

*It's Worth Your While to  
Reconcile!*



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

*One of your friends at*  
bivio

Candace Baker  
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Jerry Kester  
*North Texas Chapter Director*

Questions?

*Why Reconcile?*

*A Salad Without Dressing.....*



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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.

*Club Accounting Without Regular Verification.....*



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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 redeemed 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

## Types of Accounting Transactions

1/5/2009	Investing Activity -Dividend Rec.
1/20/2009	Investing Activity-Stock Purchase
1/20/2009	Investing Activity-Stock Purchase
1/25/2009	Member Ownership-Payment Received
1/25/2009	Member Ownership-Payment Received
1/25/2009	Member Ownership-Payment Received
1/25/2009	Member Ownership-Payment Received
1/31/2009	Investing Activity-MM Interest Received
2/13/2009	Member Ownership -Payment Received
2/15/2009	Investing Activity-Stock Sale-Capital Gain
2/25/2009	Member Ownership-Payment Received
2/25/2009	Member Ownership-Payment Received
2/25/2009	Member Ownership-Payment Received
3/2/2009	Investing Activity-Expense for Accounting Subscription
3/3/2009	Investing Activity-Dividend Received
3/4/2009	Member Ownership-Member Withdrawal

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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

Allocating Income					
5/1/2009					
	25%	20%	25%	20%	10%
5/18/2009 Stock Dividend-\$100	25	20	25	20	10
5/20/2009					
	30%	20%	20%	15%	15%
5/26/2009 Capital Gain from Stock Sale-\$100	30	20	20	15	15

### *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?

### *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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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.

### *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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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.

### Monthly-Financial Institution Information

- Statement:
- [TD Ameritrade Statement Dec. 2008](#)

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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.

### Monthly-Financial Institution Information

- Online Transaction History

Date	Description	Amount	Balance
12/31/2008	Year-End Balance	24,489.00	24,489.00
12/31/2008	Dividend Payout	1.00	24,490.00
12/31/2008	Dividend Payout	1.00	24,491.00
12/31/2008	Dividend Payout	1.00	24,492.00
12/31/2008	Dividend Payout	1.00	24,493.00
12/31/2008	Dividend Payout	1.00	24,494.00
12/31/2008	Dividend Payout	1.00	24,495.00
12/31/2008	Dividend Payout	1.00	24,496.00
12/31/2008	Dividend Payout	1.00	24,497.00
12/31/2008	Dividend Payout	1.00	24,498.00
12/31/2008	Dividend Payout	1.00	24,499.00
12/31/2008	Dividend Payout	1.00	24,500.00
12/31/2008	Dividend Payout	1.00	24,501.00
12/31/2008	Dividend Payout	1.00	24,502.00
12/31/2008	Dividend Payout	1.00	24,503.00
12/31/2008	Dividend Payout	1.00	24,504.00
12/31/2008	Dividend Payout	1.00	24,505.00
12/31/2008	Dividend Payout	1.00	24,506.00
12/31/2008	Dividend Payout	1.00	24,507.00
12/31/2008	Dividend Payout	1.00	24,508.00
12/31/2008	Dividend Payout	1.00	24,509.00
12/31/2008	Dividend Payout	1.00	24,510.00
12/31/2008	Dividend Payout	1.00	24,511.00
12/31/2008	Dividend Payout	1.00	24,512.00
12/31/2008	Dividend Payout	1.00	24,513.00
12/31/2008	Dividend Payout	1.00	24,514.00
12/31/2008	Dividend Payout	1.00	24,515.00
12/31/2008	Dividend Payout	1.00	24,516.00
12/31/2008	Dividend Payout	1.00	24,517.00
12/31/2008	Dividend Payout	1.00	24,518.00
12/31/2008	Dividend Payout	1.00	24,519.00
12/31/2008	Dividend Payout	1.00	24,520.00
12/31/2008	Dividend Payout	1.00	24,521.00
12/31/2008	Dividend Payout	1.00	24,522.00
12/31/2008	Dividend Payout	1.00	24,523.00
12/31/2008	Dividend Payout	1.00	24,524.00
12/31/2008	Dividend Payout	1.00	24,525.00
12/31/2008	Dividend Payout	1.00	24,526.00
12/31/2008	Dividend Payout	1.00	24,527.00
12/31/2008	Dividend Payout	1.00	24,528.00
12/31/2008	Dividend Payout	1.00	24,529.00
12/31/2008	Dividend Payout	1.00	24,530.00
12/31/2008	Dividend Payout	1.00	24,531.00
12/31/2008	Dividend Payout	1.00	24,532.00
12/31/2008	Dividend Payout	1.00	24,533.00
12/31/2008	Dividend Payout	1.00	24,534.00
12/31/2008	Dividend Payout	1.00	24,535.00
12/31/2008	Dividend Payout	1.00	24,536.00
12/31/2008	Dividend Payout	1.00	24,537.00
12/31/2008	Dividend Payout	1.00	24,538.00
12/31/2008	Dividend Payout	1.00	24,539.00
12/31/2008	Dividend Payout	1.00	24,540.00

