

2010 Accounting Workshop Notes

1

This presentation is in three parts. The first is on concepts in Club Accounting, the basics in what to do, and why. The second session features some actual screen shots to acquaint you with the two online accounting programs, Then, we will look at some classic problems or errors clubs write in about, and how to avoid those complications. The last session will deal with auditing the club's books, and preparing for tax reporting.

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5

You've got the most problems and the least experience. How did this happen?

- a) Your club has started up before you've taken your chapter's training classes
 - b) Your previous Treasurer left unexpectedly and did not train you
 - c) Your previous Treasurer left you a mess of records...or no records at all
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6

But for all of that, with current club accounting software, and a basic understanding of what you are doing, it really is not that difficult a job, and there is ample help available for any questions you may come up with, or any procedures you are unsure of.

You are capable enough to undertake learning how to analyze a company for its quality and value, and start making your own investment decisions, or at least participate in the club's portfolio decisions, or you wouldn't be in the club, right?. You don't need a degree in accounting, but if you can make change, keep a checkbook, keep score in a card game, have some common sense, and a willingness to learn the details, you CAN do it, and then you will wonder why everyone seems to shy away from the job. I kid you not, once you are up and going, whether you make entries as transactions occur, or wait and do it all once a month, you won't find yourself spending more than a

2010 Accounting Workshop Notes

couple of hours, if that, making entries, balancing against your broker, and printing out reports for the club.
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11

A lot of clubs have a pennywise and pound foolish notion that they 'don't want to spend the money' to pay an annual subscription for their accounting program. Some clubs still are using old desktop software they bought years ago, manually entering stock prices, and can't see any reason to change. What they fail to realize is those older programs no longer allocate taxable transactions in accordance with current IRS regulations, which have a habit of changing somewhat every year. . They also allow separate Petty Cash handling, which is not a good practice, and is no longer supported in Club Accounting.

Manual price entries are open to error, and without a subscription you don't have access to any technical support. In the desktop program, while you can make entries, backing them up is not available without maintenance, and of course online you can't access at all unless your maintenance is in force.

I spoke to one member who said they had never upgraded from 1.04, but that was OK, because they had an accountant do their taxes. One problem with that is the accountant can only go by the Allocation/Distribution report from the program, and 1.04 and NCA2 aren't correct for taxes any more. Rather silly, for a lot less than the accountant would charge, you could have the current program and the tax printer.

Remember, no matter who the supplier is, software and online programs don't get developed for free, and the expertise needed to develop and maintain them is needed year round. Everything else you use with your computer is constantly getting upgraded and updated, at some cost to you, this is no different. They are deductible club expenses.
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Whatever software program you use, when you first begin club entries, or upgrade or change to a different accounting program, you must verify that you have selected appropriate allocation and distribution settings for your club.

In CAO, these are found under Accounting>Utilities. There are two screens to check on. The first is Allocation Settings. You are asked for two items, first to check a button for either Time Based Earnings or Not. The best and fairest practice is to use Time Based Earnings. This allocates tax responsibility to partners only on transactions that occurred while they were active members in the club, and is based on their percentage of ownership in the club during that time. It would not impact long time members, but would on new members coming in.

The second item on this page is to enter the year you elect to discontinue adjusting units for tax distributions. Originally, at the end of the year when taxable transactions were reported for members, the BI method treated it as though you had disposed of or added units equal to that amount, up or down depending on whether the club had a net loss or gain for the year on income and earnings. This was a needless operation, as member market values and ownership percentages remained unchanged, the only figures changed was the Paid In Plus Earnings figure, which is supposed to change. If you have never made this election, the year field will be showing some future year. You should change it now to 2008, if you have not yet run your tax printer, or 2009 if you have already done 2008 taxes. Once you put a year in that field, do not change it again, you only want the first year it started to show.

The second function you need to go to in CAO is under Accounting>Utilities is Update Club Settings. The first choice is to fill in your EIN tax number which you obtained when your club was first established, and will appear on all your tax forms.

The second is to indicate what your club's INITIAL unit value was. The standard is \$10. Some clubs may have a far different number, usually

2010 Accounting Workshop Notes

inappropriately selected, but once used, should not be changed. You do not enter current or year end values, you always leave it at the initial amount.

The third selection is to decide if you want to include previous ownership returns on a stock you bought once, sold completely, and are now buying again. The best choice is No, or leave it blank in CA3. There is no particular value in lumping together returns from different periods of ownership of the same stock. Your current returns on the Valuation Statement will be more accurate if you don't do it.

