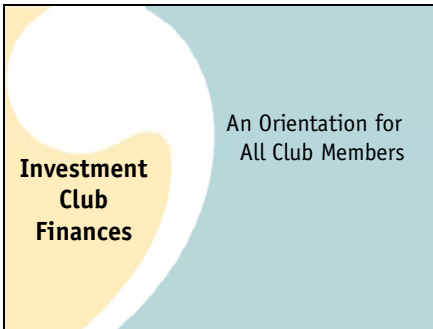


This presentation is part of a three part series.

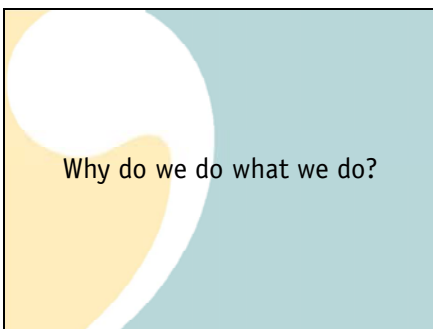
In this first part, we give you an orientation to your investment club accounting. This is good background information for everyone in your club so they can get a basic understanding about how your club finances work and what you will and will not be able to account for with bivio.

The second and third presentations are aimed more specifically at you club treasurers. In part 2, we discuss how to perform the regular tasks you'll be doing each month. We'll be giving this presentation next Thursday.

The third and final presentation will be given on the Thursday after that. That one is also designed for treasurers. In it we discuss the tasks you will be performing less frequently as a club treasurer.



For tonight's topic, we're going to be discussing your club finances. It is very easy to do your club accounting using bivio but you need to have a basic idea of the parameters under which it needs to be done. Because you are accounting for a group, things work a little differently than you might expect. Everyone in your club should at least understand the basics so that you won't by accident, take an action which will make your treasurers life very complicated.



To start our orientation, it helps to understand what your investment club accounting is designed to accomplish.

**We need to**



First of all, since you are an investment club, you'll want to track how your investments are doing

Then, since you'll be making money, you'll need to file taxes to comply with tax laws.


Finally, you'll want to track your ownership in your club (pie chart)



To do all that, all you need to do is enter some simple information into bivio. Your treasurer just has to enter the transactions you make in your brokerage account. But it is important to realize that behind the scenes there is some sophisticated accounting going on. It helps to get a little bit oriented to what that is, so that you keep things on your side of the screen simple.

**Partnership**


Pass through



Investment clubs like yours that use bivio are operating as a type of business entity called a partnership or a type of entity taxed like a partnership called an LLC. Uncle Sam has specific rules partnerships must follow when it comes to accounting and tax reporting.

A partnership is what is called a pass through entity. There are no taxes paid directly by your club on your investment income. It is all divided up each year amongst your club members and they pay the taxes on it on their own personal tax forms.

**Prepare Taxes**



As a partnership, your club needs to file an informational tax return on IRS form 1065. It reports the amount of income your club had and the amounts that have been allocated to each member to pay taxes on.

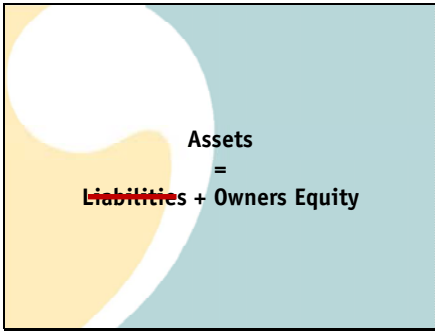
Part of that return are forms called a K-1's. One for each member. He or she will transfer the information from this form to his personal tax forms.

**Who has to file?**



Who has to file?

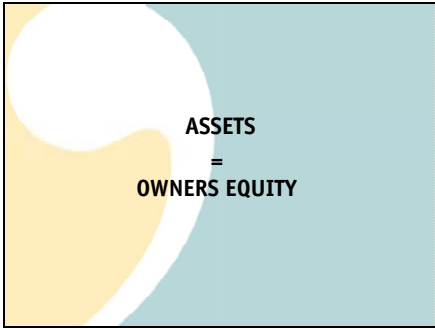
You do. If you have an EIN number you need to file club taxes. It does not matter how long your club has been in existence or how much income you have had. If anyone in your club thinks this is not the case, please refer them to the recent club café posting where a club was trying to figure out what to do about a \$33,000 penalty they had been assessed because their members did not think they had to file.



