

Slide 1

*Investment Club  
Expenses  
Keep 'Em Simple!*


 Invest with your friends -  
A Revolutionary Mutual Strategy Partner

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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*

*Candace Baker  
St. Louis Chapter Director*

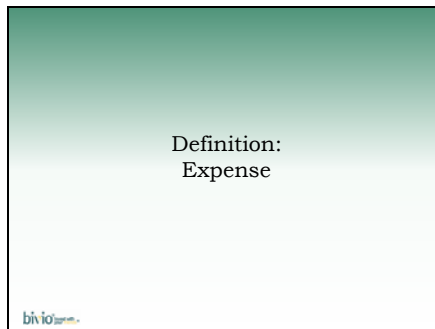
*Rip West  
bivio Support*

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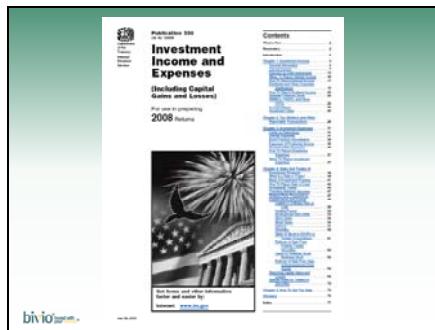


Let's start with a definition. Investment club accounting uses this term to apply to a very specific type of entry. An expense is a transaction where your club pays for something that is not a securities purchase or member withdrawal.

Money is taken out of your club assets and used for the disbursement.

For example, when you have a club you will have an expense for your bivio subscription and possibly an expense for your BI club dues.

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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 are not accounting for a business. You have Investment Income and Expenses not Business income and expenses.

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Possible Club Deductible Expenses:

- bivio Subscription
- Club Portion of BetterInvesting Dues
- Meeting Room Rental
- Postage and Office Supplies
- Fees Paid for Counsel and Advice about Investing
- 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 what is a deductible expense, refer to Publication 550.

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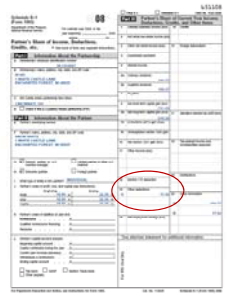
Non Deductible Club Expenses

- Expenses to Attend Stockholder Meetings
- Expenses to Attend Investing Conventions and Seminars
- Food and Refreshments
- Gifts
- Club Parties
- Flowers
- Stock Purchase and Sale Commissions
  - Affect stock cost basis, not entered as Expenses




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

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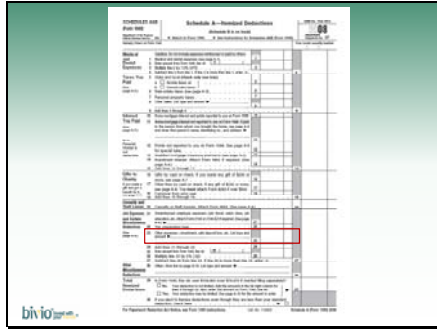


The image shows a screenshot of a tax form, likely Form 1099-DIV, with a red circle highlighting a specific entry. The form contains various fields for reporting dividend income and related information. The highlighted entry is in the "Dividend Income" section, specifically in the "Ordinary Dividends" column, with a value of \$1,000.00. The form also includes sections for "Dividend Reinvestment Plan (DRIP)" and "Dividend Payers' Name".



At the end of the year, the total amount of 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. In this example the amount reported is Snow Whites share of her clubs bivio subscription and the certified postage they paid to mail in their income tax forms.

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If you itemize your deductions, you can deduct it on your schedule A in the category Miscellaneous Deductions. For 2008 this was line 23 on Schedule A. You will only be able to benefit from the deduction if the total in this category exceeds 2 percent of your Adjusted Gross Income.

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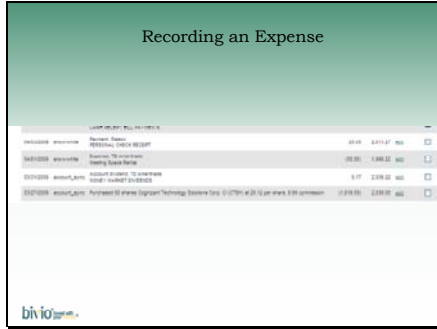
You record an expense in your club accounting this way. First go to the Accounting>Accounts page. At the top of the page, select the expense button.

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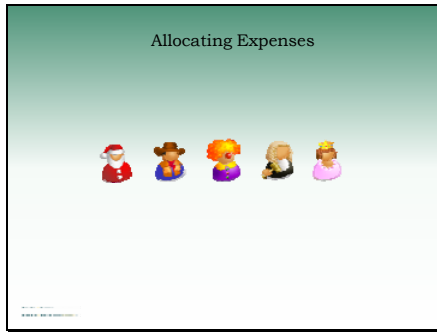


This will open a form where you can fill in the details about the expense

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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.