The last item is to indicate your preference for cost adjustment on mergers and spin-offs. In CAO, it defaults to Market Value from the Action date, rather than Tax Basis. The option isn't even in CA3, which uses the default. Don't ask me why, my gurus tell me that is the best choice.

In CA3, these same Settings are accessed under Tools>Settings, where all of the above choices are on one screen, as well as giving you a field to enter your standard monthly payment, so your payment screen is automatically filled in for you, and your standard administration charge or percent on withdrawals. These can be changed or over-ridden if your club elects to do so in accordance with your by-laws.

In bivio, these same options are available, unless a couple of them are already defaulted in to avoid confusion. Look under their Tools or Settings choices.

- 14
- Now that you have the options described, it is time to review some basic accounting concepts.
- Because club accounting software has been designed to follow the BI Accounting Manual, it assumes that all BI investment clubs are partnerships, subject to US Partnership Tax Law, or an LLC which has opted for partnership treatment.

2010 Accounting Workshop Notes

- The unit value system operating within club accounting is very much like the NAV of a publicly traded Mutual Fund such as Fidelity Magellan.
- The total value of an investment club on any given date is therefore the sum of the the value of the club's portfolio, plus the sum of all the money on that date in the Bank, Broker and Suspense Accounts.
- The Unit Value of an Investment Club (corresponding to the NAV or Net Asset Value of a Mutual Fund) is simply obtained by dividing the total value of the club, security values and cash, by the total number of Units outstanding on a particular date. This is accomplished through creating a valuation in the software at the designated time each month. In bivio, you do not create a saved menu of valuations, a deficiency in my opinion. In bivio you do have to be aware of your club's official valuation date whenever you make any member transaction, and insert that on the screen where called for. Otherwise it will default to the days date, which can be manipulated unfairly, and is why most PA's call for a single set monthly valuation date for member transactions.
- Your Valuation determines what the next month's payment will buy in units, and the member's value to be used for partners whose withdrawals may be processed that month. Your PA normally specifies what that date should be. It could be last day of the month, a common choice to make balancing with the brokers easier. Or, the Friday before, or day of a meeting, the only important thing is to be consistent. Have only one valuation a month on the appropriate date, and one for 12/31 of each year.

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17

It is best to only make one deposit a month, within a few days of your meeting. You can use your meeting date for the transaction date . If there is anything irregular, like a member paying in advance a few months, or catching up a skipped payment from the month before, be sure you note this in the comments section. If you are putting their deposit in the bank so the club has

2010 Accounting Workshop Notes

use of the money, they should get payment credit that buys units the month it is paid.

It's a good idea to make copies of all checks submitted for deposit.

All funds paid by a member should be posted as payments to buy him units, except late fees if you assess them, returned check charges, or new member administration fees. Member deposits buy units, fees do not.

If you need to assess members for extra funds for an expense check that has to be written, record them as payments to buy them units. More on this later when we get to expenses.

Fees are only for personal penalties or new member assessments. These increase all unit values but do not affect the number of units.

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- 18
- Think of your club as a mutual fund, which actually it is, managed by your members. All mutual funds and partnerships have overhead expenses for their operations, in our case, investments and investing education. These expenses are for the most part tax deductible, like software, office supplies, meeting room expenses, postage, club and member BI dues, educational books, etc.
- These should be distributed by ownership share, which means the value of each unit is reduced as expenses are posted. Each member absorbs as much a percentage of the expense as his ownership share in the club is. Just as each member receives credit for the percentage of his ownership share of gain on stock sales. The IRS assumes this is the way they will be allocated, and if for any reason you choose differently, your PA/By-Laws must spell it out.
- It is not necessary to assess extra funds for expenses, unless you need cash, and UNLESS you post them as payments to buy units for the members who are contributing the extra funds. It doesn't matter who pays what amount,

2010 Accounting Workshop Notes

as long as it buys units for them. Those who pay more get more units, those who don't, don't get more units. They should NOT be posted as fees.