So what do you need to know about your club accounting as an investment club member?

All accounting is based on a very simple equation. We call this the accounting equation. It states that the sum of your assets (what you own), is equal to the sum of your liabilities (what you owe) plus your owners equity. (what you can take away at the end of the day)

An investment club is a simple business that does not have any liabilities.

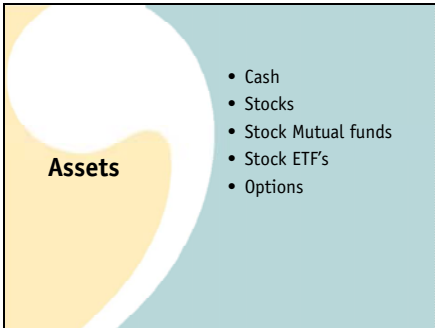


So the accounting equation becomes even simpler. Your club accounting tracks what you own,

your assets

And what each persons ownership share is

Your owners equity



In a club, you'll have these types of assets.

First of all, you'll probably have some cash. Cash is a club asset. This includes investments accountants consider "equivalent to cash" such as money market funds.

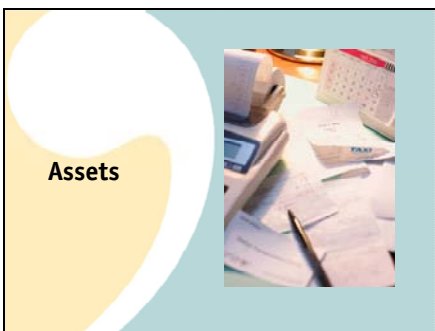
Publicly traded stocks

Stock mutual funds

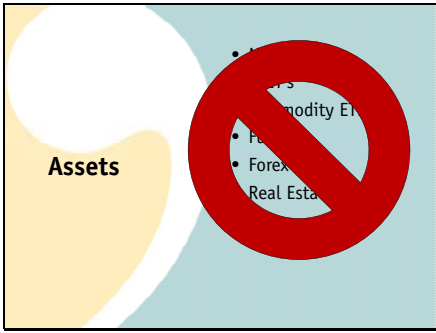
Stock ETF's

If you subscribe to our Active Partnership service, you might also have bought or sold some options.

The choices on this list give you a lot of investments you can choose from to build a club portfolio.



It is important to understand that while there are lots of things in the world you can invest in, you can't use bivio to account for all of them. You could run a complicated partnership, invest in lots of different things and pay a CPA thousands of dollars a year to prepare your tax returns. Thanks to the generosity of the people who make our tax laws, different types of investments can have specialized tax reporting rules you need to comply with. Sometimes clubs inadvertently get into complicated investments because they are traded in public markets, discussed regularly in investing publications, on TV and on the internet and you can purchase them from your broker like stocks. However, it is important that you know what you are buying.



For example, we do not provide you with the accounting or tax reporting you'd need for investments in:

Master Limited Partnerships- These are often pipeline and energy companies. Popular ones are Kinder Morgan, Enbridge Energy Partners and Linn Energy.

REIT's-These are real estate investment trusts. A popular one we often see is Annaly NLY

Commodity ETF's – Just because something is called an ETF doesn't meant they it is something we can account for. It will depend on what type of investment makes up the ETF. For example, Commodity ETF's have become popular recently for people who want to own precious metals such as Gold or Silver. These ETF's actually own the underlying commodity, they do not own stocks. Two popular ones right now are GLD and SLV. The accounting and tax reporting for ownership of precious metals is different than that required for ownership of stocks. Bivio does not provide you with the tools you need to account for and report taxes correctly for these investments.