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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.

### Get Current Club Accounting Information

- Valuation Report
  - Same as statement date
- Transaction list

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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.

### Current Club Accounting Information

- Valuation Report  
- Dated Same as statement

Date	Bid Price	Bid Size	Bid Value	Bid % of Net	Bid % of Market	Bid % of Total	Bid % of Total (incl. Cash)
12/15/2008	0.0000	10,000	0.0000	0.0000	0.0000	0.0000	0.0000
12/15/2008	0.0000	10,000	0.0000	0.0000	0.0000	0.0000	0.0000
12/15/2008	0.0000	10,000	0.0000	0.0000	0.0000	0.0000	0.0000
12/15/2008	0.0000	10,000	0.0000	0.0000	0.0000	0.0000	0.0000
12/15/2008	0.0000	10,000	0.0000	0.0000	0.0000	0.0000	0.0000
12/15/2008	0.0000	10,000	0.0000	0.0000	0.0000	0.0000	0.0000
12/15/2008	0.0000	10,000	0.0000	0.0000	0.0000	0.0000	0.0000
12/15/2008	0.0000	10,000	0.0000	0.0000	0.0000	0.0000	0.0000
12/15/2008	0.0000	10,000	0.0000	0.0000	0.0000	0.0000	0.0000
12/15/2008	0.0000	10,000	0.0000	0.0000	0.0000	0.0000	0.0000

### Current Club Accounting Information

- Transaction list

Date	Account	Description	Debit	Credit	Balance
12/15/2008	Account_001	Purchased 100 shares Morgan Corp (MORG) @ 22.42 per share, 0.00 commission	2,242.00	7,252.00	601.00
12/15/2008	Account_001	Quarter Dividend, 100 shares @ 0.00000000 (0.0000)	0.00	7,252.00	601.00
12/15/2008	Account_001	Quarter Dividend, 100 shares @ 0.00000000 (0.0000)	0.00	7,252.00	601.00
12/15/2008	Account_001	Quarter Dividend, 100 shares @ 0.00000000 (0.0000)	0.00	7,252.00	601.00
12/15/2008	Account_001	Quarter Dividend, 100 shares @ 0.00000000 (0.0000)	0.00	7,252.00	601.00
12/15/2008	Account_001	Quarter Dividend, 100 shares @ 0.00000000 (0.0000)	0.00	7,252.00	601.00
12/15/2008	Account_001	Quarter Dividend, 100 shares @ 0.00000000 (0.0000)	0.00	7,252.00	601.00
12/15/2008	Account_001	Quarter Dividend, 100 shares @ 0.00000000 (0.0000)	0.00	7,252.00	601.00
12/15/2008	Account_001	Quarter Dividend, 100 shares @ 0.00000000 (0.0000)	0.00	7,252.00	601.00
12/15/2008	Account_001	Quarter Dividend, 100 shares @ 0.00000000 (0.0000)	0.00	7,252.00	601.00

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 today's 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.



