

Back to Basics: Portfolio Accounting 201 Private Equity Transcript

“Back to Basics: Portfolio Accounting 201 - Private Equity” was a live webinar on July 14, 2010. Jim Powell, CPA gave an introductory course on the fundamentals of private equity accounting that culminated in a question and answer session.

Back to Basics: Portfolio Accounting 201 – Private Equity Webinar Transcript

Moderator:

Good morning and good afternoon. I am the moderator and I would like to welcome you to our webinar: Back to Basics: Portfolio Accounting for Private Equity... and today's agenda we'll be talking about some of the Objectives, go over some of the Private Equity Concepts, talking about Transaction Types, reviewing Balance Sheet Accounts, discussing Other Approaches, looking at Form 1065 K-1, discussing Recording Income and Loss and also showing you some of the Financial Reports that you can be creating within the application.

Our objective today is to provide you with education, experience from our presenter and some of our insights to really help you tackle the day-to-day challenges of working with and for high net worth individuals.

And our purpose of Portfolio Accounting is really to provide you with accurate, meaningful and timely information for effective and efficient investment decision-making, financial reporting and management.

Today's guest presenter is Jim Powell, CPA, CFE – Retired. As you can see from the slides, Jim has an extensive background in a variety of public accounting as well as private accounting with family offices. During today's presentation Jim will be taking you through all of the agenda items and for a quick note just to let you know that this is been recorded and we will be able to convert this to a podcast and provide you with the slides after the presentation is over. You'll be receiving an email from us with all the information you need.

I'm going to go ahead and turn the controls over to Jim so that he can begin.

Jim:

Ok, Good day everyone. This session is going to focus on private equity and introduce you some of the concepts that we recommend that will enable you to better track and report on private equity investment.

Ok. We have some learning objectives for today's session just to let you know what we like you to take away. The first thing is the underlying concepts and the definition of private equity. The investment information to be tracked in your portfolio accounting solution or in your accounting software. How and the various methods that may be available to record balance sheet and income statement transactions. The various components of Form 1065 Schedule K-1 and some of the financial investment reports that can be created and used to present private equity information to your investor.

We define Private Equity as investors and funds that invest directly in private companies or conduct buyouts for public companies that results in delisting. The majority of private equity consists of institutional and individual investors who commit large sums of money for long periods.

Usually, fund managers structure private equity investments by raising large pools of capital from an assembled group of qualified investors. They then use this capital to seek investment opportunities that they believe will provide high rates of return. The third part of our definition and this is what drives the way we recommend the accounting for private equity. At the time of their initial investment, investors may be asked to contribute only a small portion of the total capital they have committed to invest. The investors are then committed to contributing additional funds in the future when they receive capital calls from the fund.

Now we'll be taking an approach in the rest of this presentation that may differ from what all of you have seen or done in the past. For high net worth reporting, we believe this is the best method.

There are several different types of transactions that you typically need to record for private equity.

First is: The Commitment only that is how much in total have you committed to the investment.

Second is: the Initial cash investment, how much does the manager want on the front end.

Third is: Capital calls, these can take place over a relatively short period of time or over a long period of time depending on the, on the need of the fund manager.

Cash distributions: This is a pure Cash distribution when the fund manager returns cash to the investor. The fund manager also annually reports the tax basis income/loss to properly account for the private equity investment it's certainly necessary to report that Tax-basis income.

We also recommend adjusting the investments periodically depending on how your fund manager reports, some of the fund managers will report monthly, some report quarterly and some report annually. At the time they submit that they want but whenever you get the estimated FMV from the fund manager, we recommend making an adjustment to reflect the FMV.

Some times the initial commitment that the investor makes is excess of what the fund manager eventually will require. The way we do the accounting is we record the entire commitment on the front end then is necessary. Then make an adjustment to reduce the total amount of commitment recorded on our books. We also may have a partial liquidation, the investment is necessary to record the partial liquidation and also the various gain or loss components of the partial liquidation and then we would also do the same thing when there was a total liquidation of the funds keeping in mind of course that we will, get the cash at the time the investment is liquidated but it may be some time before we get the, the final accounting to record in the books.