We also get asked every now and then if we can account for things like Futures-

Forex-Foreign exchange currency trading

Real estate-You can have an investment club that invests in real estate. But you can't use bivio to do your accounting and tax prep for you.

The list could go on and on but I hope you get my point.

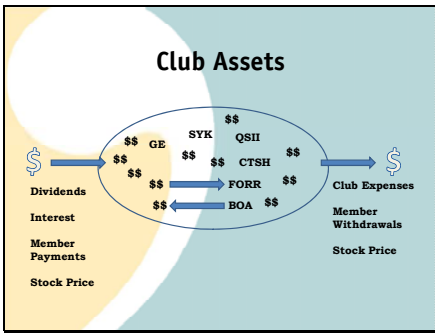
There are just some investments that you will not be able to own if you'd like to be able to use bivio to do your club accounting. Investment clubs are about learning to invest in publicly traded corporations. You'll still have lots of investments to choose from to build a portfolio, and there is lots to learn about stocks as investments.



There are new types of investments being developed and promoted every day. We have a page where we list specific tickers for investments we have run into that will cause you problems. We call this our "Before You Invest" page. This list is not comprehensive and we update it as we become aware of problems. If you don't see something on the list and you have any question about it, please email us at support@bivio.com. We are glad to research an investment for you before you purchase it and get yourselves into problems.

Unfortunately, if you come to us after the fact, things can get pretty complicated. At that point, you may have ended up in a situation where you need to hire a CPA to adjust your accounting records correctly and prepare the correct tax forms for your club.





Your club assets will increase when you receive income such as dividends and interest coming into your club from your investments.

They will also increase when your members make contributions.

And when the value of any stocks you own goes up.

As part of your investing activities, you may exchange one asset type for another.

Cash will be used to

buy stock.

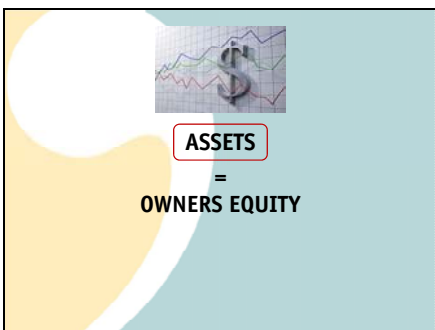
Cash will be received from selling stock.

And finally, the value of your club assets will decrease

if you pay for any expenses

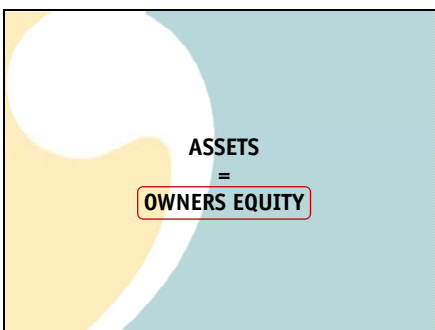
a member withdraws some of his assets and

The value of any stock you own goes down.



So, in summary, the value of your club is the total value of all your assets at the end of each day.

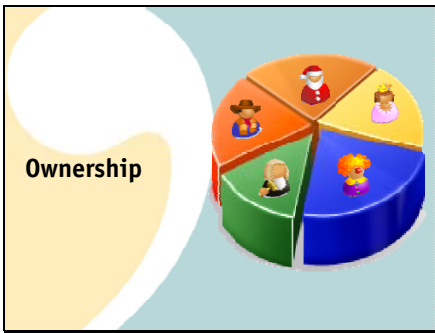
Any and all changes in clubs assets (including those that happen because you pay expenses) affect your club investment return.



On the other side of the accounting being done,

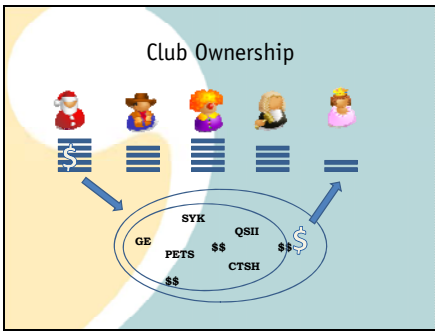
is record keeping about your ownership in the club.

