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*Club Accounting
Getting Oriented*

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Laurie Frederiksen
I am my club's treasurer.....

One of your friends at
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Dave Swierenga
North Texas Chapter Director

Jim Thomas
Puget Sound Chapter Director

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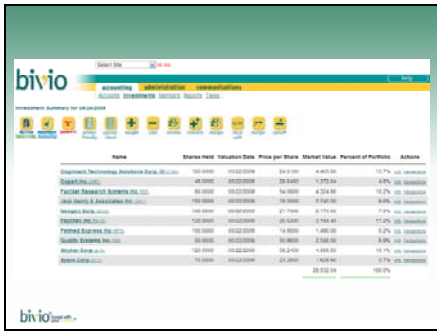
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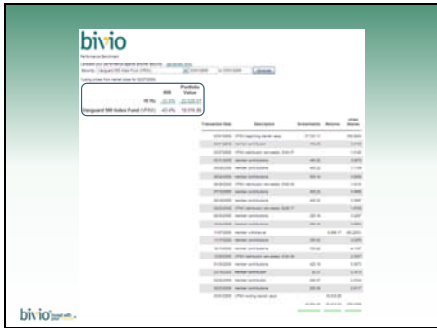
First, lets talk about what investment club accounting is set up to accomplish.

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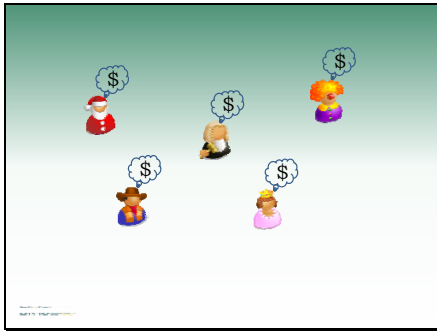
We begin investment clubs because we want to learn how to invest and actually try it out by managing a real portfolio of stocks.

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One of the main purposes of club accounting is to track how well we do, our investment performance.

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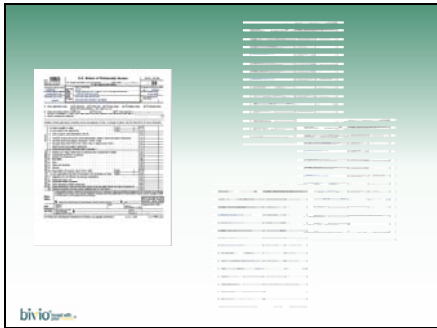
Our goal is to make money.

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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.

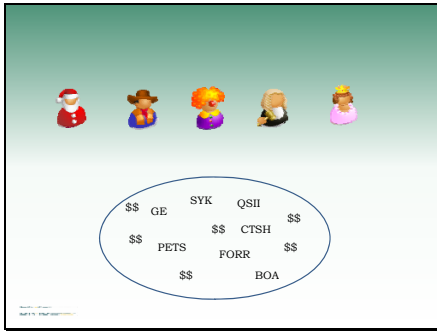
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Each year your club needs to file an informational tax return, form 1065, that reports the amount of earnings and expenses that have been allocated to each member for the year. Each member receives a K-1 reporting his personal allocation and transfers the information to his personal tax forms to pay taxes on.

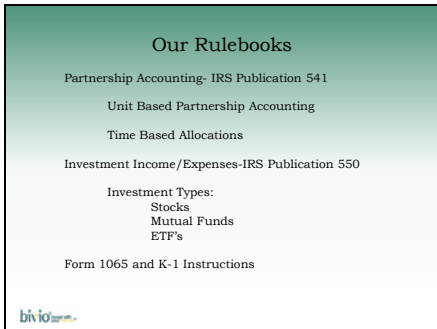
Tracking your taxable items and preparing these returns is one of the main tasks of Investment Club Accounting.

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In order to do that, we use an accounting system which allows you to track a single pool of investments and multiple investors who may be adding and withdrawing funds at different times and in different amounts.