Balance sheet accounting in private equity is up to six accounts to account for the various types of private equity transactions. The first is to record the commitment. This account shows the total amount of commitment to this particular or to each

investment. Next is the unfunded commitment. That is the remaining commitment for additional investments in the future. It will either be based on the initial commitment, if there's been 1, 2, 3, 4 or 5 additional capital calls or will be the net remaining unfunded commitment. It's good to have a separate account for recording distribution(s) made by the fund manager actually the investor. We recommend recording the K-1 Income or loss each year based on the details provided by the investor or by the fund manager and accounting separately for any recalled capital. Sometimes the fund manager will make a distribution with a provision, if that is necessary, these funds can be recalled. A lot of investors like to have this account separately so that they know you have the possibility of having to put the money back into the fund. Last is the FMV adjustment. This basically is the change in the estimated value of the fund or the investment submitted by the fund manager.

We would like to show you some of the accounting that is used for private investments. We're going to make the assumption here that the investor has decided to make an investment in something called the Sequoia Fund. On April 24th, 2009 he/she invests \$5,000,000 (five million dollars) or commits to invest \$5,000,000 (five million dollars) in the fund with the initial cash investment of \$2,000,000 (two million dollars). The first thing we do is we make a journal entry to record the commitment. This entry is to make through a journal account, not a bank account because we don't want the commitment to show in the cash flow. So gather the commitment account which is a, an asset account for \$5,000,000 (five million dollars). Then we recommend structuring this by putting the unfunded commitment in liability accounts and credit it for \$5,000,000 (five million dollars). So before we make that net cash in the first cash investment, the balance in the investment will net to zero. This is the way we recommend creating the balance sheet.

Then on the same day the investor writes a check to fund the initial capital call of \$2,000,000 (two million dollars). This would be a credit to his bank account as Money Market Account, or his brokerage account, depending on where he/she decides to flush the funds from.

Then on June 15th, 2009 the fund manager makes an additional capital call for a \$1,500,000 (million five). That is again recorded through the bank account and we record this as a cash disbursement by further reducing the unfunded commitment for Sequoia by a \$1,500,000 (million five), when the fund manager informs us that he/she is actually able to make a distribution in the first year. On October 28th, the manager makes the cash distribution of \$250,000 (two hundred and fifty thousand dollars). This entry is a debit to your bank account and to the distributions for Sequoia. This goes through the bank account because this is obviously part of your cash flow.

The fund manager at the end of the first period records a \$100,000 (hundred thousand dollar) loss and makes a journal entry to record the loss again. This is completed through a journal because it will not show up in the cash flow. On line #2, debit the tax basis income for Sequoia that is a P&L account and on line #3 credit the balance sheet account to reflect the loss. This gets your total K-1 income without a

detail recorded in your balance sheet and your income statements. We'll also talk a little further about other methods for recording that K-1 income.

The fund reports an increase in its FMV of \$650,000 (six hundred and fifty thousand dollars) as of December 31st, 2009 we again record the adjustment to the FMV as a non cash journal entry and in this case on line #2, we debit the FMV adjustment which is our asset account by \$650,000 (six hundred and fifty thousand dollars) to increase the value of the investment and the way we account for unrealized gains or losses we treat it as a balance sheet account in the equity section and on line #3, we record a credit of \$650,000 (six hundred and fifty thousand dollars) as the increase in the unrealized gain or losses for the change in the FMV of the event.

Once we get finished recording, all of those entries are, are balance sheet again just for this one fund because we would be doing this for all the funds that Joseph Jones has an investment in shows a total FMV of \$3,800,000 (three million eight) which is comprised of the five accounts, the original \$5,000,000 (five million dollars) commitment. The remaining unfunded commitment of a \$1,500,000 (million and half) which is the initial \$5,000,000 (five million dollars) reduced by the \$2,000,000 (two million dollars) of the initial investment and a \$1,500,000 (million five) of the subsequent capital call. It's reduced by the amount of the distributions, the amount of the K-1 loss of a \$100,000 (hundred thousand dollars) and then increased by the estimated change in value, according to the fund manager giving us a total value or a total of FMV of \$3,800,000 (three point eight million) for the Sequoia fund at the end of the year based on the activity for that year.

