It's Worth Your While to Reconcile!



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

One of your friends at bivio

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Candace Baker St. Louis Chapter Director

Ann Cuneaz BI Central Office Education Director

Shanna Rendon Western Slope Chapter Director

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Carol Theine Puget Sound Chapter Director

Jerry Kester North Texas Chapter Director

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Questions?

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Why Reconcile?

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When I was a kid, I didn't like salad dressing. My dad used to tease me at dinner time with a popular Wishbone commercial that was out at the time. A Salad without Dressing is just a bowl of wet vegetables.



It's kind of the same thing with your club accounting. Keeping records without verifying them regularly means they may be of no more value than a bunch of numbers.

Actual Club Accounting Support Questions

"I paid out a withdrawal to a member, but then found that I missed entering a dividend last quarter. He's already cashed his check. How do I rectify this?"

"We filed our taxes and now I found that two member payments were not recorded last September. What should I do?"

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Those of us who provide support for investment club treasurers cringe when we are asked questions like these. Any help we can give you at that point may at best involve a compromise and in the worst case may require amended tax returns and even the payment of tax penalties. Unfortunately they can no longer be resolved simply by telling you to add in whatever transactions were missing.

Reconciling investment club accounts regularly is an important part of every club treasurer's job

Actions which are difficult to reverse such as notifying someone of a withdrawal amount, paying a withdrawal or filing taxes should never be undertaken without a full confirmation of all accounting

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For some reason, there are those out there that don't realize this. It is in the best interests of everyone in your club to make sure this is happening regularly.

Two Basic Types of Club Accounting Transactions

- · Investing Activity
- Income Received-Dividends, Interest Etc.
- Stock Transactions-Purchases, Sales, Reorganizations that will result in capital gains or losses
- Club Expenses
- · Member Ownership
 - Payments
 - Withdrawals

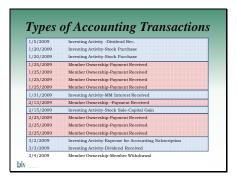
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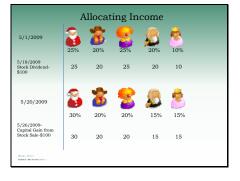
As you move through the year, you will be recording two basic types of transactions. The two are mutually dependent. You'll record investing activity transactions which will ultimately result in yearly tax consequences (income received, stock gain or loss and expenses) and club ownership transactions (member payments and withdrawals).

The two are interrelated because taxable transaction amounts will be allocated to members based on their percentage of club ownership on the date they occur.

Ownership percentage is calculated using units which are rewarded when a member makes a payment or redeemeed when he makes a withdrawal. The number of units purchased or redeemed is determined by their value. The value is determined by a correct accounting for all the club's assets.

It is very important that both investing and member ownership transactions be recorded accurately and in a timely manner. In investment club accounting, not only amounts but transaction dates are much more important than in other types of bookkeeping you may be familiar with





A birds eye snapshot of your clubs financial transactions might look something like this. First we see some investing activity recorded. Then some member ownership transactions.

Each time member ownership transactions occur, the percentage of ownership of each member in the club may change. It changes on the date the transaction occurs (not the valuation date).

Any taxable transactions which occur are allocated to each member based on their ownership percentages when then occur. In this example the Interest received on 1/31/2009 is allocated differently than the Capital Gain on 2/15/2009.

This is because a single member payment was recorded in between these two transactions which would have changed each members percentage of ownership

Again, you can see that having your accounting information accurate and up to date is extremely important.

A little more important than in other sorts of bookkeeping you may have done for individuals or individual organizations where everything was allocated to one person or entity and monthly or yearly totals were adequate for tracking finances and doing taxes.

Here's a more specific example

Types of Information to Verify

- No transactions missing
- · Investing Transactions-
- Amounts correct
- Transaction Dates (purchase/sale dates)
 Correct
- # shares correct
- Member Ownership
 - Correct Valuation Date
 - Stock prices and all entries updated and confirmed as of valuation date

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So what types things do you need to verify regularly?

When we say regular verification, what do we mean? This is what is recommended. Each provides a little bit different type of verification. But they all interrelate.

It may look like a lot of work but if you set up your record keeping to be simple and verify everything monthly, any year end verifications should go very quickly.

The process of verifying your records monthly is called reconciliation. If you do it monthly, it will be a quick process consisting of only a few steps.

Next, we'll go through each of these in more detail.

Regular Record Verification

- Monthly-Club Treasurer
 - Confirm Cash Balances
 - Number of Shares of Stock
 - Member Payments
- Yearly
 - Independent Audit-Audit committee (not including Club Treasurer)
 - Tax Time-Verification of 1099 with Club Records-Treasurer

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Monthly Reconciliation Process

- Get a copy of your latest brokerage (and bank if applicable) statements.
- Run club valuation reports that are dated the same as the statement dates or open the transaction lists for the appropriate account
- Compare the cash balance shown in your club accounting to that shown on your financial institution statements.
- Compare the number of shares of each stock owned with the number shown on your brokerage statement.
- Edit, delete or add any transactions needed to correct your records.