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The rules we use are detailed in sections of these IRS publications.

First, it is partnership based accounting
Designed to account for distribution of income and expenses to multiple owners

Specifically unit based partnership accounting

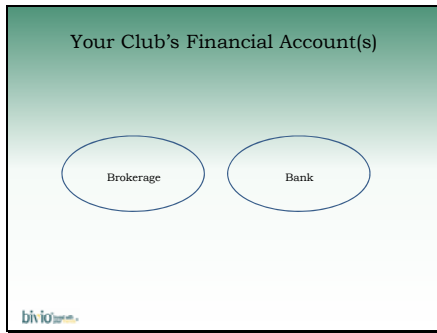
Member percent ownership is tracked using "shares" of total club ownership

It uses Time based allocations of income and expenses to members. They are distributed as the transactions occur, based on ownership percentages at the time they happen.

It is tracking Investment Income and Expenses (not "club" or business income and expenses)

It's only designed to track and prepare taxes for certain types of investments.

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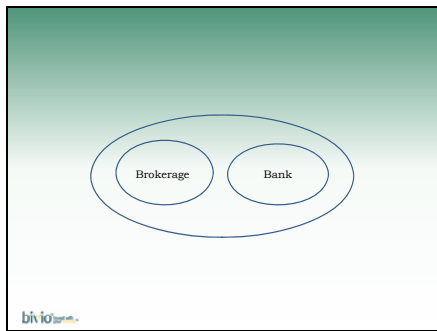
To handle your clubs finances, you will have a brokerage account and you may have a bank account.

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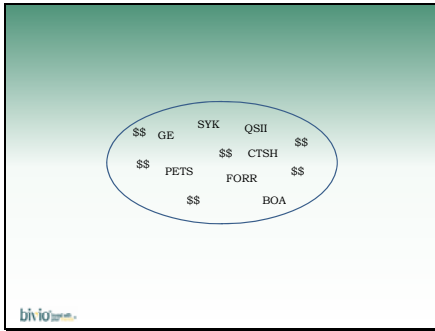
You will see them listed in your club accounting software. In order to be able to reconcile your accounts each month, transactions are tracked in the account they occur in.

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But in terms of your club accounting you have one, combined, pool of investment assets.

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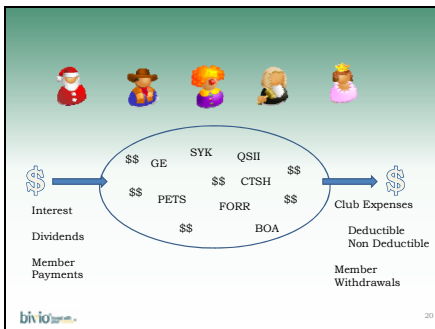
Each evening, after the markets close, the value of each of your investments is added to any cash in your accounts to calculate the total value of all the assets your club owns. This is called your club Valuation. It will change daily.

You can see it reported on a Valuation Report.

