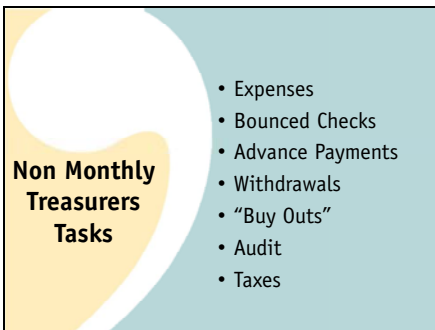


This presentation is part of a three part series.

In the first part, we gave you an orientation to your investment club accounting. That was good background information for everyone in your club so they could get a basic understanding about how your club finances work and what you will and will not be able to account for with bivio.

The second and third presentations give more specifics for club treasurers. In our last presentation, we discussed the tasks you do each month for your club.

Tonight's presentation covers non monthly tasks.



These include handling things like

- Expenses
- Bounced Checks
- Advance Payments
- Withdrawals
- "Buy Outs"
- Audit
- Taxes

There's a lot of material to cover here so we'll just be touching on some of the basics. Since you don't do these very often, you will probably find one of the most important things is where to find reference material when you do need to make these entries.

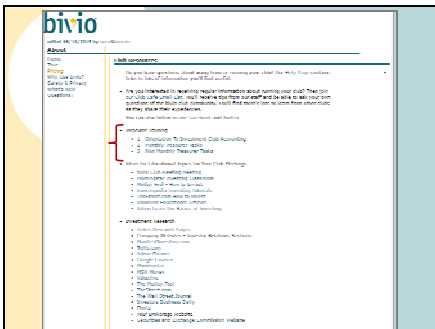


Links to specifics on these topics can be easily found on the bivio help page



Which you can get to using the

Help link you'll find at the top of your club pages on the right side.

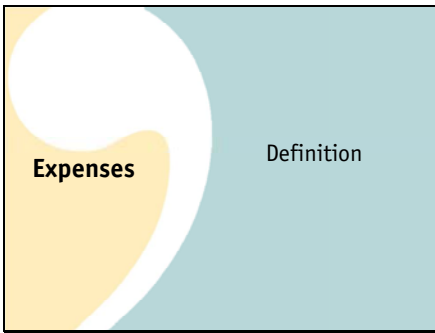


And on the Club Resources page.



Which you'll find

A link to from our homepage,



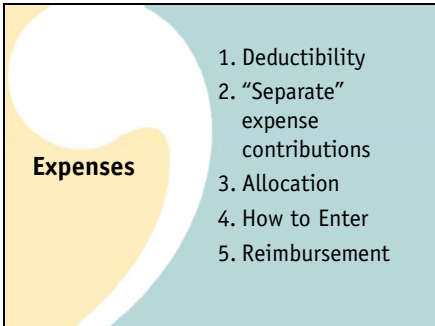
First let's talk about expenses.

We use the term expense to apply to a very specific type of entry. An expense is a transaction where your club pays for something that is not a stock purchase or member withdrawal.

Money is taken out of your club assets and used to pay for the expense.

For example, your bivio subscription is a club expense.

A typical investment club will have very few expenses. As we'll be discussing, any expenses which you record will affect your investment returns and most things you record will not provide you with much of any tax benefit. Despite this, club expenses tend to raise a lot of questions and take up a lot of unnecessary time for club treasurers.



Here's an overview of what you'll need to know about expenses.

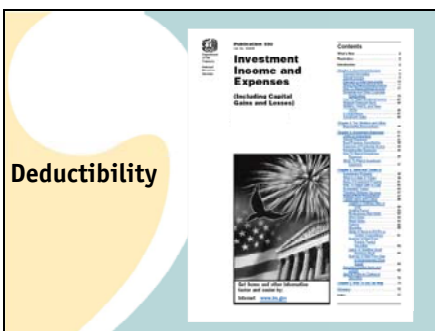
Everyone always wants to know about what expenses are deductible so we'll talk about that first.

Then we'll touch on keeping expense money separate from money you use for investing

Then, we'll talk about how expenses are "allocated" or divided up between club members.

I'll show you how to enter expenses in bivio

And finally, I'll show you how to reimburse a member who pays a club expense either with a check or by giving him or her additional units.



Only certain types of club expenses are deductible.

The definition of what is and is not deductible is found in IRS Publication 550. Investment Income and Expenses. Note that your club accounting is designed to account for your investment portfolio. You have Investment Income and Expenses not Business income and expenses.

**Deductible Expenses**

- bivio subscription
- Meeting room rental
- Postage and office supplies
- Investment advice
- DRIP plan service charges
- Safe deposit box rental

Deductible expenses include things like:

bivio Subscription

Meeting Room Rental

Postage and Office Supplies

Fees Paid for Counsel and Advice about Investing-which could include a club subscription to Manifest Investing or Valueline  
 DRIP Plan Service Charges

- Those subtracted before the funds are used to purchase stock

Safe Deposit Box Rental

- Percentage used for Investment Related Activities

If you have any question about whether something is a deductible expense, refer to Publication 550.

**Non-Deductible**

- Stockholder meetings
- Investing conventions and seminars
- Food and refreshments
- Gifts
- Club parties
- Flowers
- Stock purchase and sale commissions

Things which you might think are deductible but are not, include:

Expenses to Attend Stockholder Meetings

Expenses to Attend Investing Conventions and Seminars

Food and Refreshments

Gifts

Club Parties

Flowers

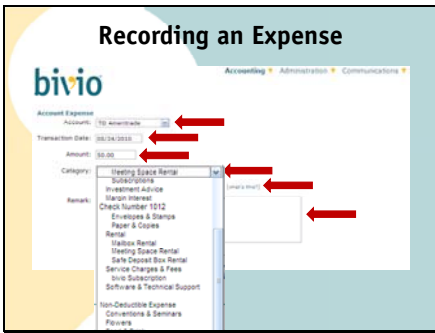
Stock Purchase and Sale Commissions – You do track these and they are important for determining stock basis but they are not entered as expenses.

**Recording an Expense**  
 Accounting>Accounts

Name	Last Updated	Balance	Actions
Cardo Bank	04/11/2023	200.00	View   Refresh
TD AMERICA	04/11/2023	424.07	View   Refresh   Expense

You record an expense in bivio this way. First go to the Accounting>Accounts page.

You will see a button labeled “expense”



This will open a form where you can fill in the details about the expense.

You'll pick the account you paid the expense from

The date you paid it.

The amount,

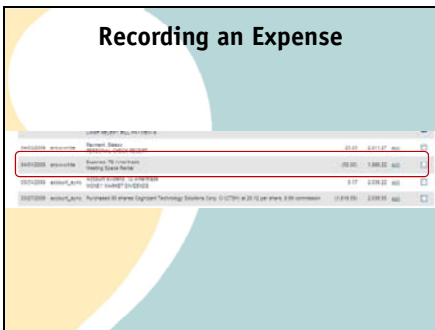
Whether it was deductible or non deductible.