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Monthly-Financial Institution Information Statement: TD Ameritrade Statement Dec. 2008

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Monthly-Financial Institution Information				
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• Valuation Report - Same as statement date • Transaction list

Your brokerage statement will look something like this. You may receive a paper copy each month but more and more brokers are going to electronic versions. It still looks the same, you just have to access it online and print it out using your own paper and ink if you'd like a hard copy.

Statements can provide lots of information, here's a few of the things you will be interested in.

Statements come out once a month but since nowadays you have online access, you will also find that you can probably get an up to date transaction history at any point in time. This is useful if for making making sure your club's records are accurate as of your actual meeting date. Entries are usually made online almost instantaneously to when they actually occur.

Next, you will want to access the information you will use to compare to your brokerage information. This will be a valuation report dated the same as the date of your statement and your club accounting transaction list.





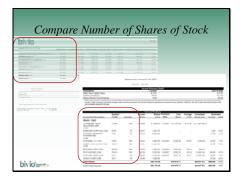
You can find a list of transactions under your account or in one of the transaction reports provided in your software.

A typical investment club should have a manageable number of transactions to verify each month. They would include a few stock activity or income transactions and member payments. Occasionally a withdrawal or expense transaction.

Keeping multiple accounts or doing dividend reinvestments adds complication to keeping and verifying your club accounting because you have many more transactions. In addition it may produce extra work at tax time. In todays world, the reasons for doing these things no longer apply. If your club operates using these, you may want to consider simplifying your operations by discontinuing any dividend reinvestments and consolidating your activities at a single brokerage which provides check writing.



Now, start making comparisons. First, verify Cash by comparing the valuation statement with your brokerage statement. Uh Oh, there's a problem somewhere. The cash balances are off by \$1.



Next, compare the numbers of shares of each stock you own. First on the valuation statement <click> then on the brokerage statement <click> The bivio account should show the same number of shares, that the brokerage account does. Number of shares of stock should agree exactly.

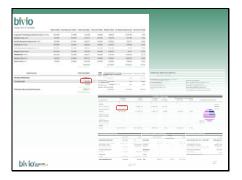


This is where we look for the reason the cash balance is off. Go down the list, making sure all transactions on the brokerage list are entered and that the amounts agree with the amounts in your records. Since money market accounts are normally tracked as cash, purchase and redemptions of money market funds are not tracked as separate transactions in your records.

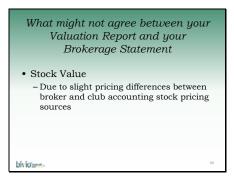
In this case, the check receipt on 12/16 for 25.03 disagrees with the amount in the bivio records. This is the source of the cash balance being off.







The cash balance now agrees.



There should not be a big difference but do not worry if they are slightly different. The number of shares of each holding should agree exactly.



This is what you look at to compare the two. In this case, the two agree but there are sometimes slight differences.



Your monthly report to your club should confirm to your members that you have verified your records. It should also allow them to confirm that their payments have been recorded correctly. There are three reports you should show them regularly. For additional peace of mind, you might distribute the financial account statements so that they can confirm what you report for themselves.

One of the benefits of using online accounting is that you don't have to print out a copy for each person for each meeting. You can let them know when you've updated the records and they can go online at their convenience to review the reports.







The valuation report shows the current value of all your club's assets. You may choose to show this as of the account statement date so members can compare with the brokerage statement. If you'd like to update your records you can also prepare one close to or on your club meeting date for portfolio review purposes. Note that reports prepared on your club meeting date should be marked preliminary, as stock prices will not have been updated before your meeting occurs.

All members should confirm that you have recorded their payments correctly for the previous month. The member status report shows them what you have recorded.

If you have made any mistakes, their club account is not being tracked correctly and income and expenses are not being allocated to them correctly.

Finally, show everyone the transactions you have recorded so they can confirm that they are what they understood would be happening after your last meeting.

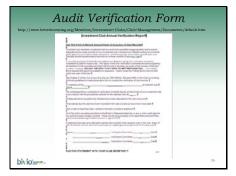


Annual Audit

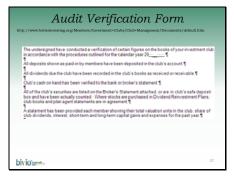
- Independent Confirmation that all transactions have been recorded accurately
- Double check on treasurer
- Needed for BI Fidelity Bond
- If done in January, tax preparation activities should be minimal

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The annual audit is basically people in the club other than the treasurer reconfirming that all transactions have been entered correctly. If you've been following the monthly reconciliation process that has been outlined this should be a fairly quick process.



This is the form you need to fill out confirming your audit and the link to find it on the BetterInvesting website.



Basically, the final results of your audit will confirm these things.



Here are the steps involved in the audit procedure. First, distribute the member contributions and withdrawals report to everyone to confirm. If I were a member of this club I would probably question why the same valuation date was used for both the February and March payments. There may be a good reason but it is unusual and may indicate a mistake recording them.