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Investment	Shares Held	Cost Basis per Share	Total Cost Basis	Market Value	Market Value / Total Cost Basis	Percent of Total
Logitech (NASDAQ: LOGI)	10,000	\$2.50	\$25,000	\$30,000	1.20	12.0%
Apple (NASDAQ: AAPL)	50,000	\$150.00	\$7,500,000	\$7,800,000	1.04	10.4%
Microsoft (NASDAQ: MSFT)	10,000	\$100.00	\$1,000,000	\$1,100,000	1.10	11.0%
Google (NASDAQ: GOOGL)	1,000	\$1,000.00	\$1,000,000	\$1,200,000	1.20	12.0%
Amazon (NASDAQ: AMZN)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Facebook (NASDAQ: FB)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Twitter (NASDAQ: TWTR)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
LinkedIn (NASDAQ: LNKD)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Slack (NASDAQ: SLACK)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Zoom (NASDAQ: ZM)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Dropbox (NASDAQ: DBX)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Box (NASDAQ: BOX)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Atlassian (NASDAQ: ATLSN)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Okta (NASDAQ: OKTA)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Auth0 (NASDAQ: AUTH)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Twilio (NASDAQ: TWLO)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
SendGrid (NASDAQ: SNGM)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
MailChimp (NASDAQ: MCHP)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Constant Contact (NASDAQ: CCN)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
HubSpot (NASDAQ: HUBS)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Marketo (NASDAQ: MKTO)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Pardot (NASDAQ: PDOT)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Braze (NASDAQ: BZAZ)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Iterable (NASDAQ: ITER)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Optimizely (NASDAQ: OPTI)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Unbounce (NASDAQ: UNBO)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Sumo (NASDAQ: SUMO)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Leadpages (NASDAQ: LEAD)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
ClickFunnels (NASDAQ: CLIC)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
GoHighLevel (NASDAQ: GOHL)	1,000	\$1,000.00	\$1,000,000	\$1,100,000	1.10	11.0%
Member Payments						
Member Withdrawals						
Club Expenses						
Deductible						
Non-Deductible						
Total Assets						

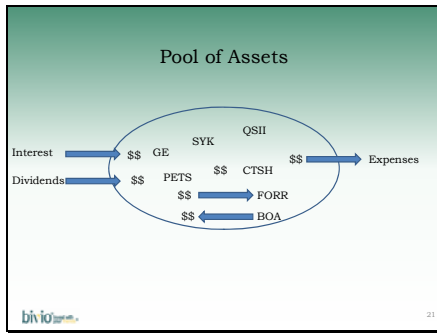
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All money that goes into your club goes into this one pool. This may include income such as interest and dividends and member contributions. There is no distinction between money your members contribute for investing and money contributed for expenses. Deductible and Non-Deductible expenses are paid out of your club assets as are member withdrawals. All money goes into and out of your clubs asset pool and it all affects your clubs investment return.

Only expenses shared by all the members of your club should be entered in your club accounting. It is not designed to track expenses that only apply to certain individuals.

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Your club treasurers job is to track all the transactions that apply to your club assets.

For example, you may have income such as dividends and interest coming into your club from your investments. Cash being used to buy stock. Cash being received from selling stock and every so often, cash used for an expense related to having your club and managing your portfolio.

In addition, there may be reorganization transactions such as splits, mergers or spinoffs which will need to be entered.

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The screenshot shows a list of transactions with the following columns: Date, Description, Amount, and Balance. The data is as follows:

Date	Description	Amount	Balance
01/01/2008	Interest Income - National Grid (1/1/08)	62.00	62.00
01/01/2008	Dividend Income - GE (1/1/08)	1.00	63.00
01/01/2008	Dividend Income - SYK (1/1/08)	1.14	64.14
01/01/2008	Dividend Income - QSH (1/1/08)	4.00	68.14
01/01/2008	Dividend Income - PETS (1/1/08)	1.00	69.14
01/01/2008	Dividend Income - CTSH (1/1/08)	1.75	70.89
01/01/2008	Dividend Income - FORR (1/1/08)	1.75	72.64
01/01/2008	Dividend Income - BOA (1/1/08)	1.75	74.39
01/01/2008	Dividend Income - GE (1/1/08)	4.00	78.39
01/01/2008	Dividend Income - SYK (1/1/08)	4.00	82.39
01/01/2008	Dividend Income - QSH (1/1/08)	4.00	86.39
01/01/2008	Dividend Income - PETS (1/1/08)	4.00	90.39
01/01/2008	Dividend Income - CTSH (1/1/08)	4.00	94.39
01/01/2008	Dividend Income - FORR (1/1/08)	4.00	98.39
01/01/2008	Dividend Income - BOA (1/1/08)	4.00	102.39

The Bivio logo is in the bottom left corner.

All your club's transactions will be recorded in the account they occur in either automatically or manually. It is very important that they be recorded as soon as they occur, on the correct dates.

