

## **Exhibit 3**

Citrin Cooperman & Company, LLP prepared this memo in conjunction with an agreed upon procedures engagement with the management of Beacon Associates LLC I and Beacon Associates LLC II (collectively "Beacon" or the "Fund"). An agreed upon procedures report enumerating the specific procedures performed will be submitted to the management of Beacon at the completion of our engagement.

### Allocation of Madoff Losses to Beacon Investors

#### **Background**

Beacon was formed for the purpose of pooling its partners' capital in order to have such capital invested through trading and investment strategies, both directly and indirectly through other private investment funds, including funds placed with Bernard Madoff Securities, LLC ("Madoff"). Profits and losses were allocated to all partners in proportion to their capital balances. In accordance with the Partnership Agreement, 1% of the net profits are allocated to Beacon Associates Management Corp, the managing member.

On December 11, 2008, Bernard Madoff was indicted for an alleged Ponzi scheme that was reported to exceed \$50 billion. All assets invested with Madoff likely had no value and it was reported that Madoff had not invested assets in over 13 years.

The Fund started placing funds with Madoff in 1995, and made its last placement of funds with Madoff in July of 2008. The Fund also redeemed funds from Madoff, between 1995 and the last occurring in 2006. From 1995 through 2008, the Fund placed approximately \$163,095,000 with Madoff, and redeemed approximately \$24,770,000 from Madoff. This left a net amount placed with Madoff of approximately \$138,325,000. The balance at December 11, 2008 was approximately \$358,710,000 (the difference being interest, dividends and realized and unrealized gains which were fraudulently reported by Madoff to the Fund).

Ivy Asset Management Corp ("Ivy") was responsible for recording the activities of the Fund, including recording the profits and losses from the various investment managers (including Madoff). The accounting methodology of allocating such profits and losses and fund expenses to individual investors is established in Beacon's Partnership Agreement. The Partnership Agreement states that all profits and losses will be allocated to the capital account of each partner in the ratio which the capital account of such partner bears to the total of the capital accounts of all partners.

The purpose of this memorandum is to illustrate different methods that may be utilized to allocate losses arising from the placement of funds with Madoff and his fraudulent misuse of those funds among the partners of the Fund. This memorandum expresses no opinion as the suitability or superiority of any of these methods and none of the work performed in connection with this memorandum was undertaken with a view to determining which methodology would be most appropriate for allocating the aforementioned losses. All information presented herein is for explanatory and illustrative purposes only and is not intended to reflect the situation of any partner or group of partners.

#### **Allocation of Madoff Losses Using the Valuation Method**

As part of recording Beacon's activity for the month of December, 2008, Ivy allocated the "Madoff Losses" (the write off of assets attributable to Madoff) in accordance with the partnership agreement. That is, if a partner's capital balance represented 1% of the fund as of December 1, 2008 (it should be understood that

investors are only admitted to the fund on the first day of each month), that partner would be allocated 1% of the losses attributable to Madoff. In addition, any other profits or losses and expenses which occurred in December from other investment funds, was allocated in the same manner. As noted above, this method is consistent with how profits and losses have been allocated to the partners since inception of the fund. This method is called the "Valuation Method". Key elements of the Valuation Method include:

1. All Madoff profits and losses have been recorded through November 30, 2008.
2. Assets held at Madoff had a reported balance of approximately \$358,710,000 at November 30, 2008.
3. The method of allocating the Madoff Losses to partners is no different than if these losses had occurred due to market fluctuations.
4. Partners in the fund as of December 1, 2008 were allocated all of the Madoff losses (\$358,710,000).
5. Investors who had been fully redeemed from the fund prior to December 1, 2008 were not allocated any losses.
6. The Valuation Method was used in the preparation of the audited financial statements, including individual partner statements.

An example of the losses recorded in December, 2008 under the Valuation Method is as follows:

Partner	Balance Dec 1	Income (Loss) Dec	Balance Dec 31
John Doe	\$ 500,000	\$( 374,081)	\$ 125,919

Includes all Madoff Losses and non-Madoff income and losses recorded in December, 2008 under the Valuation Method.

#### Allocation of Madoff Losses Using the Restatement Methods

The restatement methods do not change the capital balance of the Fund, but each individual partner's capital account has a different balance when compared to the Valuation Method. The calculation of the restatement methods differ significantly from the Valuation Method. There are three restatement methods, and all three have the following attributes in common when the Madoff Losses are being allocated:

1. Investments into Madoff by the Fund are considered to have no value in the month the investment was made. For instance, if the Fund invested \$100,000 into Madoff in May 2005, then each restatement method will consider that \$100,000 lost in May 2005, and allocate the \$100,000 loss to each partner's capital account in the ratio which the capital account of such partner bears to the total of the capital accounts of all partners.
2. Profits or losses reported by Madoff are eliminated from the profits and losses of the Fund in the month Madoff reported those profits and losses to the Fund.
3. Capital balances of all investors are recalculated on a monthly basis, after making adjustments for #1. and #2. above