There, there are some other approaches that we felt that were necessary to talk about. We don't necessarily recommend these approaches but there is one other method for recording your assets and simply creating a one line investment account as cash is sent to the fund manager. You do not then make any accounting entries for the potential capital calls, and you do not track the tax basis in the system, relying instead on the tax basis recorded on the K-1. This is a very simplistic method of doing it. It doesn't get you a lot of detail but it does get you enough information to complete the allocation percentage that your investor wants. If the particular fund does record, only on a tax basis and not on GAAP, it does a good job of reporting the information.

But like I mentioned we do not recommend this approach, especially for those funds that report on a GAAP basis.

We strongly recommend showing the unfunded commitment as a contra-asset account. Traditional accounting might call for simply showing as a liability on the balance sheet which is an acceptable approach but for personal net worth accounting we do not recommend this. I mentioned that we recommend treating it as a contra-asset account and showing the entire investment in one place on the balance sheet.

Ok, switching gears a little bit. We are going to talk briefly about the Form 1065

Schedule K-1 reporting and at the end of the year the fund manager will eventually submit a K-1 for your activity in the fund for the previous year. In the last few years, most of the K-1 are being stated on a GAAP basis that's generally accepted accounting principle, although some funds still use tax basis reporting. For our little example we are making the Sequoia report its investors using GAAP.

The K-1 income for Joseph Jones investment in the Sequoia fund the first half of it might look some thing like this. The left hand side has the partnership identification number, the investor's state, zip code where the Sequoia fund files its 1065, you mark whether it's publicly traded, and then there is the information about the Partner in Part II. On the right hand side, in Part III, you will have a detail of the various components of income or expenses that make up the K-1. Usually the income portion, of your K-1 is the total of lines 1 through 11 on the form.

In our case, lines #1 through #11 are going to be the \$100,000 (hundred thousand dollars). The other information you get on here is the partner share, the profit loss whether he/she has any, any share liability every month. And then line L which is the partner's capital account analysis and as you can see Sequoia has checked that they are recording on a GAAP basis and this is the analysis that should tie back to our balance sheet and in this case we say that our partner has contributed \$3,500,000 (three and a half million dollars) during the year which is we mentioned is the initial capital of \$2,000,000 (two million) and the subsequent capital call of \$3,500,000 (three million five) there was a current year increase in the balance of \$550,000 (five hundred and fifty thousand dollars) which we'll discussed in just a second. The withdrawals and distributions were \$250,000 (two hundred and fifty thousand dollars) and if you look near the right hand top of the screen you'll see that line #19 under distribution, is marked with an A and if you look at the instructions to Form K-1 will indicate that it's a distribution and then the total of the ending capital account is the \$3,800,000 (three point eight million). Now what typically happens is that you will get this schedule for line L with just a total on the current year increase or decrease line.

The fund manager is required to provide as an attachment to the Form K-1 reconciliation of the income and loss. In this particular case the income loss from K-1 line 1 through 11 is the \$100,000 (one hundred thousand dollars) that we, like I mentioned that is composed of all the individual items that total to \$200,000 (two hundred thousand dollars). We did not have any deduction on this particular K-1 so the total income loss for schedule K-1 is a \$100,000 (hundred thousand dollars). For this example we didn't record any book tax differences although this is where they would be reflected if you did have them. Then we had the \$650,000 (six hundred and fifty thousand dollars) estimated changes in the FMV that was reported by the fund manager giving us total income per item L which is the current year increase or decrease. Usually in order to record the individual components from schedule L for the current year increase/decrease it'll be necessary for you to consult this reconciliation that must be provided by the fund. We will need some time to take a look at it if they are reporting on a tax basis because they also have to include in

the reconciliation in any of the book tax difference.

Moderator:

A really quick question for you regarding the FMV, if we don't know the FMV what's acceptable in terms of reporting? Most people don't get their K-1 until August, September sometimes what do most people do in terms of reporting that on their reports?

Jim:

Well there's two things that I've seen recently, one is you might periodically get a letter from the fund manager showing the unrealized gain or loss. Also a number of the brokers now send supplementary reports to their clients each month that show the estimated FMV at the end of each month and you can record on that basis. Now my recommendation is if you get the K-1 sometimes in the middle or late summer of the following year. My recommendation is to go back provided your financial software allows you to do it. In fact, record the FMV and the K-1 income in the proper period. So let's just say, for argument sake, this K-1 came from Sequoia in the middle of May 2010, we would have gone back and recorded the \$100,000 (hundred thousand dollars) and \$650,000 (six hundred and fifty thousand dollars) on December 31st, 2009.