There are important things to understand about how your club ownership is tracked.



To determine how to report your share of taxes, a percentage of all your club income and expenses are allocated to each member.

To do this, we need to keep track of your ownership percentage. Club members do not own a specific percentage of each of the individual assets of the club, they own a percentage of the total assets.



Your ownership is accounted for using shares or what we call units. Owning units is just like owning shares in a mutual fund.

Each time you contribute money to your club

you purchase units,

It is fine for each club member to own a different number.

if you'd like to take some money out,

you redeem units. Each day, the value of a unit is determined by dividing the total asset value of your club by the number of units outstanding.

Asset	Quantity	Unit Cost	Market Value	Percentage
Equity Technology Solutions Corp. 10	10,000	1.100	11,000	11.0%
...	...	...	...	...
<b>Total Assets</b>			<b>99,000.00</b>	<b>100.0%</b>

You can find the daily value of a unit on the

valuation report I showed you earlier.

The reason we track ownership using units is that bivio is designed to track unequal ownership of assets that change in price each day. This gives you the greatest flexibility to have an investment club even if everyone has not or cannot contribute the same amount at the same time.

Name	Units	Market Value	Percent
Eight, Member	75.12	845.41	0.8%
Eleven, Member	25.08	280.54	0.3%
Five, Member	0.00	0.00	0.0%
Four, Member	0.00	0.00	0.0%
Frederickson, Luke	25.03	280.41	0.3%
Seven, Member	25.10	281.00	0.3%
Six, Member	25.05	280.75	0.3%
Two, Member	25.02	280.45	0.3%
...	...	...	...
<b>Total</b>	<b>225.32</b>	<b>2,545.20</b>	<b>100.0%</b>

Each members

profit and loss sharing percentage is based on

the number of units they own. You can see this on the member status report.

You can also see the total value of your share of the club on any day. It is determined by multiplying the number of units you own by your daily unit value. This is just like the way you'd determine total value if you owned mutual fund shares in your personal investment account. If you owned 100 shares and the value of a share at the end of the day was \$8.00, your mutual fund holding would be worth \$800.

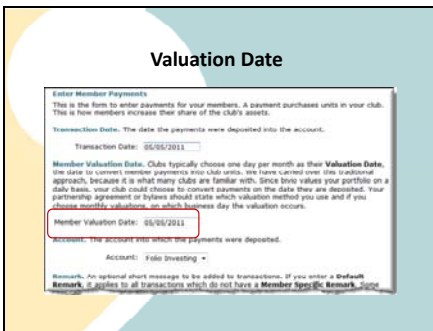




To properly do your accounting for units, member contributions and withdrawals are recorded a little differently than any other type of deposit or expense. The information needed to make entries is input on special

### Payments

And withdrawals forms accessed using these buttons on the members screen. After the forms are filled in, bivio does the accounting to add or subtract the appropriate number of units to each members account.



Because you are purchasing or selling shares, one of the pieces of information you will provide on both the member payment and withdrawal form is a

“valuation date”. The value of a unit on that date will determine how many units a member receives or redeems.

To keep your record keeping the simplest, we recommend that you use the date of the deposit as the valuation date. That way, things work just like they would in a mutual fund. Members buy club shares at their value on the date of their contribution.

**Allocating Income and Expenses**

	Member 1	Member 2	Member 3	Member 4	Member 5
5/1	25%	20%	25%	20%	10%
5/15- Dividend Received-\$100	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- Dividend Received-\$100	30	20	20	15	15

When your investments earn income or your club has an expense, you are allocated your portion based on the number of units you own on the date the income is received or you record the expense. It's important to understand that ownership percentages may change on every date a member contribution is recorded. This makes the dates of entries in your club accounting more important than dates in the record keeping for other organizations that you may have done. We call this time based allocation.

Here's an example of how income and expenses might be allocated to members over the course of a month.

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

On May 15, a dividend for \$100 was received.

It would be allocated to each person like this

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 members ownership percentages changed. This might happen if, for example, member payments for some of them (but not others) were recorded.

Then, on May 26, another \$100 dividend was received.