We give you a menu of choices of the most common investment club expenses.

Allocate per partnership exception should be selected if you want the expense divided up in the same amount to each club member.

Finally you'll see a remarks box where you can enter any notes that will be helpful to you in your record keeping.

If you paid for this expense with a club check, this is a good place to make a note of the check number.



After you fill in the form,

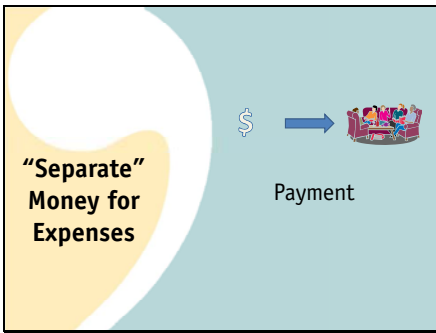
you will see the expense entered in your account transaction list.



There is a common misconception that there is a way for club members to make contributions to a club to pay for expenses which will be kept separate from contributions being invested. This is not the case.

As we discussed in the Orientation webinar, no matter how many club financial accounts you are tracking in your club accounting, for the purposes of the accounting,

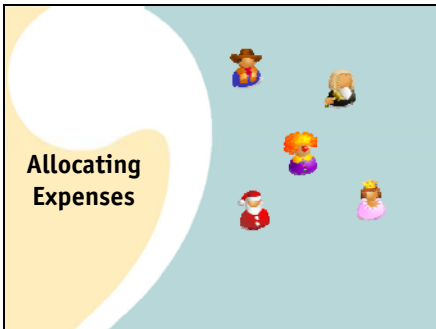
All of your assets are available for investing or for paying expenses.



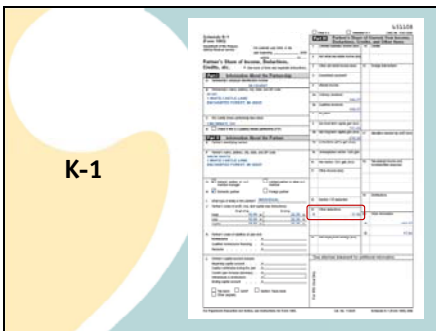
You don't record contributions members make to cover a club expense any differently than any other contribution. Record all

Member contributions as a

Member payment, no matter what it will be used for.

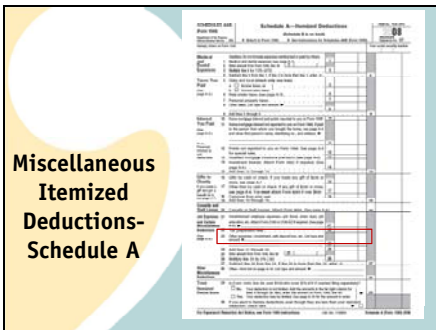


When expenses are recorded in your club accounting they are divided up and "allocated" to each person who is a member of your club at the time they occur.













At the end of the year, any deductible expenses that have been allocated to you for the year will be reported to you on the K-1 form you will receive from your club.

It will be shown on line 13 with a reference code of K next to it.



If you itemize your deductions on your personal taxes, club expenses will be deducted on schedule A in the category

Miscellaneous Deductions. You will only be able to benefit from the deduction if the total in this category exceeds 2 percent of your Adjusted Gross Income. For most people this will not be the case. You're probably not going to get some big tax benefit from expenses paid by your investment club.

Allocating Expenses-By Percent Ownership					
5/1					
	25%	20%	25%	20%	10%
5/18 Deductible Club Expense \$100	(25)	(20)	(25)	(20)	(10)
5/20					
	30%	20%	20%	15%	15%
5/26 Deductible Club Expense \$100	(30)	(20)	(20)	(15)	(15)

The default method of allocating expenses is by percentage of ownership in the club. This is the same way that income such as dividends is allocated. Percentage of ownership is tracked by the number of units each person owns.

Expenses are allocated as they occur, based on each members percent ownership when they occur. Percentage ownership in your club may change each time payments or withdrawals are recorded. Here's an example:

Suppose on May 1, these were the percentages each of these club members owned.

On May 18, the club had a deductible expense of \$100

It would be allocated to everyone like this.

Now suppose on May 20, some of the member's ownership percentages changed. This might happen if, for example, member payments for some of them (but not others) were recorded.

Then, on May 26, they had another \$100 expense.

It would now be allocated based on the new ownership percentages.

As you can see the specific transaction date and the sequence of each of your clubs transactions is more important than in other types of bookkeeping you may have done.

Allocating Expenses-Equal Dollar Amounts					
5/18 Total Units in Club=100					
Unit Value \$10					
Units/Person	25	20	25	20	10
Percent Ownership	25%	20%	25%	20%	10%
5/18 Deductible Club Expense \$100	(20)	(20)	(20)	(20)	(20)
5/18 Units/Person	23	18	23	18	8
Percent Ownership	25.6%	20%	25.6%	20%	9%

If your partnership agreement allows it, expenses can also be allocated in an equal dollar amount to each person. If you would like your expenses allocated this way, you would check the “Per Partnership Exception” box on the expense entry form. It is called “per partnership exception” because your partnership agreement must specify that this is an allocation method your club has agreed to.

When an expense is allocated this way each members account is reduced by the same number of units. Because of this, everyone’s ownership percentage will change. Here’s an example:

Suppose on 5/18 you had 100 units in your club and each one was worth \$10.

Each member owned this many shares

And therefore had this percentage ownership.

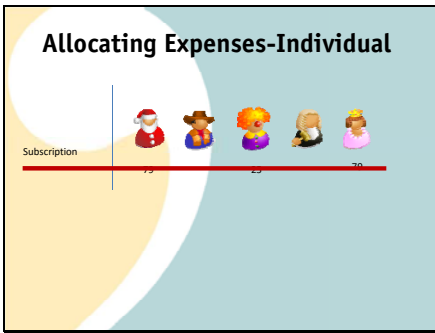
Suppose you had a deductible expense of \$100 and you wanted each person to be allocated \$20 of the expense.

You would check “per partnership exception” on the expense entry form and \$20 worth of units or 2 units at @\$10 each, would be removed from each person.

After the expense was entered, each member would own this many units.

As you can see, this would also change their percentage of ownership in the club. While some may consider this method of allocation “equal”, members with lesser ownership percentages are bearing more of the brunt of the expense.





Note that there are only two ways to allocate club expenses. In both ways, they are allocated to all members of your club. There is no way to allocate an expense to a single individual.

For example, if some members want to subscribe to something but others don't or different people want to subscribe at different levels, this is not an expense that should be paid using your club accounts.

### Individual Expenses-Meals

12/15/2009  
Club dinner at Restaurant  
Total Bill \$200  
Pd with Club Check

	25%	20%	25%	20%	10%
Choice 1-Default. Allocate Proportionally	50	40	50	40	20
Choice 2-Allocate Equal \$	40	40	40	40	40
NO Choice 3-Each person charged for their bill	10.00	10.00	10.00	10.00	10.00

In addition to subscriptions, another individual expense that comes up frequently is restaurant meals.