Moderator:

Did you ever see amendments to the FMV later on in the year when the fund manager decides to mark the underlying assets within the fund?

Jim:

You see FMV changes consistently throughout the year from some fund managers and other fund managers only provide it once at the end of the year. Again it depends on what the particular fund provides and they all differ. One thing that you do see quite frequently is, you will get an initial K-1 or an estimated K-1 from the fund so you can, by the 15th of April, do your tax planning and then you'll get a final K-1 that may have a certain additional journal to it that you need to go back and restate the what income and I've some quite, a few of those this past year especially from several of the energy company.

Ok, there are the method that we discussed earlier is what we refer to in our literature is a One-line entry, and simply stated on the balance sheet and in the income statement in particular there must be at least one account to record the taxable income or loss reported on the K-1 at the end of the year. In the example we just presented to you we had made a one line entry for the entire tax basis loss of a \$100,000 (hundred thousand dollars) as a one line item. The other thing that is an optional account is to record the book-tax income adjustment as a one-line item. I've seen most commonly is because the book-tax income adjustment has no on-going tax effect to the investor they will record when you look at the reconciliation and you'll see that it's part of the FMV, they just report is part of change in the FMV

because there is in fact no tax basis to that adjustment.

A one-line entry as I mentioned earlier looks like this, you have a debit on line 2 to the tax basis income for Sequoia which is the \$100,000 (hundred thousand dollars) loss and then you have a credit to the balance sheet account or a \$100,000 (hundred thousand dollars) for the tax basis loss.

Ok, some comments about the one-line entry for recording K-1 income, it's a technically sound method. It gets K-1 the income recorded in total. The advantage is that it's simple to understand and it's very easy to implement. If you're making a one-line debit or one-line credit. The disadvantage is that the reports will only show K-1 income amounts in total with no information about what types of taxable income and expense comprise that total.

So if you want more details on K-1 reporting to your investor, it's necessary to record the detail income components or the line items from the K-1. Providing the breakdown of income requires the creation of additional income accounts and entering transactions to distribute the income to these accounts. For example, there are two other approaches to recording income: one we refer to as Components by Income Type and the second we refer to as Income Accounts within Investment Sections.

For the Components by Income Type, you assign each component of the K-1 income or loss from Part III of the K-1 to the appropriate section of the income statement. What does this mean is for example, if you had interest income you would put that income in with all of the other interest income that you record in your income statement the same with rental income, royalty income, section 1231 income and your capital gain or loss or any other type of income you have and your expenses would also be categorized if you did in fact have expenses that were categorized within the fund; you would also report those in the component. Now under most circumstances we feel that this approach is cumbersome and time consuming because the income from the investment doesn't provide very meaningful information.

Ok, we were talking about K-1 components by income types and I was saying that under most circumstances that particular approach is cumbersome and time-consuming and it will not provide meaningful information to the investors.

The second approach which is our recommended approach, if you do want to put detail income accounts into your income statements for your K-1 is to assign every investment a separate section in the income statements and then create a specific set of K-1 accounts for all the applicable detail K-1 items for each investment.

So in the case of Sequoia back when we showed you the K-1 we indicated that we had a loss of \$100,000 (hundred thousand dollars) and when we looked at the K-1 we had a \$18,000 (eighteen thousand dollars) of Rental Income on Line #2; \$22,000 (twenty two thousand) of Interest Income on Line #5; on Line #6a we had \$9,000 (nine thousand) Ordinary Dividends; Line #8 we had a Net Short-term Capital Loss

of a \$145,000 (hundred and forty five thousand) and on Line #10 we had a 1231 Loss of \$4,000 (four thousand).

We were then recording the detail K-1 income for Sequoia. We would now create a set of separate, five separate income account for Sequoia that are shown on lines 2 through 6 on a multiple distribution entry and we would record those various K-1 components on those lines and then on line 7, we still have the next credit to the balance sheet account of a \$100,000 (hundred thousand dollars) to record the K-1 income for 2009.