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



### Allocating Income and Expenses

Member Tax Allocations from 01/01/2009 to 12/31/2009

Member	Share	Income	Expenses	Net Income	Net Expense	Net Profit
Unlimited	0.00	0.00	0.00	0.00	0.00	0.00
Member 1	1.00	100.00	10.00	90.00	10.00	80.00
Member 2	0.50	50.00	5.00	45.00	5.00	40.00
Member 3	0.25	25.00	2.50	22.50	2.50	20.00
Member 4	0.125	12.50	1.25	11.25	1.25	10.00
Member 5	0.0625	6.25	0.625	5.625	0.625	5.00
<b>Total</b>	<b>2.9375</b>	<b>293.75</b>	<b>29.375</b>	<b>264.375</b>	<b>29.375</b>	<b>235.00</b>

At the end of the year, each members income and expense allocations are tallied up and used to prepare the K-1 tax forms they will receive. As described earlier, K-1's tell you the taxable amounts you need to report and pay taxes on on your personal taxes. As we'll see a little later, you also have a tax basis in the club which is adjusted by these amounts. The amount each member is allocated is shown on the Member Tax allocations report

- ### "Equality"
- Month after
  - Month
  - Month
  - Year after
  - Year
  - Year

In a club, everyone is equal in the sense that income and expenses are allocated to you based on the number of shares you own. If I own more shares than you do, I will receive a greater total amount of income. This makes sense. Clubs sometimes feel that there is some reason everyone needs to have equal ownership. Trying to accomplish that actually will complicate your club accounting. It is inevitable that different club members will own different numbers of units. An investment partnership is a long term undertaking. The only way everyone would own exactly the same number of shares is if everyone's contributions were recorded for exactly the same amounts on exactly the same days,

Month, after month, after month (click, click, click)

Year after year after year (click, click, click)

- ### "Equality"
- Life happens
  - Legitimate
  - Personal issues
  - Withdrawals
  - New Members

But,

Life Happens

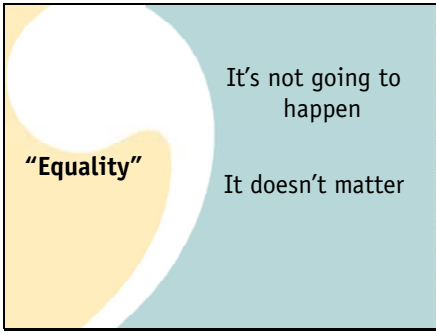
People miss payments for legitimate reasons

People will have times where they can't contribute as much as they used to

People might need some of the money they have invested in your club

People may want to join your club

It doesn't make sense to make members leave your club or not allow new members to join if they will actively participate but are unable to have quite the same monetary stake as other members.



We can tell you after years of participating in and working with investment clubs,

That equal ownership is just not going to happen.

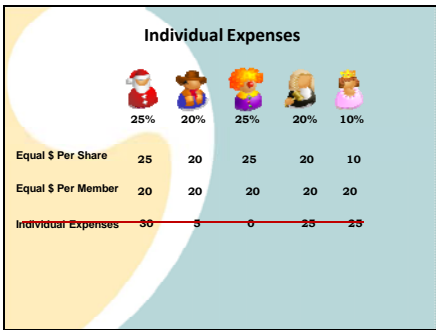
The good news is that it doesn't matter. Your club accounting is designed to account for everyone's percentage of ownership accurately. If your treasurer is reconciling the books correctly each month, you can be sure your ownership is being tracked properly and you are being allocated the same amount of income and expenses in proportion to your ownership share as everyone else.



Focus on learning and working together to optimize your portfolio performance.

If your portfolio grows well, all members will benefit, even if they don't benefit by exactly the same total amounts. You are a group working together to learn to manage a mutual fund. The fund doesn't care who owns what.

What matters is that each member is committed to participating in the group both monetarily and by providing research and education, not that each person owns exactly the same number of shares of the club.



Another thing it's important for everyone to understand about your accounting has to do with what we call Individual expenses.