Suppose your club had a dinner at a nice restaurant and the total bill was \$200. Suppose you had your club treasurer write a club check for the total.

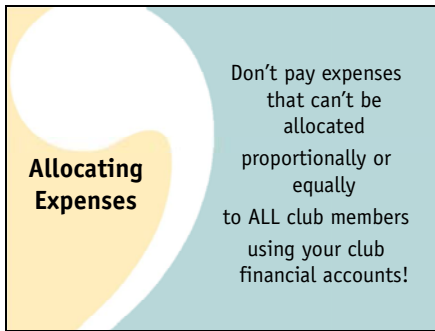
When she went to enter the dinner expense, she would have two choices on how to allocate it to each member.

Either proportional to their ownership in the club or

In an equal dollar amount to each one.

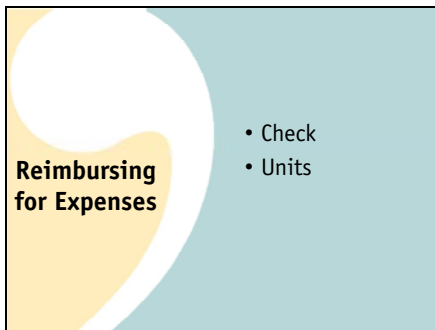
She would not have any simple way to allocate each person's actual bill amount

To them.



This cannot be emphasized enough. It will seem as though any expense related to your club or your club members should be paid for using the club accounts. This is not true!

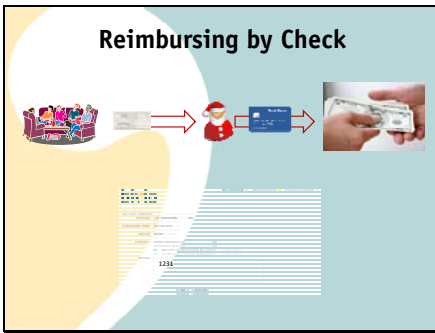
If you do not want to allocate an expense equally or proportionally to everyone, don't use your club financial accounts to pay it. There is no benefit to doing this. Your club accounting will not track the tax benefits the members might achieve and recording the cash that moves around in your club accounts requires complicated entries on your treasurer's part. Members should pay the expenses themselves and keep track of any tax deductible expense individually to claim them as a deduction.



So now we've talked a little about how expenses are entered and how they are divided up amongst club members, let's talk about reimbursing members who have paid a club expense. Since clubs cannot have credit cards, it is often more convenient for an individual to pay an expense and then for the club to reimburse him. There are two ways you can do this.

You can write him a club check or

You can reimburse him with units of ownership in the club. You might want to do this because it will not change the amount of cash your club has available. It also might allow you to operate without having a checking account. In addition, it gives you a way to pay expenses more quickly because you don't have to wait for a check to clear.



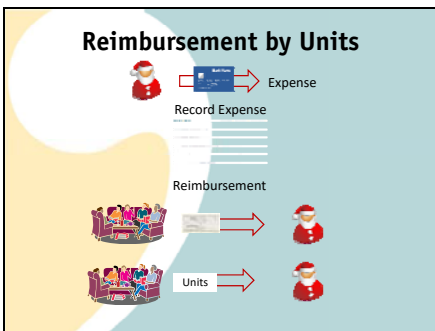
First let's talk about reimbursing a member with a check. Reimbursements sometimes get a little confusing because there is no specific "reimbursement" entry. Instead, you record the expense as if it had been paid directly by the club. While you might write a club check, the check goes to the member who paid it rather than the group that provided whatever you are paying for. It works this way:

Your club incurs an expense such as your bivio renewal.

A club member pays it, perhaps with his personal credit card. The renewal is applied instantly. There is no waiting for a check to get to us through the mail and be processed by our accounting department.

Instead, the club gives a check to the member to reimburse him. But, it isn't entered in your accounting as a check in a check register like you might do with your personal accounts. Instead, it's entered as I showed you earlier as an expense using the expense form.

You just make a note of the check number in the remarks field.



You can also reimburse a member with units of ownership in the club. Conceptually, it works like this:

First the member pays the expense.

Then you record the expense. It is allocated to everyone so it is if each member has "chipped in" to pay it.

As described before, you could use some of your club cash to give the member a check to reimburse him.

But instead, you use the amount taken out as an expense to reimburse the member with more units of ownership in the club



Here are the actual steps you go through to record this.

First, if you don't already have one, use the create button to create a new, temporary account on your Accounting>Accounts page.

You can call it whatever you want. Sometimes it is called "Suspense". We'll call it "Reimbursements" so that later we can remember what we used it for. You use a temporary account because there won't be any transactions corresponding to these on your financial account statements.

Once you have the new account created, open the expense form using the Expense button.



Record the expense as being paid from the "Reimbursement" account you just created.



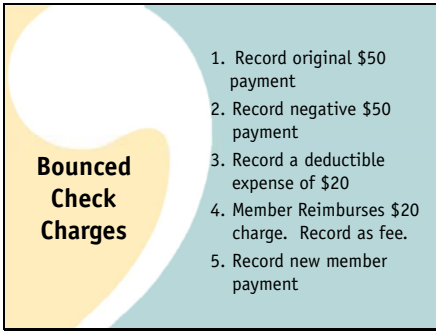
After you make this entry, you will see there will be a Negative balance in the Reimbursements account. It will have a negative balance because it is an amount that has been removed from your club assets to pay the expense.



Next, you record a Payment for the member being reimbursed

Use the payment link next to his name on the Accounting>Members screen to make this entry.





**Bounced Check Charges**

1. Record original \$50 payment
2. Record negative \$50 payment
3. Record a deductible expense of \$20
4. Member Reimburses \$20 charge. Record as fee.
5. Record new member payment

ill probably already have

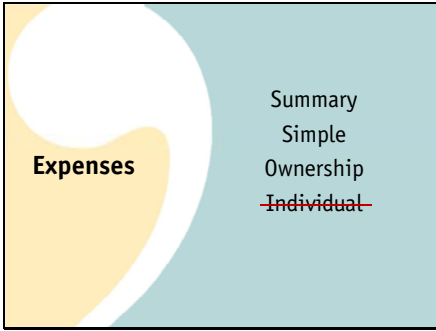
led a \$50 member payment for this person. (This is the deposit that will bounce)

Step 2-To reverse the original deposit, you'll have to record another payment of negative \$50. Record it on the date of the original payment. Use the same valuation date you used initially)

Step 3-Then, record a deductible club expense of \$20. This is the bounced check penalty your club was charged.

Step 4- If the member reimburses the club for the bounced check charge; record it as a fee of \$20 received from him or her.

Step 5-If the member also gives you a new check for his \$50 payment, record this as you usually do as a member payment on the date you receive it.