Ok so having provided or having recorded the transaction in our relatively straight forward private equity investments for the first year or for the first nine months that we owned it. Let's talk a little bit about what types of information we should then provide to the investor regarding this investment. The information that we provided for the investor that we find that most investor want to know, they want to know what is the total commitment. Secondly, they would like to know what is the amount they have invested today in other words how much cash have I put out to fund the project to date and then what is the remaining unfunded commitment for this particular investment. They also like to know the Tax-basis Income so we have to report to them what is the taxable income for tax reporting purposes? What is the tax basis of my investment for calculating gains when the investment is sold or liquidated? What is the current FMV of my investment? In other words how much richer or how much poorer am I based on my, my investment in this fund and also they like to look at Asset Allocation. What percent of the total portfolio is invested in private equity and what would this be if the commitment is paid in full? And then what is my rate of return on this investment? Is this fund manager really getting the high returns that he stated in the prospectus up front?

Ok, so we know the types of information that the investor typically likes to have. What type of reports could we provide to the investor, well first there is an Investment analysis summary this simply gives him/her an analysis of all the various components of the investment accounts to date. We can do a report that shows Amount currently invested keeping in mind that we could, we would do this by fund, we could do it by fund manager, we can do it by sector if they keep their any of their fund reporting that way but however he/she wants to see the amounts currently invested if we could report it that way. We can do a cash flow projection for the amounts committed for future capital contributions in other words how much do I still have remaining to pay out on these investments. We can also do a combined report of the amount that we invested today and the unfunded future capital commitment. We can also give the Amount invested net of the distributions in other words in example, we showed earlier we can talk about \$5,000,000 (five million dollars) commitment, the \$3,500,000 (three million five), the \$250,000 (two hundred and fifty thousand dollars) that we got back.

And then we can also do a report on all the components of each investment in other words the fixed balance account and again we can present those in various formats. We can present all the funds, for individual fund or we can show them

for fund manager almost any way you or the investor wants to see them, the asset allocation for the invested position and for the committed amount in other words what percentage of money the total portfolio is committed to private equity and we can also do investment performance for a single investment and/or for fund or for a combined fund manager that has recommended a group of investments. We can do Cash flow reporting and also provide an income statement. Again, this is just some of the reports that we have found that an investor may be particularly interested in. It will depend on the requirement of your particular investments he/she may want all of these, some of these or something entirely different. We'd like to show you just a few simple examples of the... the type of reporting that we are talking about. Here we show that a private equity Investment analysis for Joseph Jones as of December 31st. Mr. Jones has three funds that he has invested in, the commitment column, the unfunded column, the K-1 income loss column, the distribution column and the FMV Adjustment those are the accounts that come directly of the income statement and I mean of the balance sheet excuse me, in this case you are looking at the Sequoia Fund and you must have a \$5,000,000 (five million dollars) commitment, we have a \$1,500,000 (million five) unfunded commitment report to automatically post to the funded \$3,500,000 (three point five million). We then analyze the other components of the K-1 income loss of a \$100,000 (hundred thousand) the distribution \$250,000 (two fifty) and the FMV adjustment of \$650,000 (six hundred and fifty thousand) and we come to a total FMV of just under \$3,800,000 (three point eight million) for all the funds is the FMV is gone up \$166,000 (one point six six million). Whoever is the fund manager in this environment is feeling pretty well.

Next report is a Tax Basis Balance Sheet again on the left hand side you got the five balance sheet accounts that we're using for this investment. The balance is the FMV the \$3,800,000 (three point eight million). The Tax basis is \$3,150,000 (three point one five million) which is composed of the four accounts that have a tax basis and the difference is your \$650,000 (six hundred and fifty thousand dollars) and if we showed the other components of the balance sheet we would had a \$650,000 (six hundred and fifty thousand dollars) unrealized gain or loss for this particular fund. Again, very simple straight forward report that investor like to see and of course keeping in mind this is just prepared for the Sequoia fund that would be prepared in total for all of the funds and in total of all of Mr. Jones assets.

Ok we also did an asset allocation report for Mr. Jones. This piece of the report is the, an extract from his total allocation just showing the private equity portion. He has got those three investments, the Sequoia, the Discover and the Atlantic fund and what we do for the asset allocation calculation is we simply take the total commitment and subtract the unfunded commitment. Some investors also like to see the distribution subtracted. It depends on what your particular investor wants but what this report will show you is that Mr. Jones total cash investment in the Sequoia Fund on the right hand side represents 19.3 of his total assets and all of his private equity funds represent 55.2% of his total asset and again there are various different ways this report can be presented and this is just one straight forward method that

we use.