- Equal allocation of expenses where each member absorbs an equal dollar share of the expense reduces the same number of units from each person. It has the same effect as if they each paid that amount separately. This can only be justified in the rare case where each and every member gets the same benefit, like all members renewing BI dues at the same time, or all members order one educational book each at the same time and price. The choice to do it that way for those particular expenses is the club's option. Many clubs consider such items beneficial for the club as a whole to have active and educated members, and allocate them by membership share like any other partnership expense.
- What about social or hospitality expenses, like dinner for the club, or flowers for a sick member? They are non-deductible. You can pay them with a club check, and allocate as any other expense by membership share as a club function that wouldn't be done if you weren't a partnership club, even though not tax-deductible. Or, you can handle them entirely off the books by personal checks or a cigar box fund. Do not pay legitimate tax deductible expenses by a separate fund! The accounting software no longer permits keeping a petty cash account separate from regular club funds, and expenses for club operations should only come from regular club funds.

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22

- Please don't let your club get swayed by the argument that those expenses benefit all of you the same, so should be equally allocated. Whether your members quite understand it or not, hold firm that club expenses are to be allocated by membership share, just like the IRS expects, just like gains on sales are, and to do otherwise is really doing an injustice to your smaller percentage members.

2010 Accounting Workshop Notes

- Allocating expenses by Membership Share reduces each person's value by the same percentage, which is fair, see the above example. Allocating Equally reduces each person's value by the same dollar amount, which is not fair, as it leaves smaller members with much less a percentage in the club than they had before. For instance:

Assume 1 unit = \$10 - Club worth \$1000

Member A owns 90 units, which amounts to 90% of the club assets.

Member B owns 10 units, which amounts to 10% of the club assets.

\$100 club business expense is posted by ownership share. All unit values are reduced. Member A still owns 90 units now worth \$9 and 90% of the club assets.

Member B still owns 10 units now worth \$9 and 10% of the club assets. Club worth now \$900

Expense is posted equally. Each member loses 5 units, units still worth \$10. Club has 90 \$10 units, = \$900

Member A now owns 85 units worth \$10, value \$850. Her ownership has been increased by 4.5% to 94.5~% of the club.

Member B now owns only 5 units \$10, value \$50 - Her ownership has been reduced by 50% to only 5.5~% of the club.

The rich get richer, the poor get poorer. This disparity in % of ownership cannot be made up assuming equal deposits going forward.

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23

2010 Accounting Workshop Notes

- . Money market earnings, whether from your bank or broker, need to be entered under CASH, and designated as either interest or dividends, whatever your financial institution calls them. There is a slightly different tax liability involved, and you want your records to agree with the 1099 the bank/broker sends to the IRS. There is a dividend screen under both cash and securities. It is important that you use the right one. If it is not associated with a stock, always post under Cash>Dividends.
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- 24
 - Dividends on stocks must be posted under Securities, whether they are cash or reinvested/DRIP dividends. Don't get confused because you also see dividend screens under Cash, those are only for Money Market accounts. If you don't post stock dividends under Securities, they don't get treated properly for the lower tax rate on dividends.
 - The ex-dividend date is required to have the dividend correctly counted as a qualifying dividend or not, for the lower tax rate on long-term stock dividends. Any dividend on a stock held over 60 days in the period commencing 60 days before the ex-dividend date and 60 days after qualifies for the lower tax rate.
 - Club Accounting has a 'find it' link below the ex-dividend date field. It takes you to that company's resource page at StockCentral, click the 'View Dividends' link, and it takes you right to the information. Some brokers may provide the ex-dividend date. Just don't confuse it with the record date, which is not the same thing. The ex-dividend date is usually 2 business days prior to the record date.
 - With bivio, the ex-dividend date is inserted automatically when posted, a very nice feature. They have no links to StockCentral, which is only a feature with IClub accounting products.
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27

- Your PA should spell out withdrawal procedures for your club. Generally, a withdrawal is considered received at the club meeting when it is turned in. The value of the withdrawing member's share is determined at the NEXT valuation date, not the one in effect at that meeting.
- CAO and CA3 have a two step process, wherein the Announcement Date can be entered immediately after the valuation it is based on. The purpose of this is to transfer the amount of the member's account out of your available assets into a Withdrawal Liability account until they are paid out. The withdrawal date should not occur on a date that other member transactions have been posted. IClub accounting software no longer allows the error of choosing a valuation date for a withdrawal date. You fill out the payout date at the time the check or transfer is actually processed. This is only needed if you delay payout over a month, otherwise you can use the same withdrawal and payout date when the check is issued during the same valuation period. Any withdrawal date during a valuation period refers back to the balances on the valuation date in effect.
- Pay withdrawing members as promptly as you can, within 30 days of the effective valuation. It is, after all, their money, not the club's money, and dragging it out is not necessary. The club should be able to decide how to fund the withdrawal when it is turned in, and orders to sell or transfer any stocks necessary can be given before or after the upcoming effective valuation date. If you wish to raise cash by other members buying more units at the time, that is fine. They aren't buying units of the member leaving, they are buying new units.
- Transferring appreciated stock showing a nice gain is beneficial for the club and member because of its tax benefits. Liability is deferred on each one's portion until they themselves leave the club when it will be part of their realized gains, or for the member, when they sell the stock. Do not delay

2010 Accounting Workshop Notes

ordering transfers from the broker, it is not fair to the member to not be able to make transactions with the stock while prices may be changing.