**Expenses**

Summary  
Simple  
Ownership  
~~Individual~~

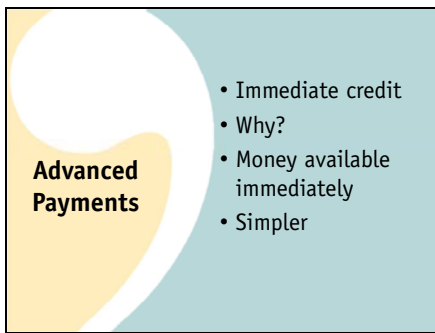
In summary, there is a lot to think about when it comes to club expenses and there is not much benefit to you when you have them.

You really should have very few to account for and we'd recommend you handle any you do have as simply as possible.

Allocate them based on club ownership and

don't use your club accounts

To pay for expenses that only apply to certain individuals.

A graphic with a light blue background and a yellow and white abstract shape on the left. The text 'Advanced Payments' is written in bold black font. To the right, there is a bulleted list of three items.

**Advanced Payments**

- Immediate credit
- Why?
- Money available immediately
- Simpler

Our next topic is advanced payments. I hate to even discuss these because we like to encourage you to keep things simple.

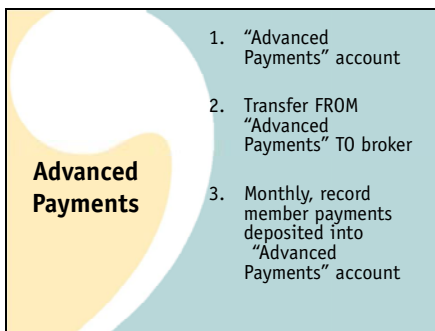
What we'd highly recommend is

That you just give members immediate credit for deposits when you receive them.

Why do we recommend this?

Because you have the money, why not use it for investing?

And, recording things this way is less work for treasurer

A graphic with a light blue background and a yellow and white abstract shape on the left. The text 'Advanced Payments' is written in bold black font. To the right, there is a numbered list of three items.

**Advanced Payments**

1. "Advanced Payments" account
2. Transfer FROM "Advanced Payments" TO broker
3. Monthly, record member payments deposited into "Advanced Payments" account

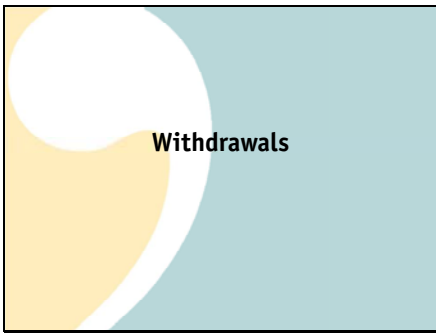
If, however, you want to hold advance payments for the future, this is a quick overview of what you will need to do to account for it:

- First, create another temporary account called something like, "Advanced Payments". You create it on the Accounting>Accounts page like you did for the Reimbursements account we discussed earlier.

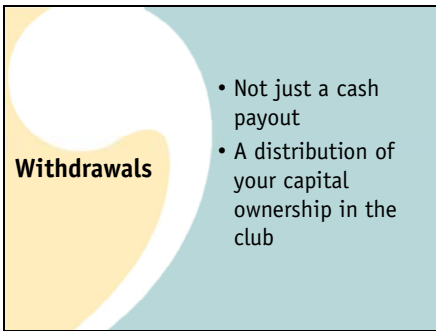
2. Record the members advanced payment as a transfer FROM the "Advanced payments" account TO your brokerage account. This keeps the brokerage cash balance correct. The negative balance you will have in the Advanced payments account will reflect the fact that this money is not part of your club assets yet.

Each month, as you're ready to recognize the receipt of the payment, record a member payment which is deposited into the "Advanced Payments" account. This will lower the negative amount in this account meaning your payments are now adding to your club assets.

Bottom line is that it is a lot of work and means your club has cash it shouldn't be investing yet because the member who gave it to you hasn't gotten credit for it yet. That is why we recommend you avoid this and just give the member full credit for payments at the time he or she makes them.



One of the more involved transactions you'll have to do occasionally as a club treasurer is to process a member full or partial withdrawal.



As we discussed last time when we talked about member payments,

when a member withdraws assets, there is quite a bit of accounting bivio needs to do. Entering a withdrawal is more involved than just recording the amount someone receives.

A withdrawal is actually a distribution of member capital. Your club is a type of business called a partnership. There are tax implications to a withdrawing capital from a partnership. Just like when you purchase a stock, you actually have a basis for your investment in your club. When you withdraw money, there may be a capital gain or loss to report on your taxes

Name	Paid Since	Total Paid	Tax Basis	Units Since	Units	Market Value	Percent
Eight, Member	04/02/2011	700.00	700.00	5.571262	68.048903	945.65	15.7%
Eleven, Member	25.08	826.60	846.01	1.867352	49.570842	688.94	11.4%
Five, Member	0.00	475.00	490.32	0.000000	48.900660	651.70	10.8%
Four, Member	0.00	358.01	368.23	0.000000	36.311973	488.32	8.1%
Frederickson, Larve	25.03	980.63	811.23	1.869954	56.012480	778.40	12.9%
Seven, Member	25.10	892.00	920.77	1.874128	50.048074	787.84	13.1%
Six, Member	25.05	851.00	870.76	1.868118	51.863182	720.73	12.0%
Two, Member	25.02	850.42	870.21	1.867791	51.833829	720.32	12.0%
One, Member	25.11	200.71	200.90	1.869106	16.744416	232.20	3.9%
	<b>225.52</b>	<b>4,408.15</b>	<b>4,773.25</b>	<b>16.792191</b>	<b>433.836978</b>	<b>6,015.21</b>	<b>100.0%</b>

You can find out what your

tax basis is at any time, on the member status report. If you withdrew all your money from the club on the date of the report you would have a capital gain or loss equal to the difference between this column plus any income and expenses that have been allocated to you for the current year and the

Current market value of your share of the club shown in this column. If you withdraw less than the amount of your tax basis in a partial withdrawal, you will not owe any immediate taxes.



**Withdrawals**

- Amount owed
- Units redeemed
- Capital account adjustments
- Tax reporting

For this reason, withdrawals need to be entered in a specific way so that your club records get updated correctly. These things will happen when a withdrawal is entered.

The amount the withdrawing member is owed will be calculated.

The number of club units or shares that the member is cashing in will be removed from your club records.

The proper additions and subtractions from the member’s capital account will be made.

Correct tax reporting will be provided. The member will need this information to fill out his personal taxes correctly.

Member Summary for 03/31/2018

Name	Units	Market Value	Percent	Actions
Tracyell	44,082,376	745.44	1.4%	Account, New, Withdrawals
James, Simon	555,844,425	9,299.27	18.0%	Account, New, Withdrawals
Doc	348,902,392	5,899.41	11.2%	Account, New, Withdrawals
Diaper	282,462,061	4,775.39	9.3%	Account, New, Withdrawals
Grumpy	389,058,620	4,820.18	10.0%	Account, New, Withdrawals
Shags	591,493,318	10,062.05	20.0%	Account, New, Withdrawals
Woody	771,438,138	13,368.53	26.4%	Account, New, Withdrawals
<b>Total</b>	<b>2,839,213,818</b>	<b>46,010.77</b>	<b>100.0%</b>	

One unit = \$ 16.90883

Fortunately you do not have to do all the accounting this involves.