4. Under the restatement methods, partners' capital balances will become negative upon full redemption of their capital balances. In addition, many partners' balances will become negative with partial redemptions. Capital balances became negative under the restatement methods because adjustments were made for the Madoff Losses, and profits and losses reported by Madoff were eliminated. Therefore many withdrawals exceeded the restated capital balances, causing the investor's capital balance to become negative.
5. After completion of the restatement methods, an adjustment was necessary for partners who had negative capital balances (both active and those which had fully redeemed their partnership interests). Because it is not known if partners who have redeemed more than their capital balances will be required to repay the Fund (and it is not known if they have the means to) partners with negative capital balances were allocated to partners with positive capital balances, in order to eliminate all negative capital balances, and to adjust the partners' capital balances to the net assets of the Fund, so funds could be disbursed. The allocation was done in the ratio which the capital account of such partner bears to the total of the capital accounts of all partners. That is, if the total amount of negative balances at November 30, 2008 was \$(64,500,000), and John Doe had a positive capital balance of \$500,000 (which represented .32274% of the fund) then John Doe's capital balance would be reduced by \$208,167 ( $\$64,500,000 \times .32274\%$ ).

Below is an example of how the restatement method is allocated. The first row is an investor with a positive capital balance, who is being allocated a loss for funds invested in Madoff. The second row is from an investor who was fully redeemed, and therefore has a negative balance. The third row is the total of all the partners' capital accounts, including those with negative balances. The fourth row is to total all of the partners with positive capital balances, which is needed to determine owners' % in order to allocate Madoff Income and Madoff Losses, Non-Madoff income (losses), and management fees for all partners with positive capital balances.

November 2002 Capital Bal. BOM	Ownership % at BOM	Madoff Loss	Revised Capital Balance	Allocation of Non- Madoff Income/(Loss)	Subtotal	Allocation of Mgmt Fee	November 2002 Capital Bal. EOM
97,805	.18806%	(9,403)	88,402	629	89,031	(231)	88,800
(130,536)	0%	-	(130,536)	-	(130,536)	-	(130,536)
<b>42,964,177</b>	<b>100%</b>	<b>(5,000,000)</b>	<b>37,964,177</b>	<b>334,630</b>	<b>38,298,807</b>	<b>(236,496)</b>	<b>38,062,311</b>
<b>52,006,137</b>			<b>47,006,137</b>				

The total asset value will agree with the Ivy balance sheet at November, 2002, after writing off all of the Madoff assets, and after considering accruals for management fees. For Restatement Method #1, Madoff Losses are only allocated to partners with positive capital balances. Therefore, the .18806% is derived by dividing \$97,805 by \$52,006,137, which represents the total of all partners with positive capital balances.

**Restatement Method Variations**

There are three different restatement methods. These different restatement methods were calculated, because uncertainty exists in choosing a method to allocate redemptions received from Madoff. As noted above, \$24,770,000 was collected by the Fund from redemptions requested and received from Madoff ("Madoff Income"). The redemptions occurred between 1995 and 2006. The Fund determined there were at least three methods that could be used to allocate Madoff Income:

1. Restatement Method # 1 - Madoff Income can be allocated to those partners who previously suffered Madoff Losses. That is, if an investor received 10% of the Madoff Losses through the date of the first Madoff Income, then 10%, of the Madoff Income should be allocated to that partner. This calculation is repeated for each receipt of Madoff Income, with the objective of allocating all of the Madoff Income only to partners who suffered Madoff Losses.

Under method #1 the allocation of profits, losses and fund expenses are NOT allocated to partners once their capital account balance became negative.

Below is an example of how the restatement method #1 is allocated. The first row is an investor with a positive capital balance, who is being allocated Madoff Income. There are no Madoff Losses to allocate, since there were no investments made to Madoff in this month. The second row is the total of all the partners' capital accounts, including those with negative balances. The third row is to total all of the partners with positive capital balances, which is needed to determine owners' % in order to allocate Madoff Income and Madoff Losses, Non-Madoff income (losses), and management fees for all partners with positive capital balances. The column labeled "% of Cumulative Losses in Madoff" is calculated separately, and indicates that this investor had previously been allocated .5367% of Madoff Losses, therefore (under this method) is entitled to the allocated .5367% of Madoff Income.