Investment club accounting is designed to account for expenses that apply to all the members of the club and that can be shared either in proportion to each member's ownership percentage (an equal amount per share)

or in an equal dollar amount by each member.

An expense that you want to divide up in any other way is what we call an individual expense.

You don't want to pay individual expenses with your club accounts.

**Individual Expenses**

- Subscriptions
- Stock Analysis Tools
- Educational materials for personal library
- Shrimp cocktails and martinis

Here are some examples of individual expenses:

Subscriptions when everyone doesn't participate in the subscription the same way. A common example of this is the personal portion of a Better Investing or Manifest Investing membership where some club members want it and others don't


Unless your club feels stock analysis tools are a club expense that your club should use club funds to purchase all at once for each member, this is an individual expense. If individuals want individual copies, they should purchase it for themselves directly.

Same with educational Materials when they're only for one members personal library.

Club dinner expenses come up fairly frequently. Unless you are dividing up a dinner tab based on member percentage ownership or equally between everyone, don't pay for your dinner with a club check or from a club account. There is no way to allocate the costs in any other way to individual members.

**Individual Expenses**

NO BENEFIT



And, there is

no benefit to paying individual expenses from your club accounts. If you do so, you will only make your treasurers job harder. To keep things simple, have individuals pay expenses directly that only apply to them. Don't deposit the money to cover them in your club accounts and don't pay for them with a club check.

**Additional Partnership Tax Issues**

There is another tax consequence you have as a member of a club. Because you are a member of a partnership, you have a capital interest in a business. There are similarities between this and the ownership interest you have in a corporation when you own stock. There are special tax rules that apply when funds are put into your club and when funds are taken out.

**Partnership**

- Tax basis
- Capital gains/losses

Just like when you own stock, you have what is called a tax basis in your investment in your club

and you might have capital gains or losses to report when you withdraw funds from your club.

One thing club members often don't know is that the capital gains tax on withdrawals from your club is in addition to the taxes you will pay each year when you are given your K-1's. But don't worry, you won't get taxed twice. One of the things bivio does for you is to track all the information about your financial history with the club so that when you eventually withdraw money, you will have the information you need to pay the appropriate taxes.

There are actually some nice tax rules relating to withdrawals taken from partnerships that you can use to your benefit to help you manage your taxes. We'll discuss those later.

**Tax Basis**

Your contributions  
 +/- Income or losses  
 + Dividends/interest  
 - Expenses  
 - Withdrawals

Your tax basis is determined by

the amount you've contributed over the years,

plus or minus your share of any income or losses your club has recognized by selling investments,

plus your share of any dividends and interest your club has received,

Minus your share of any expenses and

minus any money you've withdrawn from the club.

These are the things that have been reported to you each year on a K-1 and you've been taxed on your personal taxes.

Member Status

Report Date: 04/03/2011 Show Payments Since: 04/03/2011 (Generate)

\*Using prices from market date for 04/03/2011

Name	Units Since 04/03/2011	Total Paid	Tax Basis	Units Since 04/03/2011	Units	Market Value	Percent
Eight, Member	70.13	760.54	760.53	1.97342	69.04883	945.65	13.7%
Eleven, Member	25.08	826.60	846.01	1.867352	49.575842	668.94	13.4%
Five, Member	0.00	475.96	496.32	0.000000	49.900000	651.79	10.0%
Four, Member	0.00	308.61	366.52	0.000000	30.31325	406.50	8.3%
Frederick, Laura	25.03	890.63	611.23	1.868954	56.912462	776.40	12.0%
Seven, Member	25.00	650.00	685.77	1.879236	56.268074	747.61	13.3%
Six, Member	25.05	831.60	876.76	1.865118	51.681821	700.73	12.0%
Two, Member	25.02	850.42	870.21	1.867791	51.873829	720.30	12.0%
One, Member	25.11	209.77	256.96	1.869036	10.714451	142.20	3.0%
<b>Tot, Member</b>	<b>225.32</b>	<b>4,468.51</b>	<b>4,773.29</b>	<b>16.762199</b>	<b>420.809926</b>	<b>6,413.21</b>	<b>100.00%</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 allocations you've accumulated during the current tax year, and the

Current market value of your share of the club shown in this column.