All you need to do is make sure to enter withdrawals using the withdrawal form you will find it by selecting the withdrawal button on the Accounting>Members page. When you fill in the information requested on this form, bivio makes all the appropriate entries in your accounting. Don’t just give a member a check and assume you’ll enter the withdrawal later. Until you’ve made a withdrawal entry, accounting-wise, he is still a member of your club and his ownership percentage is affecting everyone else’s.

**You Cannot Process a Withdrawal Until**

- Partnership agreement?
- Accounts reconciled!
- Pending Withdrawals
- Payment method
  - a) Appreciated Stock
  - b) Cash
  - c) Both

Before you can fill in the form, you will need to know a few things.

You will need to know what your club partnership agreement says. There are certain parameters there that your club members have agreed you are going to use when someone withdraws assets from your club.

All your records need to be correct. You need to value what the member is owed. If your records are incorrect, the amount you pay him will be incorrect. It is not easy or sometimes even possible to correct a withdrawal payout after the money has been given to the departing member.

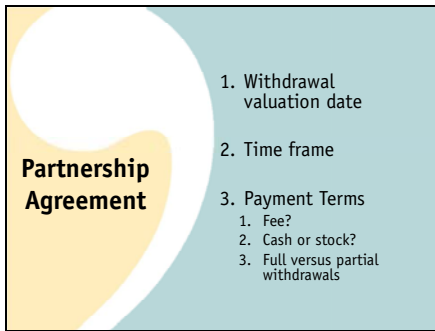
You will need a temporary account to record the withdrawal in so that the cash is not deleted from your brokerage account until the check is cashed. We suggest you call this account Pending Withdrawals.

You need to decide what assets to use to pay the withdrawing member. You can

Transfer appreciated stock,

give them cash or

do a combination of both depending on whether it is a full or partial withdrawal.



Your partnership agreement should include wording describing what your club has agreed to as terms for paying withdrawals. It should cover:

Your withdrawal valuation date-on what date are you going to determine what is owed?

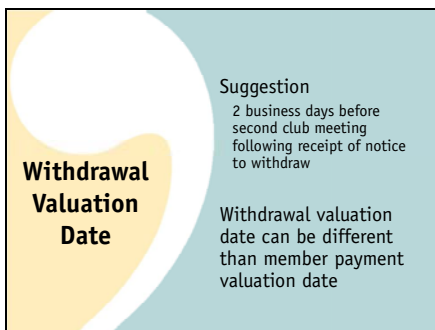
What is your time frame for paying the withdrawal? How much time can go by between when he tells you he'd like to withdraw and you need to pay him? How much time can pass between when you value his account and when you pay him?

What are your payment terms?

Does your club charge a withdrawal fee?

What kind of assets can you use to pay him with? Who will determine that and how will it be determined?

Do you have different rules that apply to Full versus partial withdrawals? Let's talk a little more about each of these things.

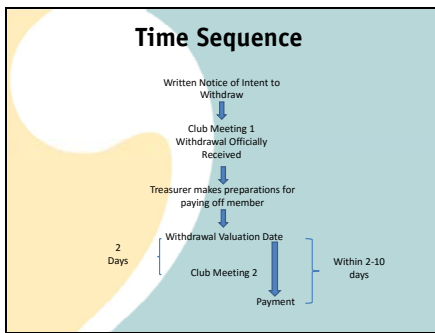


Your withdrawal valuation date is the date you will value the members account to determine what he is owed.

Our suggestion

Is that you value the account 2 business days before the second club meeting following receipt of the notice to withdraw (We'll show graphic depicting the timing on the next slide)

It is fine if your withdrawal valuation date is different than your member payment valuation date.



When it comes to the timing of making a withdrawal payout, here is a sample of the sequence of events we recommend you specify in your partnership agreement.

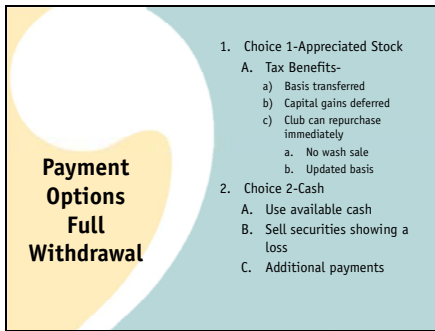
First, a member lets you know they would like to withdraw some or all of their funds. We'd recommend you require the request be in writing.

At the first club meeting following the receipt of this notice, it will be officially accepted. At that same meeting, club members will need to review the club assets and determine which ones will potentially be used to fund the withdrawal. They will determine whether to fund it with cash or stock or both. The actual value of what the member is owed is not determined until just before your next club meeting but the treasurer will need to perform the transactions prior to the meeting so he will need guidelines to make the final judgment. The built in delay in valuing a member's account makes sure members do not try and "time" the market and create undo disruption in your club operations.

After the meeting, the treasurer must make the preparations necessary to pay off the member within the time frame specified. If stock is going to be transferred, he needs to make sure the member has an account at the club brokerage. If the club has decided stocks will be sold, he needs to place those orders. He also needs to make sure all the club accounting is up to date prior to the withdrawal valuation date.

We recommend the withdrawal valuation date be 2 days prior to the next scheduled meeting. On the day after the withdrawal valuation date, stock prices will have been updated and the treasurer will have all the information he needs to enter the withdrawal and transfer assets to the member. He should proceed with this process.

The member should receive his assets within 2 to 10 days of the withdrawal valuation date.



How do you decide whether to pay a member with cash or stock or a combination? In the case of a full withdrawal, these are the things you should consider:

Our recommendation, if you have any significant Capital gains in any of your holdings is that your first choice be to transfer Appreciated Stock

The reason for this recommendation is that there are nice tax benefits when you make a full withdrawal from a partnership.

In accordance with the tax code, the withdrawing member's basis in the stock received is their tax basis in the club minus any cash received

This means any Capital gains they have on their withdrawal are deferred until the stock is sold. The remaining club members also defer recognizing the capital gain on the stock being transferred. Deferring taxes is generally desirable

If your club still wants to hold the stock, you can repurchase it immediately

There are no wash sale limitations

And the club will have a stepped up basis in the new shares. Don't transfer stock in which the club has a loss. It is in the clubs best interest to sell the stock so that all members can recognize the loss. Losses can be used to offset capital gains and, possibly even some of your personal ordinary income.

If you do not have appreciated stocks or you don't have enough to pay what you owe the member, your second choice for payment is Cash. You can either:

Use Available Cash

Sell Securities Showing a Loss

Or members can make additional Payments to increase cash assets

**Reconcile Your Club Accounts**

- Cash
- Number of shares of stock
- Member payments
- Expenses
- Income received
- Investment transactions entered correctly
- Stock prices up to date

Once you've determined how you plan to pay the withdrawing member, it's time to take action. We talked about the reconciliation process in the Monthly Treasurer Tasks presentation. It is very important that your club records are reconciled and up to date prior to making a determination of what a departing member is owed. Once you have paid him, it is not very easy to correct a mistake. Do not go any further unless you are sure all these things are correct.