- Do not transfer a losing stock, sell it instead, to receive the capital loss deduction for the current year for all members.
- Many old PA's or by-laws contain some very punitive withdrawal fee provisions, probably as some deterrent to rapid club turnover. Be fair, just as you would want fair treatment yourself if you need to resign for illness, moving, or some other personal reason. Joining a club is not a marriage. It is your money, why should you leave some of it behind to increase the value of others? PA's and Bylaws can be amended by discussion and vote of the club. Do so if your club has some punitive setup. A good damper on early withdrawals is to assess a one time administration fee for new members that does not buy them units. A good range would be \$50 to \$100. Since it increases the value of all units without buying them units, if they quickly withdraw a good bit of that fee will be left with the club. You don't need to hit anyone with a stiff exit penalty fee. If it is a percentage, no matter how small, and they are long time members with a large value, it could add up to a lot of THEIR money, not the club's. Naturally, any actual expenses in processing their withdrawal will be entered in the fee section, but that is about all that is justifiable.
- Do you know what the effect is of charging large withdrawal fees? By leaving that money in the club, all members unit values are increased, and the very last members standing when the club disbands benefit the most from all the money kept from your previous friends and members who withdrew earlier. Do you think that is fair?

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28

All transactions involving stocks are to be entered under the Securities menu in your software.

2010 Accounting Workshop Notes

The dates and amounts used will be derived from the confirmation records from your broker. Wait until you receive the confirmation. before you make your entries so you will have all the necessary information.. Nowadays, this is usually available on line the day after an order is entered. If you don't get paper copies, print the transactions from the on-line website to keep with that month's accounting records. Your total cost for stocks purchased is the buy amount plus the commission, entered in the appropriate fields. Use the trade date, not the settlement date the funds show up on your brokers statement.

There are separate screens for splits and mergers. Your broker's statements should contain enough information. If following steps on the screens isn't working, IClub has specific details on most recent company events to guide you at <http://www.iclub.com/support/default.asp> Click on Mergers, Spin-offs, and Splits.

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29

On sales, again wait for your broker's confirmation

On sell transactions, gross proceeds is the larger amount. Net proceeds is your cash actually received, after the commission and fees are taken out, which includes a few pennies SEC fees on sales.

In entering sales, it is best to sell your oldest blocks of stocks first, first in, first out. If you have a particular reason to sell a more recent block, the broker must be notified at the time of sale, and you need to keep a copy of this notification. It doesn't matter what he does, you just need evidence of notifying him at the time of the sale.

Fractional shares are usually sold as a separate transaction by your broker, though some lump it all together as one. For clarity it is best to make your entries as your broker shows them.

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30

2010 Accounting Workshop Notes

Member transactions would be contributions to buy units, personal fees, or withdrawals.

Security transactions would be buys, sales, cash or reinvested dividends, mergers, splits, any transactions related to specific securities.

Cash transactions would be interest on money market accounts, expenses, any outlay or income not related to a specific stock. Transfers between different cash accounts, like bank, broker, or suspense.

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31

In IClub accounting software, the single most important function in your regular bookkeeping is to create and save a valuation statement each and every month on the date set forth in your Partnership Agreement. This value determines the unit price for the coming month, and the member value if you have a withdrawal to process. Those transactions automatically go to the last saved valuation.

If you are using bivio, you need to remember to enter the official valuation date on member transactions, otherwise, it defaults to that day's date, which would be wrong for many things.

In IClub accounting, be sure you select Create a valuation, and verify that you have one saved for the appropriate date each month, on the drop down date menu you get when you ask to view your valuation or for a report. Another way to be sure unit values have been properly computed is to look at any member's individual unit ledger. Unless it is the first month of so of the club, every month should have a different number of units purchased. If you see any of the same exact amount, probably a valuation has been missed or invalidated by a missing stock price. While most stock prices are automatically imported as of the date of valuation you request, if somehow one gets missed or a symbol is wrong, it will negate the entire valuation, and this needs correcting by manually entering the correct price

2010 Accounting Workshop Notes

for that date. Stock Central company resource pages are a source for these dates.