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The screenshot shows a table of accounts with the following columns: Name, Last Updated, Cash Balance, and Actions. The data is as follows:

Name	Last Updated	Cash Balance	Actions
Bank of America	04/11/2008	0.00	op
TD Ameritrade	05/20/2008	107.29	op
		107.29	

The Bivio logo is in the bottom left corner.

If you are making manual entries, the accounting software is designed for you to easily see where to make these entries. Here, you can see buttons that apply to any cash transactions related to your accounts such as the receipt of interest or money market dividends, the payment of expenses or the transfer of funds between accounts.

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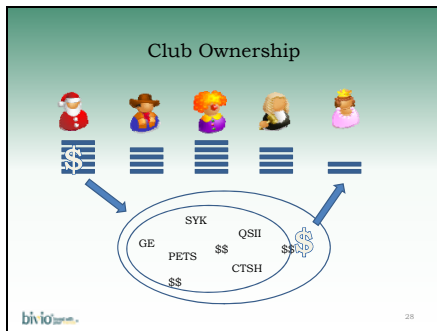
Allocating Income and Expenses

Name	Withdrawal	Qualified Dividend	Short-Term Capital Gain	Long-Term Capital Gain	Other Expenses	Net Profit
John Doe	10.00	100.00	100.00	100.00	100.00	100.00
Jane Smith	5.00	50.00	50.00	50.00	50.00	50.00
Bob Johnson	1.00	10.00	10.00	10.00	10.00	10.00
Charlie Brown	2.00	20.00	20.00	20.00	20.00	20.00
Patricia White	10.00	100.00	100.00	100.00	100.00	100.00
David Lee	10.00	100.00	100.00	100.00	100.00	100.00
Emily Davis	10.00	100.00	100.00	100.00	100.00	100.00
Frank Miller	10.00	100.00	100.00	100.00	100.00	100.00
Grace Wilson	10.00	100.00	100.00	100.00	100.00	100.00
Henry Moore	10.00	100.00	100.00	100.00	100.00	100.00
Ivy Taylor	10.00	100.00	100.00	100.00	100.00	100.00
Jack King	10.00	100.00	100.00	100.00	100.00	100.00
Karen Green	10.00	100.00	100.00	100.00	100.00	100.00
Leo Adams	10.00	100.00	100.00	100.00	100.00	100.00
Mia Baker	10.00	100.00	100.00	100.00	100.00	100.00
Noah Clark	10.00	100.00	100.00	100.00	100.00	100.00
Olivia Evans	10.00	100.00	100.00	100.00	100.00	100.00
Paul Foster	10.00	100.00	100.00	100.00	100.00	100.00
Quinn Grant	10.00	100.00	100.00	100.00	100.00	100.00
Rachel Harris	10.00	100.00	100.00	100.00	100.00	100.00
Samuel King	10.00	100.00	100.00	100.00	100.00	100.00
Tina Lewis	10.00	100.00	100.00	100.00	100.00	100.00
Uma Miller	10.00	100.00	100.00	100.00	100.00	100.00
Victor Moore	10.00	100.00	100.00	100.00	100.00	100.00
Wendy Taylor	10.00	100.00	100.00	100.00	100.00	100.00
Xavier White	10.00	100.00	100.00	100.00	100.00	100.00
Yara Wilson	10.00	100.00	100.00	100.00	100.00	100.00
Zoe Young	10.00	100.00	100.00	100.00	100.00	100.00

At the end of the year, each members allocations are tallied up and used to prepare the K-1 tax forms they will receive. They report the taxable amounts and pay any tax due when they file their personal taxes.

The amount each member is allocated is also shown on the Member Tax allocations report

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So how do we track member percent ownership?

Club accounting software is designed to track unequal ownership. 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.