Your cash balance in bivio agrees with your financial statements

The number of shares of stock in bivio agrees with what your financial statements show

All your member payment entries are up to date

You've recorded all your expenses prior to the valuation date

All the income you've received has been entered correctly.

All your investment transactions have been entered correctly and you've checked the details on any capital gains and losses for sales you've had during the year.

It's also important that your stock prices are up to date. Note that stock prices are updated late each evening. You cannot determine correctly what a member is owed by looking at a valuation report until the day after the valuation date.

**Create a Pending Withdrawals Account**

Accounting Administration Communications  
Accounts Documents Members Reports Taxes

Account Summary for 03/25/2019

Account Summary

Name	Last Updated	Cash Balance	Actions
Pending Withdrawals	03/25/2019	\$0.00	View, Reconcile
RealEstate	03/25/2019	\$0.00	View, Reconcile
TD Investments	04/27/2019	\$29.87	View, Reconcile

Size: Normal  Show inactive Accounts

Sometimes, when you write a member a withdrawal check, they do not cash it right away. In order to be able to track this situation and still reconcile your brokerage account cash each month,

we recommend you use a temporary account to record the withdrawal transaction. We suggest you name this account "Pending Withdrawals" so that you will know what it is when it shows up on your valuation report.

Member Summary for 05/31/2010

Accounting Administration Communications  
Accounts Investments Members Reports Taxes

+ - + -  
 P S + -  
 Home Budget Reports Withdrawal

Name	Units	Market Value	Percent	Actions
Investment	44,082,176	745.44	1.6%	Account, New, Withdrawal
SPDR, S&P 500	556,848,426	9,749.27	19.8%	Account, New, Withdrawal
Dia	348,903,782	5,899.91	12.3%	Account, New, Withdrawal
SPY	242,402,981	4,279.78	9.0%	Account, New, Withdrawal
Grundy	285,050,820	4,820.18	10.0%	Account, New, Withdrawal
SPY	591,491,218	10,002.09	20.8%	Account, New, Withdrawal
SPY	721,438,126	12,268.93	25.4%	Account, New, Withdrawal
<b>Total</b>	<b>2,839,213,618</b>	<b>48,610.77</b>	<b>100.0%</b>	

One Unit = \$ 16.90683

Once you've determined how you're going to pay the member and the valuation date has passed, you have everything you need to enter the withdrawal.

As I showed earlier, the withdrawal form is accessed from a button on the "Accounting", "Members" screen.



Here's the form you fill in.

First, you identify the withdrawing member.

Then, you enter the date you will deliver his payment to him. The transaction date is the date the member is actually withdrawn from your club.

The valuation date is the date we've been discussing on which you determine the amount you owe him.

Here's where you specify that you will use the Pending Withdrawals account to record the withdrawal until the check given the member has cleared the brokerage account. That will allow the units to be removed from the club assets but the brokerage cash will agree with the brokerage statement until the check clears.

You specify whether you are entering a full or partial withdrawal.

Here's where you enter any fees your club charges. The only fee this club charges is the stock transaction fees associated with the withdrawal. They sold 2 stocks and had \$20.01 in commissions.

This example is a cash withdrawal. If you're transferring stock plus cash, you'd select Stock here. If you do that, a page opens up where you can select the shares being transferred.

The transfer valuation date is only needed if stock is being transferred. In that case, we'd recommend that you use the same date you used as a valuation date.

Don't forget to click OK when you're ready to process the withdrawal.





After you've entered the withdrawal,

you'll see the Pending Withdrawals Account has a negative balance

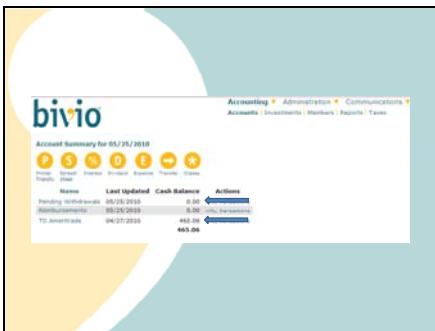
The cash balance in your brokerage account is unchanged.



When your withdrawing member finally does cash the check and it clears the brokerage account, you will get an AccountSync email that will tell you you have an unidentified Debit. Identify it as a transfer transaction from

your brokerage to the

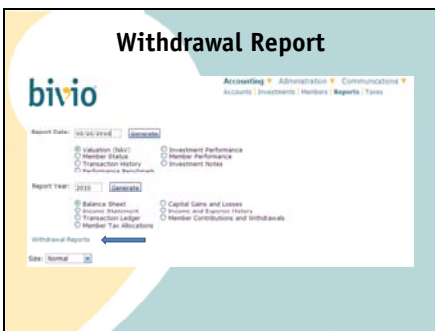
Pending withdrawals account.



When you're done with this,

you will see that the temporary, Pending Withdrawals account is now back to a zero balance

and the cash amount has been removed from your brokerage account.



For each withdrawal, a withdrawal report is prepared.

You get to it on the Accounting>Reports page.

### Withdrawal Report

11/07/2008 Sneezy, Full Withdrawal in Cash

Report Preparation Date	05/25/2009		
Member Valuation Date	11/07/2008		
Unit Value	99,999.99	Cash	7,000.00
Cash Withdrawal	449,330.67	Withdrawal Fee	20.00
Withdrawal Value	1,000.00	Withdrawal Loss	7,000.00
Member's Basis Before Withdrawal	6,499.99		
Current Income Allocation	(768.99)		
1% Adjusted Basis	6,499.99		
Member's Cost Basis of Property Distributed:			
Cash	7,000.00		
Stock	7,000.00		
DC Total	7,000.00		
Member's Basis After Withdrawal	0		
Gain/Loss Realized on Withdrawal (2)(4)	(7,439.99)		

Note: Any gain/loss realized on withdrawal must be reported to the member on Schedule D of the 1099. This report should be on file at the time of withdrawal.

Tax Information					
Dividend	Qualified Dividend	Short-Term Capital Gain	Long-Term Capital Gain	Misc. Expense	Net Profit
13.24	639.03	(206.92)	(276.97)	(27.91)	(468.61)

This is what the report looks like. You need to give a copy of it to your member when you send him his check. He will also receive a K-1 when you do your club taxes. He will have information from both forms that he will need to fill out his personal taxes.

This Gain or Loss will be reported on his personal Schedule D. It will be reported as Disposal of Partnership Interest. Date of Acquisition is the first date the member contributed to the club. Date of disposal is the Withdrawal Transaction Date.

### Partial Withdrawal

- Tax consequences
- No gain recognized up to members basis in the club
- Cash

Just briefly, if you are paying a partial withdrawal versus a full withdrawal,

the tax consequences to the withdrawing member will be different.