Members should be given a Members Status Report and Valuation Statement each month, as well as a Journal or Transactions Summary report. Always make your broker's statement available for cross checking, and pass a copy around occasionally.

The Distribution/Allocation of Earnings report is the last to be done after all year end entries have been made, and balances verified against statements. More on taxes later in this presentation.

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33

PIPE – Just what it says, (though sometimes it is Paid in Minus Losses). During the first year of the club, your actual amount paid in is the same as the PIPE until the year end Allocation of Earnings is done. At that time, your PIPE is increased or reduced according to whether your club had more gains than losses and expenses for the year.

This PIPE, or your tax basis, is the amount of your total value upon withdrawal that you will not have tax liability on, as it has already been reported.

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34

It is not fair to you or your club to have only one person familiar with club accounting. Always have a co-treasurer, and both of you take training classes to keep current.

Be consistent in valuation dates and monthly deposits.

No matter which accounting program you use, make backups often to your own hard drive, and/or a separate floppy kept elsewhere. Don't just backup data within the program, export that backup to a separate file in your hard drive or a zip drive.

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35

- Audits, absolutely necessary. While club accounting is not all that difficult, some people who accept the 'honor' of being treasurer don't always have a knack for it, and they can really mess things up, unless they are open to learning and asking questions in the right places. The chapter provides classes, and will give one-on-one help if requested. Audits properly done can spot little problems before they get big. If the club has purchased the available bond insurance from BI, they are required to submit a completed audit form to them each year. The same form can be used to report completion of the audit to the club.
- A treasurer should not be offended because officers or members want to look at the books. It is not a question of trust, but of good business practice. Also, the more other members are familiar with the accounting procedures, the easier it will be to enlist a rotation treasurer or co-treasurer.
- Naturally, the treasurer is the primary line of defense to spot and correct errors. Every month they should reconcile their cash balances against bank/broker statements, and also verify that their accounting records show exactly the same shares, including fractions, that the broker does. There should be no securities open for little amounts after they are sold, nor should there be any members showing a small balance or number of units who are already withdrawn. In I-Club Club Accounting programs, there should be one, and only one, saved valuation for each month and year-end, verified from the drop down date menu for a Valuation Report.
- The audit committee should be appointed yearly to conduct an audit once the year end entries are finished, and before the tax documents are prepared, in case corrections need to be made. They should look at all of the items above, using copies of the 12/31 Valuation Statement, Members Status Report, and Transactions Summary that should be done at year-end. Especially examine Individual Valuation Unit ledgers, to see that the

2010 Accounting Workshop Notes

number of units purchased each month is different, indicating proper valuations have been done, and that no withdrawn members are showing fractions open. They should also examine the Individual Security Ledger, also for fractions open on sold securities. CA3 and CAO have a Security Dividends Report that can be set to for the full year range which makes it easy to check for missing dividends.

- Members should be made aware that they themselves can oversee the books. Those clubs who use CAO online or bivio can directly view all the club accounting and reports, though they do not have the ability to make any corrections or entries. Even from just the Members Status Report, each person can verify that they have been credited with all the funds they have paid in, and if any members or securities are listed as active which should not be. They should have a sense of how much cash is available from one month to the next, and question any balances on the Valuation Statement that don't make sense to them, especially if there is a debit (minus) balance showing, which can reveal incorrect choices of financial account for buys or sales, or allowing the cash balance to become depleted and overdrawn, which could result in margin fees.
- Just a word here about discovering errors in previous years. Some of them may indeed have adversely affected some members' unit values, or perhaps somewhat changed what tax distributions should have been. I hold the position that if the club as a whole was negligent enough about their records to allow these errors and inequities to go unchallenged, the current members will just have to live with it, and educate themselves better going forward. You cannot make significant changes in previous years' records without impacting tax liabilities previously reported, which would require the club and every member in it to make amended returns on previous years taxes. In most cases, just leave it alone and learn from it. If it truly seems to be very significant, contact your chapter, the Club Treasurers list, or the Clubhouse forum on StockCentral with your problem to get specialized help.