March 2001 Capital Bal. BOM	% of Cumulative Losses in Madoff	Madoff Income	Revised Capital Balance	Allocation of Non-Madoff Income/(Loss)	Subtotal	Allocation of Mgmt Fee	March 2001 Capital Bal. EOM
211,328	.5367%	21,468	232,796	1,394	234,190	(1,497)	232,693
<b>17,261,052</b>	<b>100%</b>	<b>4,000,000</b>	<b>21,261,052</b>	<b>145,112</b>	<b>21,406,164</b>	<b>(149,431)</b>	<b>21,256,733</b>
<b>20,526,842</b>		<b>4,000,000</b>	<b>24,245,633</b>	<b>145,112</b>			

2. Restatement Method #2 – Madoff Income is allocated to partners in the ratio which the capital account of such partner bears to the total of the capital accounts of all partners, regardless of whether the investor had previously suffered Madoff Losses. In addition, if a partner's capital account was negative in the month the Madoff Income was received, that partner was not allocated Madoff Income. In essence, Restatement Method # 2 treated Madoff Income no different than income generated from other investment managers.

Under method #2 the allocation of profits, losses and fund expenses are NOT allocated to partners once their capital account balance became negative.

Below is an example of how the restatement method #2 is allocated. The first row is an investor with a positive capital balance, who is being allocated Madoff Income, non-Madoff income (loss) and management fee based on the ratio which the capital account of such partner bears to the total of the capital accounts of all partners. There are no Madoff Losses to allocate, since there were no investments made to Madoff in this month. The second row is and investor with a negative capital balance who is not being allocated any income, losses or expenses. The third row is the total of all the partners' capital accounts, including those with negative balances. The fourth row is to total all of the partners with positive capital balances, which is needed to determine owners' % in order to allocate Madoff Income and Madoff Losses, Non-Madoff income (losses), and management fees for all partners with positive capital balances.

June 2006 Capital Bal. BOM	Ownership based on capital at BOM	Madoff Income	Revised Capital Balance	Allocation of Non-Madoff Income/(Loss)	Subtotal	Allocation of Mgmt Fee	Adjusted Capital Balance at EOM
447,775	0.31028%	18,617	466,392	3,913	470,305	(1,247)	469,058
(8,250)	0%	-	(8,250)	-	(8,250)	-	(8,250)
<b>96,439,639</b>	<b>100%</b>	<b>6,000,000</b>	<b>102,439,639</b>	<b>1,261,121</b>	<b>103,700,760</b>	<b>(450,029)</b>	<b>103,250,731</b>
<b>144,311,114</b>		<b>6,000,000</b>	<b>150,311,114</b>	<b>1,261,121</b>			

- Restatement Method #3 - Madoff Income, as well as non-Madoff Income, was allocated first to partners with negative account balances, until those partners' account balances were brought back to zero. After that, the Madoff Income is allocated in the same method as #2. above. This method follows a tax concept, section 704, which prohibits partners' capital balances from going negative.

Below is an example of how the restatement method #3 is allocated. The first row is an investor with a positive capital balance, who is being allocated Madoff loss. The second row is an investor who became negative upon a withdrawal greater than their restated capital balance. This investor will not receive a portion of the Madoff Loss since they have a negative capital balance, but will receive all of the non-Madoff income in an effort to increase their capital balance to zero. This will be done until the investor reaches zero, and the remainder of non-Madoff income in the next month will be allocated pro rata. The third row is the total of all the partners' capital accounts, including those with negative balances. The fourth row is to total all of the partners with positive capital balances, which is needed to determine owners' % in order to allocate Madoff Income and Madoff Losses, Non-Madoff income (losses), and management fees for all partners with positive capital balances.

February 2003 Capital Bal. BOM	Ownership % at BOM	Madoff Loss	Revised Capital Balance	Allocation of Non-Madoff Income/(Loss)	Subtotal	Allocation of Mgmt Fee	January 1997 Capital Bal. EOM
2,447,660	5.2205%	(208,819)	2,238,841	-	2,238,841	(5,491)	2,233,350
(224,738)		-	(224,738)	41,572	(183,166)	-	(183,166)
41,716,454	100%	(4,000,000)	37,716,454	241,485	37,957,939	(222,651)	37,735,288
46,885,803		(4,000,000)	42,885,803	241,485			

#### Mechanics and review of the Restatement Methods

The restatement methods utilized information provided by Ivy. Citrin Cooperman & Company, LLP ("Citrin Cooperman") utilized Ivy's schedules, which compiled all investment activity on a monthly basis and allocated such activity to each partner monthly. Investment activity in the Ivy schedules include a) monthly contributions into the fund by investors, as well as redemptions; b) recording of profits and losses by investment managers; c) recording of monthly management and profit sharing fees; d) recording of partners transferring funds to other funds, or changing the name of their capital account; and e) funds redeemed from investment managers. All of the data in the Ivy schedules remained unchanged at the Fund level. In addition, partners' additional investments and withdrawals were unchanged. Citrin Cooperman reallocated the adjusted profits, losses and expenses to each partners' capital accounts as described above. This process was done on a monthly basis, from 1995 through December, 2008. In order to minimize the possibility of errors in the restatement method calculations, Citrin Cooperman eliminated the Madoff assets from the Ivy balance sheet, and reconciled that amount to the list of partners' capital balances on a monthly basis.