**Withdrawals**

Special Tax Considerations

There are some interesting tax benefits to being a member of a partnership. They relate to taking money out of your club. Of course, withdrawals that are made too often make it difficult to manage an investment portfolio. Ask any fund manager whose mutual fund suddenly goes out of favor.

But, there are cases where you or another club member might need to make a withdrawal so it is interesting to understand how they work.

**Withdrawals**

Name	Units	Market Value	Percent	Actions
Eight, Member	68.00000	943.77	18.7%	Account, Inc, Withdrawals
Eleven, Member	49.07082	687.57	13.6%	Account, Inc, Withdrawals
Five, Member	68.00000	950.47	18.8%	Account, Inc, Withdrawals
Four, Member	35.21372	488.28	9.7%	Account, Inc, Withdrawals
Twelve, Member	30.21000	476.88	9.5%	Account, Inc, Withdrawals
Three, Member	0.00000	0.00	0.0%	Account, Inc, Withdrawals
One, Member	0.00000	0.00	0.0%	Account, Inc, Withdrawals
Six, Member	38.00000	526.28	10.5%	Account, Inc, Withdrawals
Seven, Member	61.80182	718.30	14.3%	Account, Inc, Withdrawals
Ten, Member	11.07000	152.00	3.0%	Account, Inc, Withdrawals
Nine, Member	10.71403	147.81	2.9%	Account, Inc, Withdrawals
	<b>432.85928</b>	<b>6,003.37</b>	<b>100.0%</b>	

First, you need to understand that there is more you need to do when someone withdraws than just look at what their account is worth and write them a check. This is a business you are withdrawing money from and there is a lot of accounting we need to do to update your records and prepare your taxes correctly. You don't have to do the accounting yourself but you do have to know you need to determine the withdrawal amount and enter the withdrawal entry using a special withdrawal form.

As I mentioned earlier, you'll find it by selecting the withdraw button on the Accounting>Members page. We'll take the information you enter and adjust your club records correctly. We'll be discussing entering withdrawals in more depth in our treasurers training session later this month. Make sure you don't give a club member a check or tell a club member what they will receive without an understanding of how to fill in this form.

**Partial Withdrawals**

- Cash
- No current taxes due if amount withdrawn is less than your tax basis

If you need to withdraw some, but not all of your funds from your club, you can do so with no tax consequences as long as you take cash

and withdraw less than your tax basis. We call this a partial withdrawal.

**Full Withdrawals**

- Cash plus appreciated stock
- Gain deferred till stock is sold

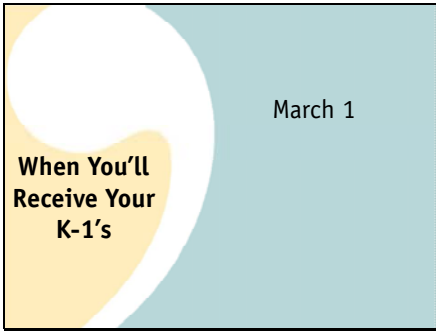
If you need to withdraw all your money and are paid using cash plus appreciated stock,

Much of any gain can be deferred until you sell the stock. The basis in the stock you receive will be your tax basis in the club minus the amount of any cash you receive with the stock.

A gain that is taxed in the future is usually better than a gain that is taxed today so this presents some interesting opportunities for you to defer gains on your investment in your club, perhaps to a point in time when you have some capital losses to use to offset it. If you never sold the stock, and it continued to show a gain when you died, your gain would never be taxed. Under current tax rules, the basis is stepped up to fair market value for the people that inherit it.

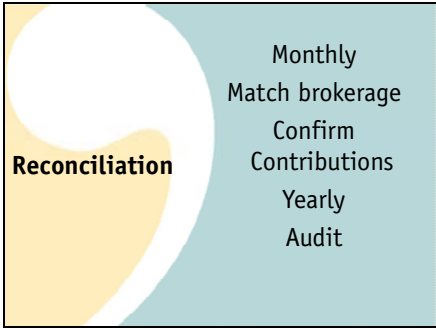
**Assets**  
=  
**Owners Equity**

So those are some basics all the members of your club should understand about your club accounting. There are just a couple of other things to know about your finances and your record keeping.



