (Offshore) III, LP, and Sankaty Credit Opportunities (Offshore) IV, LP.  |
| **Other** | In some cases, none of the aforementioned items are provided by the investment. In such cases, notes are made in the Permanent File about what information is provided and how tax reporting should be completed using the information provided. One foreign investment provides a summary of interest, expenditures, and taxable income. This is used to complete entry in C-TRAC AIM according to the categorization provided by the investment. This summary and the capital statement are used jointly to determine the additional forms to be filed. This investment is Munich Venture Partners Fund II GmbH & Co., and the reporting was first provided for the 2012 tax year. A handful of AIVs are domestic corporations. Form 1099-DIV is provided each year in which a distribution is made.  |