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The slide is titled "Allocating Expenses-By Percent Ownership" and shows a table with two rows of data. Each row represents a date and a specific expense, with columns for five members (represented by avatars) showing their ownership percentage and the amount allocated to them from a \$100 expense.

Date	Expense	Member 1 (%)	Member 2 (%)	Member 3 (%)	Member 4 (%)	Member 5 (%)
5/1/2009		25%	20%	25%	20%	10%
5/18/2009	bivio subscription-Deductible Club Expense \$100	25	20	25	20	10
5/20/2009		30%	20%	20%	15%	15%
5/26/2009	Meeting Room Rental-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 to each member. 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

This means 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.

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**Allocating Expenses-Equal Dollar Amounts**






5/18/2009-Total Units in Club=100 Unit Value \$10					
Units/Person	25	20	25	20	10
Percent Ownership	25%	20%	25%	20%	10%
5/18/2009 bivo subscription- Deductible Club Expense \$100	\$20	\$20	\$20	\$20	\$20
5/18/2009					
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. This is done by removing the same number of units from each person. It will change everyone's ownership percentage

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**Allocating Expenses**  
"Individual" Expenses

**Annual Dues**  
Clubs: \$40 (required)  
Each Club member: \$25/\$79 (required)

Individual Portion of BI Dues					
	79		25		79

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 simple way to allocate an expense to a single individual.

An example that is frequently encountered is the individual portion of BI dues. Many times all members will not be paying the same amount for these. People may want different levels of individual memberships or people may already be individual members through other clubs.

There is no easy method available in your club accounting to account for the transactions if you do.

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- Accounting for Individual Portion of BI Dues**
- Write check on club account for "Club" portion of BI dues
  - Have individual members write personal checks for their own individual portion
  - Put all checks in same envelope and send in at same time
  - Don't deposit individual portion into club accounts
  - Don't pay individual portion from club accounts

What is the easiest way to handle these? Just don't use your club financial accounts to pay the individual expenses so you don't have to figure out how to do the accounting for them. There is no benefit to your members to "run" those expenses through your club books.

In the case of the Individual portion of BetterInvesting Dues, collect checks from each member who is joining for their portion and mail them in directly with a club check for the club portion. Do not deposit the checks for the individual portion in your club accounts.

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**Individual Expenses-Restaurant Meals**

12/15/2009

Club dinner at Restaurant

	25%	20%	25%	20%	10%
Total Bill \$200 P# with Club Check					
Choice 1- Default- Allocate Proportionally	50	40	50	40	20
Choice 2- Allocate Equal \$	40	40	40	40	40
NO Choice 3- Members pay charged for their bill	18.50	18.50	27	50	11

Another example 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.

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**Allocating Expenses**

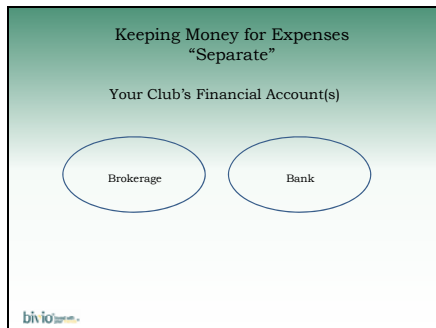
**Keep Things Simple!**

Don't pay expenses that  
can't be allocated  
Proportionally or Equally  
To All Club Members  
Using your club financial  
accounts!



If you do not want to allocate an expense equally or proportionally, don't use your club financial accounts to pay it.

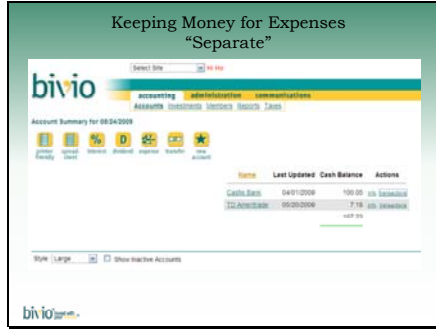
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There is a common misconception that there is a way for club members to make contributions to a club to pay for expenses which will be kept separate from the club assets being invested. There is no way to do this. No matter how many club financial accounts you are tracking in your club accounting, for the purposes of the accounting, they are all considered to be in a single pool.

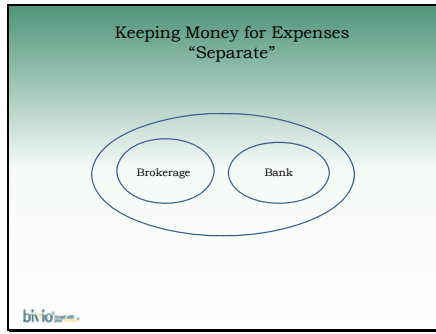
To handle your clubs finances, you will have a brokerage account and you may have a bank account.