Because your entire pool of club assets may vary in value each day, club ownership is tracked with something that varies in value in the same way. When you make a contribution to your club, your dollars are exchanged for “Units” of ownership in the club. Each day, the value of a unit is determined by dividing the total asset value of your club by the number of units outstanding. Each members percent of ownership is based on the number of units they own. The total value of their share on any day can be determined by multiplying the number of units they own by that days unit value.

When you withdraw from your club, you follow your partnership agreement which will specify a “valuation” date for determining what your units are worth and what you are owed. You are cashed out by being given club assets in exchange for your units.

This is often compared to buying shares of a mutual fund. You don't purchase each stock in a mutual fund directly, you purchase "shares" of ownership in it and receive your share of any increase or decrease in value of the entire fund.

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Because of this, member contributions and withdrawals are recorded a little differently than any other type of deposit or expense.

They are recorded as Payments and Withdrawals from the members screen.

Note that all contributions by members to a club should be recorded as payments so that each members ownership is tracked correctly.

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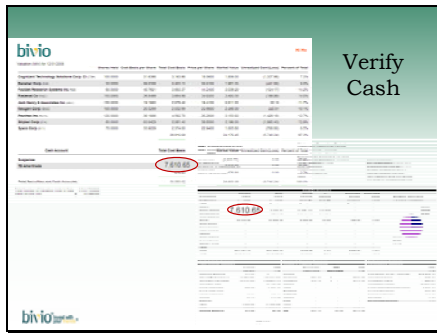


A critical part of club accounting is keeping your records accurate and up to date. This means you should be verifying them regularly.

There are three reports you should use monthly to verify your records.

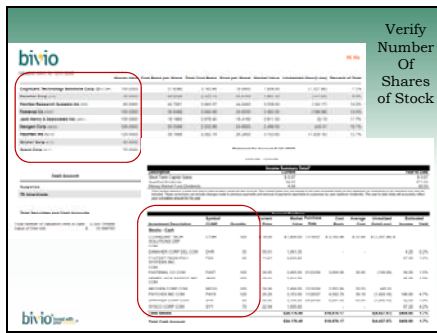
They are the valuation report, the member status report and the transaction history report.

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First, verify that the cash balance shown in your bivio accounts agrees with your financial institution monthly statements. Use the end of month bivio valuation report and the end of month statement from your brokerage.

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Then compare numbers of shares of stock. First on the valuation statement, then on the brokerage statement, The bivio account should show the same number of shares, that the brokerage account does. In this case, both lists agree. 100 shares of Cognizant, 35 shares of Danaher, 80 shares of Factset etc.

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Next, you will need the input of your members to verify their own records.

It is important for them to agree that all of the transactions you have entered for them are correct and that you are tracking their ownership in the club correctly. The member status report summarizes what you have entered for the current month. Your club members need to review this and assure you they agree with the information you have entered for their accounts.

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Investing in the wrong things

Investment Club Accounting is designed to track certain types of Investment Income:

Easy:


- Individual Stocks
- Dividends
- Capital Gains and Losses
- Interest Income

More Difficult:

- Drips
- Mutual Funds and ETF's

Not designed to track investment income from other types of investments such as:

- REIT's
- MLP's, PTP's




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Using Club Financial Accounts for Individual Expenses

Expenses that Apply to one Club Member (at a time)

- BI personal membership
- SSG software
- SSG data subscription
- Educational materials for personal library
- Individual Share of Club dinner



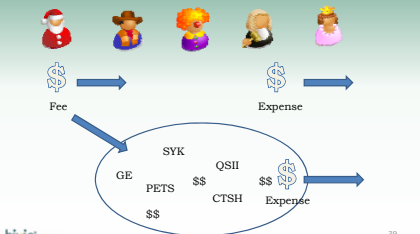

Making them account for expenses that do not apply to the entire club.

Don't use your club financial account for things like entertainment, dinners for only some people etc. Club accounting is not designed to account for those things easily and there is no benefit to having them as part of your accounting records. Have individuals pay their own expenses directly and keep track of them themselves for tax purposes.