Don't expect to file your personal income taxes as early as you might have before you were in an investment club. You will need the income and expenses from your club K-1's to report on your personal taxes. But, before your treasurer can prepare them, they will have to verify your club records against the 1099 forms from your financial institutions.

Financial institutions have until February 15 to send them to your treasurer. You'll probably find that a reasonable date to expect K-1's from your treasurer is March 1.



As we've discussed, dates of your transactions are very important in your club accounts. It is important that you know that your club records are being kept accurately.

As part of your monthly treasurers report, your treasurer should verify (and be able to demonstrate)

that your club records match the records from your brokerage.

They should also provide you with a report you can use to confirm your member contributions have been recorded accurately.

In addition, you should plan to do a yearly

club audit where members other than the treasurer confirm your records. Mistakes that affect taxes are usually easy to fix before taxes are filed. But things can become very difficult after that. It is in everyones best interest that members other than the treasurer are keeping an eye on the accuracy of your club records.



**Summary**

- File your taxes!
- Correct records
- Single financial account
- No individual expenses
- Payments and withdrawals
- Type of investment
- Equality
- Ask questions

In closing, let's just summarize briefly, a few of the points we've touched upon.

Make sure your club is filing annual tax returns.

Verify your records- this can't be stressed enough. Ask questions if you see something like a negative balance on a bank account. The current state of your finances is dependent on the dates of all the historical transactions. Make sure your records mirror what is happening in your financial accounts and that your ownership is being tracked correctly.

Keep your record keeping simple by operating with only a single financial account.

Only use your club financial accounts for investment related transactions that apply to all club members


Make sure your club ownership is tracked correctly. All member Contributions need to be entered as member payments and any payouts need to be determined and recorded as Withdrawals using the correct forms

If you are unsure whether an investment is something that can be accounted for by bivio, ask us about it before you purchase it.

Define equality as meaning that everyone is allocated the same amount of income and expense per unit of the club that they own. But let go of the need for everyone to own the same percentage of the club.

Ask us at [support@bivio.com](mailto:support@bivio.com) if you have questions. We're glad to explain things to any member of a club. Expect your treasurer to know how to use the program but don't expect them to know all the underlying accounting.

**Your club treasurer does not have to be an accountant!**



If all the members of your club have a basic understanding of your club finances your club treasurer does not have to be an accountant. In fact, your club accounting should be very simple and anyone should be able to do it. As we've been discussing, it is a little different than what people may expect or be used to. The only time it becomes difficult is when club members who don't have a basic understanding of things try and get their treasurers to do things that create problems.

If you don't understand something your treasurer is doing or tells you they can't do, don't put your treasurer on the spot to be able to explain all the reasoning behind it. Any club member should feel free to email us at [support@bivio.com](mailto:support@bivio.com) with any questions. We're glad to help clarify things for not only your treasurer but for any other member of your club.



For those of you who are or will actually be club treasurers or who want more specific detail on some of the topics we've discussed tonight, we're going to be doing the last two parts of treasurer training on the next two Thursdays.

On May 30, we'll be discussing Monthly treasurer tasks. We will show you how to handle and record member payments, record stock purchases and sales, record income, reconcile your records and give your monthly treasurer's report. We'll also show you how you can set up bivio AccountSync to do many of these things for you automatically each month!

On June 7, we'll show you how to do some of the treasurer tasks you'll do less frequently such as how to enter a withdrawal, how to enter club expenses, how to reimburse a member who pays an expense, what to do if a member pays in advance, your annual club audit and what you will need to know about preparing your club's taxes.

Everyone is welcome. Both of these sessions are online and free. You can register to join us at [www.bivio.com/club\\_cafe](http://www.bivio.com/club_cafe). Hope to see you then!