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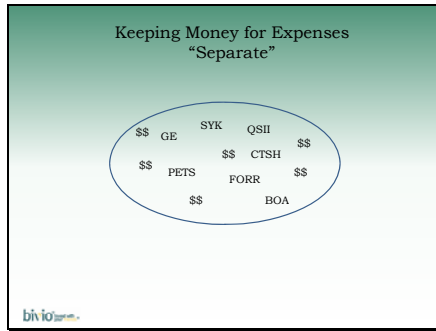
You will see them listed in your club accounting software. In order to be able to reconcile your accounts each month, transactions are tracked in the account they occur in.

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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.





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	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
Deposit- 5 Member Payments @\$40	40	40	40	40	40

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.

This is why we prefer to think of "Fees" as Penalties.

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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Keep Things Simple!

Fees  
Have  
Nothing  
to Do With Expenses!

If you need cash to cover an  
expense

Record it as a Payment!



Keep things simple!

There is no connection between a deposit recorded as a fee and an expense that is paid.

All money recorded in your club accounting is part of your investment assets. It is all shared by everyone based on their percentage of ownership.

You want any member contributions to be recorded as payments so that percentage of ownership is tracked correctly.

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**Reimbursements**

- Reimburse members who pay club expenses with units, not cash
  - Why?
    - Allows possibility of having only one financial account for treasurer to track
      - Club doesn't need checking account
    - No net change in club cash
      - Expense transaction decreases worth of all members
      - Member payment transaction uses that amount to reimburse the member in units
  - Convenience
    - Club can't have a credit card. Member can put charge on personal credit card

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**•Reimbursement-Step 1**  
•Create Reimbursement account

State	Last Updated	Cash Balance	Actions
Reimbursement		0.00	0th items selected
20.Accounts	03/21/2009	2,196.27	1th selected
		2,196.27	

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First, create a separate “suspense” account to use to process the reimbursement. Here we’ve named it “Reimbursement”

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**•Reimbursement-Step 1**  
•Record Expense Paid out of Reimbursement Account

Account Element: Reimbursement

Transaction Date: 01/11/2009

Amount: 00

Category: Meeting Space Rental

Allocate Equity Among Members

Paid by Group: [ ]

Remark: [ ]

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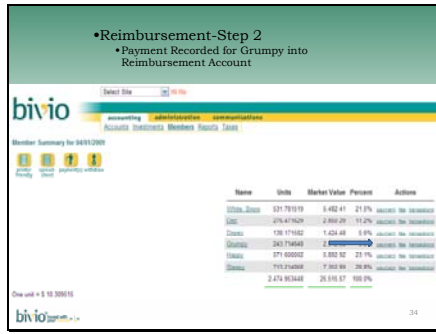
Then, record the expense as being paid from the “Reimbursement” account- This takes the expense amount away from each member

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The reimbursement account shows a negative balance.

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Then, record a Payment for the member being reimbursed made into the "Reimbursement" account-In effect, this takes the amount taken out in the first transaction and uses it to purchase additional units in the club for the member being reimbursed.

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Date	Last Updated	Cash Balance	Actions
04/01/2009	04/01/2009	0.00	Go to Reimburse
04/01/2009	04/01/2009	2,000.00	Go to Reimburse
		2,000.00	

The reimbursement account ends up with a zero balance. It was used to record transactions such that the expense amount was deducted from each member and then used to repay the member being reimbursed with units.

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**Bounced Check Charges**

Example: \$50 member payment check bounces. Brokerage charges \$20 overdraft fee

Transaction 1-Record payment of \$50 from member. (Deposit that will bounce)

Transaction 2-Record negative payment of \$50 from member on date of original payment with same valuation date (Removes deposit when check bounces)

Transaction 3-Record a deductible expense of \$20. (Bounced check charge. This is an expense of the club)

Transaction 4- If member reimburses the club for the bounced check charge, record it as a fee of \$20 received from him/her

If a member gives you a payment which bounces, there are several different transactions that will need to be recorded. Let's take an example of a \$50 payment which bounces.

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**Investment Club Expenses Summary**

Keep 'Em Simple!

Only use club financial accounts for expenses that apply to all club members

Use IRS default and allocate expenses in proportion to club ownership. No partnership agreement changes required.

There is no way to keep funds in your club accounts used for investing separate from funds for expenses.

Any cash already in your club accounts is available to pay expenses

If you need cash to cover a club expense, record member contributions as payments.

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