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Asking them to record member payments differently if they will be budgeted to use for expenses

Fees Versus Payments

There used to be a method in club accounting where multiple member deposits could be recorded as something called "Fees" Fees were contributions by members that did not purchase units. This has been restricted to being used only when a penalty against a member is being assessed. There are two reasons for this.






First, there was a common misunderstanding that "fees" and whatever expenses they were used to pay were somehow kept separate from the investing pool.

This is not the case. Any deposits recorded in your club accounting

become part of your club assets. Any expenses recorded affect your portfolio return.

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Asking them to record member payments differently if they will be budgeted to use for expenses-cont.

	 25%	 20%	 25%	 20%	 10%
Deposit- 5 Member Fees @\$40=\$200	50	40	50	40	20
Tax Allocation- Deductible Club Expense \$200	50	40	50	40	20

The second problem with Fees is that they affect member ownership differently than people think. A member deposit recorded as a “Fee” goes into the general club assets and increases the value of each members share of the club based on their ownership percentage.

While each person has contributed the same “Fee”, they do not experience the same change in value of their share of the club. Nor are they allocated the same amount of the deduction for the Expense.


There is no reason to deposit money differently just because it is being used to pay expenses. Record member contributions as payments so that each member’s club ownership is correctly adjusted.

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Trying to keep everyone "Equal"

at the beginning,
your club will probably think,
we'll all put in the same amount of money on the same date and share all our expenses equally so we'll all have the same return on our investment!
That's easy to understand!

Except...

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A common issue many investment clubs deal with is the desire for everyone to be "equal". They want everyone to be committed to making the same contributions at the same time and to earn the exact same return on their investment. Contributions that can be counted on are certainly an important part of having a successful investment club. For any member that is truly committed to the club, this should not be an issue.

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Trying to keep everyone "Equal"


Life Happens

People miss payments for legitimate reasons
People will have times where they can't contribute as much as they used to
People will need some of the money they've invested in your club
People may want to join your club
Under these circumstances, it becomes impossible for your treasurer to keep everyone "equal"

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But,
That is no reason you can't have a healthy, well functioning investment club
Because,
Your treasurer can easily account for everyone having different ownership

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Focus on your portfolio performance.
Not on individual member performance.

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Not making regular contributions

To belong to an investment club, you need to be committed to making regular investments

Your club needs to know it will have money for investing

Your treasurer shouldn't have the responsibility of chasing down deposits or accommodating inconsistent payments.

Your club shouldn't have to accommodate "Market Timing" for either deposits or withdrawals

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Expecting Your K-1's Before March

February 15-
1099's Must be Sent from Financial Institutions

Treasurer needs to verify information against 1099's before filing taxes. Some transaction dates may need to be adjusted.

Club should perform it's yearly audit before taxes are completed

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. Before they can do taxes, your treasurer will have to verify your club records against the 1099's your financial institutions will be sending to the government to report your club's income. Financial institutions have until February 15 to send them out.

In the meantime, a group of your club members should audit your club's books prior to the taxes being prepared and filed.

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Don't expect your club treasurer to be able to explain why certain club accounting tasks must be done a certain way



As we've been discussing, investment club accounting is a little different than what people may expect or be used to. If you don't understand something your treasurer is doing, don't expect your treasurer to be able to explain all the reasoning behind it. Feel free to ask the experts at your software provider yourself. We're glad to help clarify things for not only your treasurer but for any other member of your club.

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To Summarize:

Investment Club Accounting is Different

It Can be Very Simple


Anyone Can do It

Everyone Needs to Understand the Basics

- Only use your club financial accounts for investment related transactions that apply to all club members
- Enter all transactions on the date they occur
- Verify records regularly
- Record member Contributions and Withdrawals correctly
- Your club accounting software is designed for certain types of transactions and not others

Don't force your treasurer to do things they don't have the tools to handle

Don't force them to explain why they need to do certain things a certain way. Ask the experts!



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Questions?

support@bivio.com