Another report is a Multi-Year Investment Return report again this can be done just for Sequoia it can be done for all of its assets in total or it can be done for all the private equity. This is a system generated report that will calculate your Money Weighted Return, your Annualized Money Weighted Return and reflect the time period. So in this case, Mr. Jones purchased this investment in 2009 in April so he had it for approximately for nine months in 2009 and we also carried it out for 2010, 2011 and showed what his Cumulative Money Weighted of Return and his Annualized Money Weighted of Return for this investment. Again, this can be presented in various forms and you can and most financial software you can use the system setting to prepare this type of report the way your investor wants to see it.

Ok, another report that the investors typically like to see and in this case we just done Cash-Flow Analysis for Sequoia rather than everything but basically in this case we have shown that the source of cash he received was \$250,000 (two hundred and fifty thousand dollars) distribution and he funded \$3,500,000 (three and a half million dollars) showing the total net negative cash flow for this investment of 3250000 (three point two five million). The thing I want to mention is that you'll notice that none of the non cash journal entry items although they look they do show on the balance sheet they don't show on the cash flow analysis. All that this shows is the analysis is the various component of the cash flow.

And the last thing I wanted to show you how the income statement is broken down by K-1 account would look. In this case, we got the 5 line items in the same quarter as they show on the K-1 report. In the Mr. Jones case, you have two more for his other two funds and then the rest of the income statement showing the income and the expenses from his other investments but in this particular case we are just showing we are breaking out just Sequoia and showing you that the net loss is the \$100,000 (hundred thousand dollars) and it shows the components. Again there are any number of other types of reports that could be prepared. These are relative... the ones that we have done here are relatively straight forward and it will depend on the requirements of your investor as to what you would provide to him/her.

In Summary...

Two things I'd like you to keep in mind, one is the nature and types of Private Equity Investments can vary widely from one situation to the next and different situations are going to call for different methods of tracking and reporting. And, the proper methods of handling such investments and the financial reporting requirements can vary widely depending on the situation and the requirements of the individual investors.

Without an integrated financial and management reporting system, meaningful accounting and financial and investment information is very difficult to produce in a timely, effective and efficient manner.

That concludes my portion of the presentation. Thank you very much and I think I'll turn it back over to Moderator and I think I'll be accepting some questions for the next few minutes. Thanks again.

Moderator:

Thank you, Jim for the presentation on Private Equity accounting. For the attendees if you have any questions feel free to type them in the box for Jim. We are open to answering them in the time allotted. Jim, I do have a question for you. Have you ever seen a situation where the fund manager hasn't been able to submit the K-1 in time to the investor? And, if so what do you do on that if you don't get it, what happens?

Jim:

I have never personally seen one where the fund manager hasn't sent a K-1 within the extended filing period. Most investors who have any kind of significant investments in private equity or for that matter other types of alternative investments. It's almost automatic that they are going to have to extend their, their tax return beyond the April 15th deadline because these fund managers just don't provide the information by that time. Interestingly I just received in the mail two days ago a revised K-1 from a fund manager revising the K-1 income for 2007 for a particular energy fund.

Moderator:

Ok...

So that was about two and half, three years ago...

Jim:

Yeah, and I just got it, just came through.

Moderator:

So in that case, what were you doing? Are you going back into 2007 and opening up the books and then making the adjustments.

Jim:

To be perfectly blunt the changes were so minor, the clients tax return were so miniscule that I decided to ignore it completely.

Moderator:

And we are still looking questions for Jim, quite a number of questions coming in here, here's one of them is: At a start of a new investment how will you know if a K-1 will be GAAP or tax basis?

Jim:

The chances are unless it says in the prospectus which I have not seen it too.

Moderator:

Ok, do you book the K-1 adjustment in the current period? For example, in August or do you reopen December period?

Jim:

I reopen the year end and book it in the right period.

Moderator:

Ok, is there a situation where you would book it in the current period?

Jim:

If that's what the client or the investor wants to do but if I were going to present the financial information I would go back and book it in the proper year.