A nice tax feature of a partnership is that a member receiving a partial withdrawal does not have to recognize any capital gain until his withdrawal amount exceeds the value of his basis in the club.

We'd recommend that you pay partial withdrawals in cash. Cost basis in stock received in a partial withdrawal is not determined in the same way as it is in a full withdrawal. Because of this, it is much more complicated to determine whether distributing stock in a partial withdrawal is advantageous to the member or the club.

**“Buy Outs”**

- Full withdrawal member leaving
- Member Payment for member joining

Sometimes clubs ask what is involved with having one member “buy out” another one.

This will actually involve making two separate transactions. You’ll enter a full withdrawal for the member who is leaving the club.

Then, you’ll enter a member payment for the member joining the club.

If you use the same valuation date for both transactions, the new member will receive the same number of units that the withdrawing member had.

It’s a lot of material to process, but that gives you a good overview of the items you’ll need to consider and process when you have a withdrawal.

**Audit**

There are two treasurer tasks which will occur on an annual basis. The first is a club audit.

**What Is An Audit?**


Record Verification

What is an audit?

It’s when members other than the club treasurer verify the accuracy of your club records. . As treasurer you will organize the information the other club members need to conduct the audit.

**Why Do An Audit?**

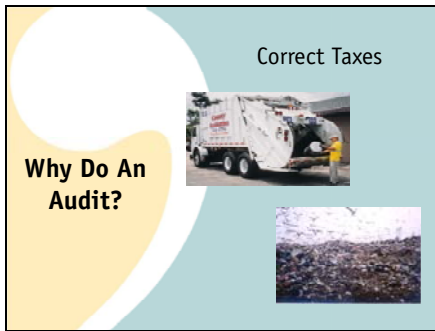
Double check



Why do you want to do an audit?

First of all, it’s an independent verification that your club treasurer is doing what you think they’re doing with your club finances.

This is especially important if it appears as though they’re suddenly able to take lots of exotic beach vacations. Fortunately it’s rare to have a treasurer embezzle from a club but it has happened.

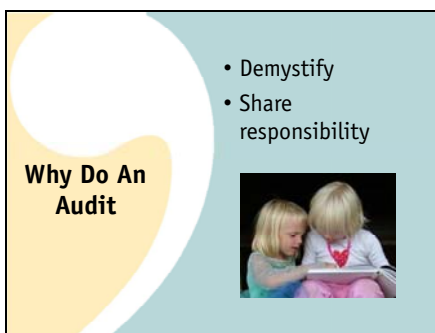


All club members are responsible for club taxes being filed correctly. So all club members should also want to know they are being prepared correctly.

Just because your bivio site shows a lot of numbers doesn't mean they're useful for anything. Without verification your taxes may just be

garbage in

Garbage out. And that isn't good for anybody.



Unlike your investing activities, the IRS is not as forgiving about you being novices in terms of filling in partnership tax returns.

It's important that every club member have a general understanding of what club accounting is about and what can and cannot be easily handled by your treasurer. Doing an audit will help to demystify your clubs finances.

It will also help you share the responsibility of making sure your taxes are accurate. There's no reason your club record keeping or tax preparation should be hard. If it is, it's usually because club members are asking the club treasurer to do things they don't have the tools to handle.

The simpler your club finances, the simpler your audit will be. And there's no reason not to keep things simple.

**Why Do An Audit?**

- Ownership
- Percentage
- Tax basis

Finally, as we've noted before, when you invest in a club, it's like you are making an investment in a mutual fund.

You want to know that your ownership is being tracked correctly.

You will have a "basis" in your investment in the club and when you withdraw money, you will pay a capital gain or loss on the difference between what you take out and your basis.

It's important your percentage of ownership is being tracked correctly so income and expenses are being allocated to you correctly.

Otherwise your tax basis will not be correct.

**When Should You Do An Audit?**

- Suggestion
  - January
  - End of year statements ready
  - Before 1099's received
- Why?
  - Get records in shape
  - Help fill time
  - January is a slower month

When should you do an audit?

Our suggestion is to do it in

January

After end of year statements are ready from your financial institutions and

Before 1099's received and your taxes are prepared

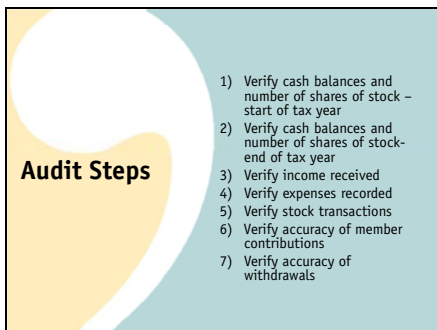
Why?

Because the most important and time consuming step in completing your taxes is making sure your records are correct. If you do your audit while waiting to do your taxes, filling in the tax forms will be very quick when the tax program becomes available.

It will help fill in the time until taxes can be done

January is a slower month

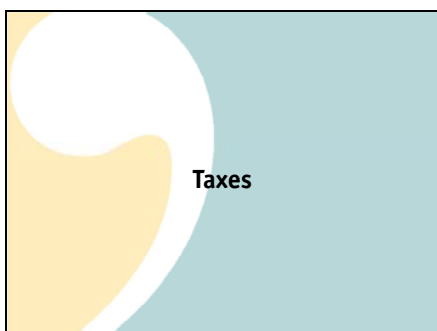




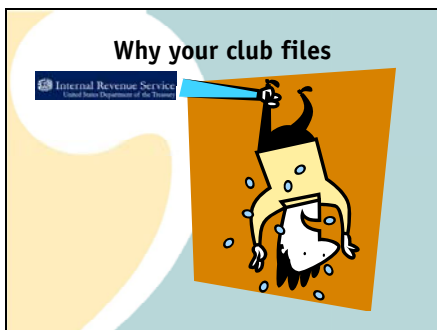
These are the 7 steps to perform an audit. You'll:

- Verify cash balances and number of shares of stock – start of tax year
- Verify cash balances and number of shares of stock-end of tax year
- Verify income received
- Verify expenses recorded
- Verify stock transactions
- Verify accuracy of member contributions
- Verify accuracy of any withdrawals

We go through each of these steps in more detail when we present our annual audit webinars. You can also a link to the audit presentation on our help page. In the presentation, we talk about why you do each step, go through an example of how you do it and discuss what to do if you find any discrepancies.

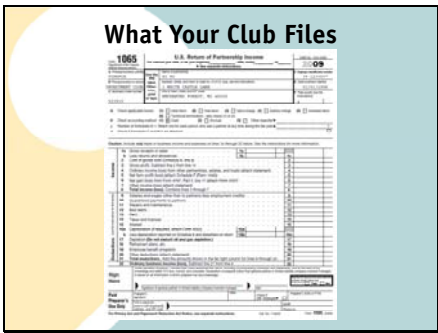


The other annual job you will have is preparing your club's taxes.