Audit Procedure 2. Collect all past year monthly brokerage statements 3. Compare beginning of year cash balances and number shares of stock to final statement from previous year 4. Line by line, compare transactions from each brokerage statement with the club accounting transactions list 5. Compare end of year cash totals and number of shares of stock with end of year brokerage statement 6. Investigate list of discrepancies with treasurer 7. Make corrections as necessary and appropriate

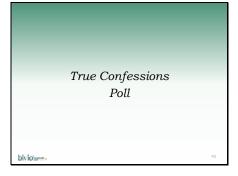
Here are the steps involved in the actual audit procedure.



Here the member tax allocations report which you need to distribute to everyone to satisfy the Fidelity Bond requirements.



Once you have gone through all the audit steps, you will able to sign off on the audit verification report.



Yearly Tax Time Verification • Treasurer-Regular Monthly

- Verification for December
- Audit Committee-Yearly AuditTreasurer-Verify with 1099's

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All records must be correct prior to preparing your taxes. Your regular monthly reconciliations and the completion of your yearly audit should have completed. All that will be needed prior to taking the tax interview is for you to confirm your records against your 1099 form.



A 1099 is the form your brokerage uses to report your income to the government. They use it to double check your tax return to make sure you're paying tax on everything you need to. It's very important when you get done that the numbers on your tax return match the numbers reported on your 1099's.

There are several types of 1099's and they're usually consolidated into one from your broker. The most common ones a club will be using are forms 1099 –B Proceeds from Broker and Barter Exchange (Stock sales), 1099-DIV-Dividends and 1099 INT-Interest

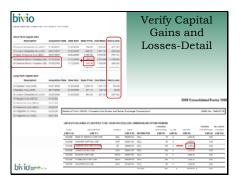
First, compare the total amount of dividends shown on your bivio income report with the total amount being shown on your brokerage statement. They should agree. Total dividends on your 1099 should equal the sum of dividends and qualified dividends on your income report. Note that the totals for Qualified dividends may or may not agree, this is because there are two criteria for a dividend being considered qualified. The company that pays it is a qualified company and you've held the stock paying it for a certain amount of time. The brokerage does not run the holding period check. Bivio does.

If you have a Money Market Account, the income may be reported to you as interest or dividends. Just make sure it has been recorded in your accounting the same way as it has been reported to you. AccountSync will do this for you.





Then you can compare 1099-B with the <click>Capital Gains and Losses report. First, compare the total gross proceeds.



If your overall totals do not agree, <click>you will have an additional page in your 1099 which details the specific sales the brokerage is reporting. Use the Capital Gains and Losses Report to double check your stock proceeds against the individual stock proceeds on this page.

The actual gain or loss shown on the bivio report is the one that will be reported on your taxes. It is based on your actual stock purchases of each lot of a particular stock as well as any spinoffs, mergers, etc. that it may have been involved in. The capital gain or loss your brokerage may show on this form may not be correct. They often do not have access to all your stock transactions so they may not know what the correct basis in your shares is. They do not report this to the government.

If you have any questions about the amount being calculated by bivio, you need to assemble any brokerage statements that include transactions for a stock and double check them against the transactions that have been added in bivio.

This is why you need to reconfirm all details of stock purchases and sales when you do your yearly audit.



Can I Make an "Adjustment"?

- · Not usually
- · Do it Right
 - Find the point in time where things agreed
 - Work forward, comparing line by line, month by month till you find the discrepancy
 - Make the corrections
- What if I've paid a withdrawal or filed Taxes?
 - Much more complicated
- Case by Case Evaluation
- Possible fines or costly advice from an accountant needed

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You can put your feet up!

We sometimes get asked whether a club can make an "adjustment" entry to get their books to balance. This usually happens when it has been a long time since they have reconciled their records. Unfortunately, the answer is no. Accounting means you are documenting and reporting all financial transactions. The IRS doesn't take kindly to money that just appears or disappears from your club records. Your fellow club members will not be happy about this either.

To fix incorrect records, you will need to go back to a time when everything was in order. Then, month by month you will need to compare financial statements with your accounting records. Depending on what you find, you'll have to adjust your records so they're in balance. If only one month has gone by, this will be a quick process. If many months have passed it will be more time consuming. If you have paid any withdrawals or filed any taxes without reconciling first, you will be facing much more complicated and possibly costly decisions to make corrections

Don't Let Verification Become Tedious! One financial account No Drips Less transactions to confirm Use AccountSync No typos Don't get behind Reconcile Monthly Confirm all records prior to withdrawals and taxes Have fun! Offer a pitcher of margaritas to they audit team when they're done Take your treasurer to dinner when the taxes have been filed Tedious!

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Upcoming Webinars

Starting Up with bivio October 18, 2009 7:30PM EDT

Everything You Always Wanted to Know about Valuation Dates

October 25, 26, 2009

www.bivio.com/club_cafe

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Then you only have to balance one account. No transfers to track. Potential to use AccountSync to enter the majority of the information. Less chance of typos.