2010 Accounting Workshop Notes

49

Under Administration you will find all the housekeeping tasks you'll need to operate your club. Info is basic information about your club, including your address and the TaxID you'll need to file your taxes. The link for Invites is where you can see who you've invited to become a member of your club. Overview is an overview of your entire club website, Subscription is where you will find the status of your bivio subscription, Roster is your club roster and Tools is a variety of tools you may occasionally need.

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54

Finally, you will find a communications section where you can store club files and records and a Mail section where all emails addressed to your club address, your_club@bivio.com, are saved.

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56

Now you see how easy it is to find your way around bivio, lets show you how easy it is to do your treasurer job. Because you are using AccountSync, anytime you have a transaction in your brokerage account, you will receive an email to let you know bivio has imported that transaction.

For example, one of your monthly jobs is to collect your member's payments and send them to your brokerage for deposit. When they've been deposited, you will receive an email from AccountSync telling you they have been entered into bivio.

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58

You go to bivio, login and go to Accounting, Accounts. Select the transactions link next to your brokerage name. Your screen will look like this. There is a transaction entered for each check received.

See where it says "Identify Credit"? AccountSync needs you to identify which check belongs to which member.

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2010 Accounting Workshop Notes

59

You go to bivio, login and go to Accounting, Accounts. Select the transactions link next to your brokerage name. Your screen will look like this. There is a transaction entered for each check received.

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60

You'll see a screen with all the member payments filled in. Note that since each member has added a certain amount of cents onto the end of his payment, bivio has "learned" which amounts belong to which member. All you have to do is double check they have been assigned correctly. Then, check that the correct valuation date is specified and confirm by selecting OK at the bottom of the page.

Remember, the Valuation date establishes the price of the units the member payments are purchasing.

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61

When you return to your account transaction screen, all the payments have been correctly identified!

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62

Every time there is a transaction you will receive an email. Here are 2 stock sales and a dividend that was received.

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63

When you go to bivio, you will see that all the transactions have been automatically entered. Note that each transaction is identified with either the word account_sync or the userID of the person who last modified it.

2010 Accounting Workshop Notes

That way, if a question ever comes up about a transaction, you will know who to ask!

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64

All you have to do once a month, is compare your brokerage statement with a bivio valuation report run on the closing date. First, make sure the cash balances agree.

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65

Then, compare the number of shares of stock. If they agree and the cash balance agree you're all set! Your bivio account has been reconciled.

Why do you need to do this? AccountSync is very good at interpreting the data provided by the brokerage but occasionally there is something that it didn't interpret correctly. You may have to manually modify these transactions. Also, sometimes treasurers get impatient and don't wait for AccountSync and enter a transaction manually. Then, AccountSync enters it again. One of the duplicate entries must be deleted to make things agree.

The reconciliation process only takes one minute a month but don't put it off. It is much harder to go back through months of transactions trying to find an incorrect one. It is even harder to correct a mistake that might effect a withdrawal payment or your taxes once those forms have been processed and sent out. Your members will also want to be comfortable that your monthly accounting is correct so that their payments purchase the right number of units at the correct price.

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66

Each month you will have an investment club meeting and your club members will want to be informed about the financial status of the club and of their accounts. Because bivio allows each member to have online access to view the club records, they have the ability to check on these

2010 Accounting Workshop Notes

things whenever they'd like. However, you still probably want to have something to present, so here are a couple of the reports you might show them and discuss. You will access all of these in the "Accounting", "Reports" section.

The main report you will present each month is the Valuation report, run on your official club valuation date. This summarizes the value of all of your club assets, stocks and cash, the gain or loss on each since you've owned them and the percent each makes up in your total portfolio. In the bottom left corner is the total number of "Units" in your club and the value of each unit. When members make payments at this meeting, they will purchase units at this price.

Note at the bottom that this data can also be downloaded to a spreadsheet if you would like to format it yourself in Excel.

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67

Your members will probably also be interested in knowing the status of their holdings in the club. This is called the member Status report. For your meeting, it is also run as of your official valuation date but as you can see, it can be run for any time period.

This particular version shows what the members paid in at the last club meeting, how many units it purchased and the total units they own and their value. It also shows the percentage of ownership each member has in the club. As we said earlier, all members do not have to have equal shares, all of the tracking of ownership is done with units. You may have rules in your partnership that limit a member from having too great of a percentage ownership. That is up to your club.

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68

Of course, everyone will want to know how your investments are doing because that is what determines their unit values. To help with your

2010 Accounting Workshop Notes

investment tracking, bivio offers a very powerful, time weighted calculation of return called the Annualized Internal Rate of Return. This is a complicated calculation that needs a whole presentation of it's own to explain but in short, it offers a way to determine the rate of return that you are getting on your investments. You can compare it with the rate of return you'd get if you had been putting your money in a savings account that paid a certain amount of interest.