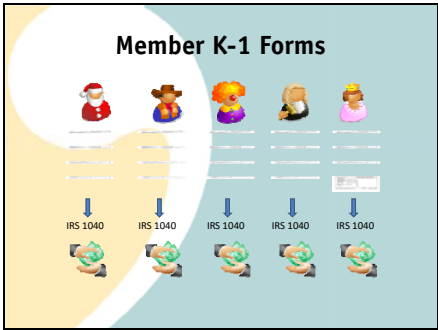
If you have income,

the IRS wants their share. We need to follow their rules on how to track and report it and pay taxes on it.



Your investment club is a partnership and the

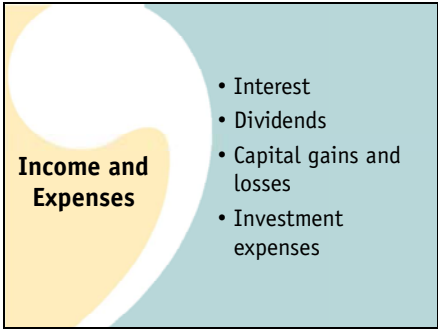
tax form you file is called a 1065 form. It is what is called an informational return. Your club does not have to pay taxes directly. All of the income and expenses are divided up between the members and they report and pay taxes on their share on their personal taxes.



Each member

Receives a form called a K-1 so that he knows what amounts he needs to report

On his personal tax forms to pay taxes on.



Your club will have this kind of Income:

- Interest
- Dividends
- Capital Gains and losses from stock sales

The only types of expenses you should have are Portfolio Investment Expenses which we discussed earlier.



Who has to file taxes?

You do. If you have an EIN number you need to file club taxes. It does not matter how long your club has been in existence or how much income you have had.





## When Do You Have to File?

- Taxes Due-March 15
- 1099's-February 15
  - Check capital gains/losses when you have a sale.
  - Reconcile your records each month
  - Do an audit in January
- K-1's to members
- March 1

Investment club members need to understand that being in a partnership means their tax life has become a bit more complicated. Because your club has to wait for the information it needs to prepare the partnership tax forms, members need to wait for the information they need to file their personal taxes.

The time line you will be working with involves these dates:

There is a change for when you file your 2016 club taxes in early 2017.

You'll need to have them filed by March 15, 2017 or you'll need to file for an extension.

Your taxes will need to agree with the 1099 forms which are sent by the financial institutions to the IRS to report your income. Financial institutions have until February 15 to get these to you. So you can see the time you have to get the forms and prepare your taxes has been compressed. There is, however, no reason it should take you much time to finish your taxes when you get the 1099's if you do the following things during the year.

Check your capital gains and losses when you have a sale between bivio and a realized gain/loss report you can get from your broker. If there are any differences, you can get them corrected at the time of the sale. There is no reason you have to wait to find the differences on your 1099.

Reconcile your records each month. If you do this, you'll keep your records in reasonable shape and again, be able to correct any issues in a timely manner. This keeps things from building up into a big mess that will take a lot of time to straighten out at tax time.

Audit – You have all of January to do your audit. You will be able to get everything you need from your broker to do the audit as soon as the year is over.

If you do these three things, you should not find much on the 1099 that you'll need to address that will take much time.

Your members cannot complete their own personal taxes until you have given them their K-1's.

Because you can't finalize anything until you have the 1099's, if you've followed the recommendations above, a reasonable date to tell them they'll have their forms is March 1.

**When Do You Have to File?**

- Penalty for filing too soon
  - Amended returns
    - Club
    - Club members
- Penalty for late filing

One of the penalties for filing incorrect taxes too soon is that you might have to do it all over again and

File an amended return.

Not just your club, but also

any of your club members who have already filed their personal taxes

If you file late or not at all, or you file forms with missing or incorrect information on them, there is a pretty stiff penalty that is not at all related to the amount of taxes you owe. It can quickly add up to 10's of thousands of dollars.

The IRS will charge you \$195 for each month or part of a month (for a maximum of 12 months) the failure continues, multiplied by the total number of persons who were partners in the partnership during any part of the partnership's tax year for which the return is due. It adds up quickly.

**How to prepare your Taxes**

3 Steps

The good news is

There are really only 3 steps to doing your taxes.

**Step 1-Verify Your Records**



The first step involves comparing your

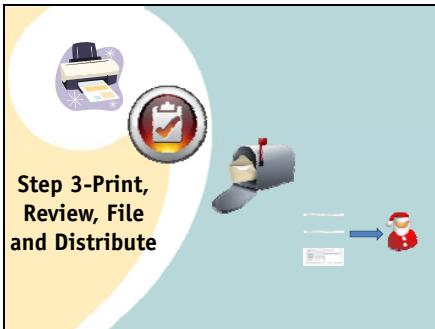
bivio records with your

Brokerage records to make sure your bivio records are accurate. You will do an audit and do a final check of your records with 1099 forms you will receive from your brokerage. This is the part that you can get all completed by the end of January and will cover 90% plus of the work you need to get done to prepare your taxes.



Once you know your records are accurate,

you will complete a tax “interview”. This is a brief series of questions that need to be answered to finalize and confirm the information that will be entered on your tax forms. The tax interview is part of your bivio subscription and is available for you to use in February. You do not want to take it until you have finalized verifying the accuracy of your records.



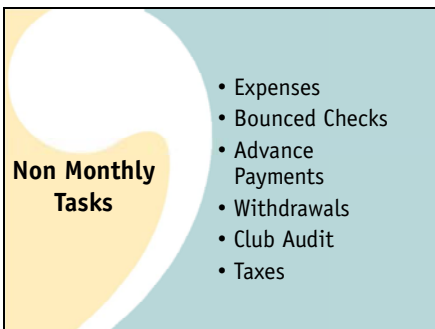
When the tax interview is completed, your forms will be filled in.

All you need to do is print them,  
review them,

Send them in to the IRS and

distribute each members K-1 to him or her. You can either give them a hard copy or make them available online when they login to bivio using their account.

Each year we present complete webinars which get further into the details of this process.



We’ve covered a lot of information in this presentation.

We’ve talked about Expenses,

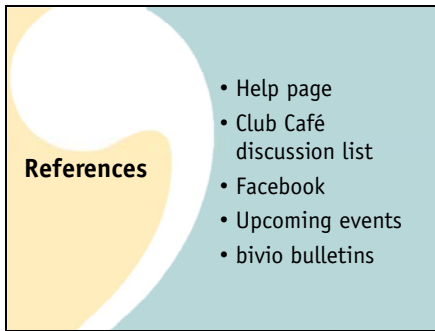
Bounced Checks

Advance Payments

Withdrawals

Your Club Audit

And preparing your taxes.



Fortunately, none of these tasks need to be done very often.

Don't forget, the bivio help page is available to you as a source for reference material.

In addition, make sure to join our Club Café email discussion list and/or

like us on Facebook. We regularly post write-ups about various club topics in those two places.

We also regularly present webinars on topics of interest for clubs. You can see what is coming up by clicking on the "Upcoming Events" link on our homepage

and by making sure you have opted in to receiving our regular bivio bulletins.