Moderator:

Ok, Jim for, when calculating the returns on private equity do you recommend time weighted return or internal way to return?

Jim:

Again I don't have any specific recommendation. Of course the software should be capable of generating either one of them depending on what the investor requires.

Moderator:

Ok, another question here is: How do you identify the distribution income in sale (I'm not sure if I'm reading this question correctly) what are types of identifying the distribution income in the sale and what else, so (I'm not sure if I can interpret that correctly).

Jim:

The first thing asked is: what will happen in a situation you'll get a full distribution from a fund and you are able to calculate the gain in total. But you don't know what the components are of the income until you get the final K-1 and what I typically recommend is that you capture the entire gain in one income account in that K-1 income section of the income statement where we set up all the accounts for the K-1 and then when we finally know that this position is whether rental income or 1231 or Long or Short term capital gain or whatever it happens to be on liquidation, we order distribution we then break it down with others. At the time we get the distribution the chances are, or you going to be able to calculate just the total gain and I recommend putting them into one income account.

Moderator:

Ok that's good. I don't think there's any other...

Jim:

I hope that's what the question was...

Moderator:

Well it was a good answer...

Another administrative issue, we are recording this seminar for those of you who do wish to watch this again, we should have this available on our website. For those who have, has watched, who has participated or missed the first webinar on Basics, you know... Back to basics Portfolio Accounting, we have that available on the website now. You can download that as a podcast, download it as a wave movie file, we have a transcript available as well, as well all the slides, we also have a number of... these slides that we used today were taken from an accounting guide that we created for private equity investments that are available for download and for all those who registered and attended an email will be sent out with that information on how to download the slides and how to download the evaluation form to obtain your CPE credit.

Jim another question just came in, Are the private equity reports that you presented are already preformatted?

Jim:

If you are talking about in Financial Navigator in particular, I don't think that I used anything that I couldn't point and click on.

Moderator:

Ok.

The another question is, do you handle quarterly income increase or decrease differently than year end K-1 income?

Jim:

I have not seen any funds that actually report K-1 income quarterly. I've seen a number of them that now report change in FMV either monthly or quarterly and I can't picture a fund manager on a quarterly basis giving all that detail that's on the K-1. I typically record FMV adjustments on the same cycle that the fund manager reports. Fund manager reports quarterly, I would report FMV. If they give an estimate of the income for each quarter I'll probably record it in total for the first three quarters of the year and then reallocate it at the end of the year based on what contained in the K-1. I don't know of any way on an income basis to record the detail on 1 through 11 components of the K-1.

Moderator:

Ok, Jim another question is: How do you handle stock distribution as compared to cash at cost or market value?

Jim:

I think that we would record, if I'm understanding the question in Financial, if we were using Financial Navigator we would record both basis so we would reflect the cost and basis, on the cost and tax basis reports and then we would adjust the FMV on the balance sheet. If I'm understanding the question the Financial Navigator system is capable of recording FMV of tax basis and cost basis.

Moderator: Ok.

Jim:

In my, my preference is at some point you all will get any type of investment adjusted to FMV but again it depends on what the investor wants I mean I actually had one a very big client who carried all the investment records because that's what they wanted.

Moderator: Ok.

Really quick we are running out of time. To talk a little bit about who we are: Financial Navigator Inc., Founded in 1983, we've been working primarily with family offices, CPA firms, foundations, and trust and estate firms as well as financial advisors who have, who are working with high net individuals and families.

Navigator is used primarily by CPAs, CFOs, Controllers and Accountants as well as Investment Managers and other financial advisors. We're an Integrated general ledger portfolio management and reporting system.

And the... some contact information on the screen. We are over a lot of time period and I want to thank everyone again and for participating in today's presentation. As I mentioned earlier an email will be sent out with instructions on how to download the evaluation form so that you can send that to your CPE credit and as well as instruction on how to download today's slides and as soon as the recording has been edited it will be converted over to a podcast and to a Windows media file so you can watch it at your leisure.

Again I want to thank you on behalf of Jim Powell and Financial Navigator for attending today's Back to Basics: Private Equity webinar.

If you have any question, please feel free contact me.

Jim, thank you so much for your help today, really appreciated.

Jim:

Thank you everybody for your attendance.

Moderator: Right. Good bye...Bye.

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