The time frame you'd like to look at can be changed at the top of the report. This report includes all the dates the club has been in operation so the AIRR numbers for each stock are for the time since the club first purchased it. As you can see, Snow White and her friends have some good choices and some which aren't doing so well. Their overall club AIRR is -2.7 percent. Not as good as a savings account. But, you say, the market is crazy. How have we been doing compared to professional money managers? Fortunately there is another bivio report that shows you this.

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69

This is a portion of the bivio Performance benchmark report. In this case, it is comparing the club investment performance with the Vanguard 500 index fund. The list shows each date an investment was made by the club and compares it to instead, buying the Vanguard fund. As you can see, the club efforts are fairly close to the results they would have had if they had just bought this fund and let someone else determine how to invest their money. They haven't done quite as well but they've accumulated 10 years of learning about investing as they were doing this. A priceless payoff!

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77

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2010 Accounting Workshop Notes

folks monitor it on a volunteer basis, and you can usually get a very quick, helpful reply.

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If are a member of StockCentral, you can post accounting and club related queries in The Clubhouse Forum. The same experts are available on that forum.) For bivio related questions, write to support@bivio.com

- You are always welcome and free to write myself or Mary Peters, our chapter president, with your accounting and club questions, if we can't help you, we will find someone who can.

82

Almost all our investment clubs are partnerships, and as such, are subject to US Partnership Tax Law. Partnerships, as well as individuals, are required to file their taxable items, no matter how small, each year. If your club is organized as an LLC and not as a partnership, an LLC can elect to be treated as a partnership or as a corporation for tax purposes. So, an LLC that elects partnership treatment files a 1065 and issues K-1s just like a general partnership. The only differences are in some of the check-boxes on Schedule B and K-1.

Some reasons we hear from customers that believe they don't have to file:

We just started our club

We haven't made any money yet – but you have surely had expenses.

We have less than 10 members - immaterial

We didn't file last year – Your bad. Just hope you don't get caught. File this year.

2010 Accounting Workshop Notes

None of these reasons will prevent the nice IRS auditor from knocking on your door and penalizing your club.

The penalty can be as much as \$50/member/month.

So the lesson is, "File your taxes."

83

The club/partnership does not pay taxes. The individual members report their share of the clubs earnings or losses on their personal filings, with information obtained from the K-1's the club is required to issue to them. The club also sends copies of the K-1's to the IRS with an overall form 1065, which is supposed to be reconciled with the figures reported to the IRS by your bank/brokers 1099's

- Partnership Tax Law requires that every partnership must do a year-end allocation of earnings and taxable transactions. This is one of the functions accomplished in club accounting software.
 - The tax liabilities for the club are passed on to the individual partners by the filing with the IRS of Forms 1065 and K for the club and a separate Schedule K-1 for every partner who was a member of the club for any part of the prior year.
 - Each partner will need a copy of his or her own Schedule K-1 form in order to fill out his or her own individual tax return to be filed with the IRS. Warn your members to be sure and include their K-1 information in the filing of their taxes, as if you don't and it comes out in someone's audit, the club can get significant fines.
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84

Check for updates on CA3, for online CAO or bivio it is done automatically. The IClub Tax Printer will be available to order near the end of the year but

2010 Accounting Workshop Notes

will show only draft mode until the IRS has confirmed all changes for the year. This year the final forms are ready now

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It is imperative that the Club tax ID# and each person's SS#, name and address appear on the K-1's. If necessary for any reason, you can write them in, but don't neglect them.

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85

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86

Changes to the tax laws in JGTRRA of 2003 define certain dividends as "qualifying" for lower tax rates if the shares are owned for more than 60 days in the window starting 60 days before the ex-dividend date and ending 121 days later, during that tax year. This is why you need to fill in the correct ex-dividend date when you enter security dividends. The broker may only show a record date, but the ex-dividend date is usually two business days prior to that. Follow the 'find it' link on the dividend screens to get to the dividend data on that company's resource page at StockCentral. Bivio enters this automatically.

2010 Accounting Workshop Notes

Run a Security Dividends Report, a new feature from IClub, selecting the option to subtotal by security. This is an easy way to verify that you have correct ex-dividend dates to identify qualifying vs. non-qualifying, and whether you have posted all dividends if anything is missing in a sequence.

Banks and brokers may differ in whether the income paid on your money market account is interest or dividend. Enter it in the software under Cash as they report it on their statements and 1099's. There is a difference in where it is reported on the tax forms.

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87

Before you start, check the drop down date menu to verify allocations have been saved for the preceding years. Sometimes a treasurer doesn't actually generate the allocation herself. The tax printer will so the taxes are correct, but it won't be saved in the accounting software. If a year is missing, go to Tools in CA3 or Utilities in CAO and generate one for the missing year.

When all is in balance, you then create a valuation statement for 12/31/XX. Following that, you create an Allocation of Income and Expenses (former DOE), which distributes all taxable items to all members who were active at any time during the year. If you are manually doing your 1065 and K-1's, or having an accountant do your reports for you, they will need this Allocation of Income and Expense report to complete your forms. Running this report also creates the database for the Tax Printer, which puts out all necessary forms.

If you make any corrections or adjustments after you have run the AOE, you need to re-generate it. You can do this as many times as necessary, just be sure you have done one right before you proceed with the Tax Printer. (Note-**don't** make corrections in transactions of previous years that have already had tax reported. You just have to live with those errors. Ask us for special advice if you run into a really grievous older situation that is causing continuing imbalances for your members)

2010 Accounting Workshop Notes

It is also important for you to create a final withdrawal report for each withdrawn member to accompany their K-1's. In addition to their share of the clubs taxable items while they were active, they also are responsible for reporting their personal realized gain or loss on their value withdrawn.

Just a note, you may notice a few pennies here or there different between the Allocation of Earnings report and the 1065 from your Journal totals. This is not an error in the software. A \$5.00 dividend total can't be divided to the penny for say 3 people, so the AoE total will be a penny or so more, usually. The IRS does not care at all about pennies, in fact, they will accept filings rounded up to the nearest dollar.

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88

The screens look a little differently in CAO, but they are asking for the same information. I am sure bivio is quite similar. There is no tax printer for older accounting software programs.

Very simple. Your club name, mailing address you use, and date you began. If you are not the usual Domestic General Partnership, check the type that you are.

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89

The questions on the next two screens are defaulted to the usual answers. But read them, and if you club fits a different category, indicate it as such.

On the Form 8893 matter, unless you are already doing it, it is not required for small clubs with under ten members, just leave the boxes unchecked. It offers no benefit to club or members, merely complicates things. On this screen, fill in the name, address, and social security number of the person in charge of sending in the forms, usually you, the treasurer.

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90

2010 Accounting Workshop Notes

Read and check only if they apply to these questions. The box for question five would apply to be checked by most clubs.

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91

These questions are also defaulted to no check, unless your club happens to apply with foreign partners. This screen is showing Ogden, Utah, which is where Florida forms go. Click on Where do I file? To see the proper location for your club's state.

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92

For the full club reports, check Form 1065, and Schedule D. Select just one name if that is all you are going for, or Select All for Members K-1's. If some members Social Security Numbers are not showing, you can go back and complete their profiles with this information, or make sure you enter them manually on all copies going to the IRS. Click Finish. You will need to print two full sets including Form 1065 and Schedule D, and one more set of the K-1's, and only one copy of the Instructions for the K-1 which you will need to make copies of so each member can have one. Don't forget final withdrawal reports for withdrawn members.

DO NOT FAIL to sign the 1065, include club EIN and all member SS#'s, and mail in time to reach the IRS by the cutoff date. It would be best to get a receipt from the post office showing when it was mailed, and that it was to the IRS. Keep forever the club copies of the 1065, K-1's, and mailing receipt.

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93

Each club may have their own preferences, I recommend giving each member, along with their K-1, a printout of their Individual Valuation Units Ledger, so they can verify they received proper credit for all their payments during the year. Also, a copy of the Transactions Summary for the full year, and their usual monthly Members Status and Valuation Reports.

2010 Accounting Workshop Notes

There is no specific requirement on the other reports, but I recommend that you run one copy of all the other available ledger and journal reports for the Treasurer's permanent records at the end of each year.

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95

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97

- The previous resources can also help with many questions related to using your software or how to make certain entries.

If you are having a problem specifically with making your I-Club software work, either accounting, tax printer, or stock studies, this is the place to go. They are software programmers and make the software for BetterInvesting, but they are not treasurers or accountants, although they do have good resources on their support pages for common questions and unusual stock transactions..

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