### Compare Cash Balances

Account	Balance	Discrepancy
Account A	\$1,234.56	
Account B	\$1,235.56	\$1.00

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.

### Compare Number of Shares of Stock

Stock	Account A Shares	Account B Shares
Apple Inc.	100	100
Microsoft Corp.	50	50
Amazon.com	25	25

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.

### Compare Transactions

Date	Description	Amount	Status
12/16	Check Receipt	25.03	Discrepancy
12/15	Dividend Payment	1.50	Match
12/14	Interest Income	0.25	Match

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.

Edit, delete or add any transactions needed to correct your records.

Transaction ID	Description	Amount	Balance	Category
12/15/2018	Account 101	1,000.00	1,000.00	Income
12/15/2018	Account 101	1,000.00	2,000.00	Income
12/15/2018	Account 101	1,000.00	3,000.00	Income
12/15/2018	Account 101	1,000.00	4,000.00	Income
12/15/2018	Account 101	1,000.00	5,000.00	Income
12/15/2018	Account 101	1,000.00	6,000.00	Income
12/15/2018	Account 101	1,000.00	7,000.00	Income
12/15/2018	Account 101	1,000.00	8,000.00	Income
12/15/2018	Account 101	1,000.00	9,000.00	Income
12/15/2018	Account 101	1,000.00	10,000.00	Income
12/15/2018	Account 101	1,000.00	11,000.00	Income
12/15/2018	Account 101	1,000.00	12,000.00	Income
12/15/2018	Account 101	1,000.00	13,000.00	Income
12/15/2018	Account 101	1,000.00	14,000.00	Income
12/15/2018	Account 101	1,000.00	15,000.00	Income
12/15/2018	Account 101	1,000.00	16,000.00	Income
12/15/2018	Account 101	1,000.00	17,000.00	Income
12/15/2018	Account 101	1,000.00	18,000.00	Income
12/15/2018	Account 101	1,000.00	19,000.00	Income
12/15/2018	Account 101	1,000.00	20,000.00	Income

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Edit, delete or add any transactions needed to correct your records.

Transaction ID: 12/15/2018

Description: Account 101

Amount: 1,000.00

Balance: 20,000.00

Category: Income

Submit

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The cash balance now agrees.

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Account	Balance	Debit	Credit	Balance
Account 101	20,000.00			20,000.00
Account 102	1,000.00			1,000.00
Account 103	2,000.00			2,000.00
Account 104	3,000.00			3,000.00
Account 105	4,000.00			4,000.00
Account 106	5,000.00			5,000.00
Account 107	6,000.00			6,000.00
Account 108	7,000.00			7,000.00
Account 109	8,000.00			8,000.00
Account 110	9,000.00			9,000.00
Account 111	10,000.00			10,000.00
Account 112	11,000.00			11,000.00
Account 113	12,000.00			12,000.00
Account 114	13,000.00			13,000.00
Account 115	14,000.00			14,000.00
Account 116	15,000.00			15,000.00
Account 117	16,000.00			16,000.00
Account 118	17,000.00			17,000.00
Account 119	18,000.00			18,000.00
Account 120	19,000.00			19,000.00
Account 121	20,000.00			20,000.00
Account 122	21,000.00			21,000.00
Account 123	22,000.00			22,000.00
Account 124	23,000.00			23,000.00
Account 125	24,000.00			24,000.00
Account 126	25,000.00			25,000.00
Account 127	26,000.00			26,000.00
Account 128	27,000.00			27,000.00
Account 129	28,000.00			28,000.00
Account 130	29,000.00			29,000.00
Account 131	30,000.00			30,000.00
Account 132	31,000.00			31,000.00
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Account 137	36,000.00			36,000.00
Account 138	37,000.00			37,000.00
Account 139	38,000.00			38,000.00
Account 140	39,000.00			39,000.00
Account 141	40,000.00			40,000.00
Account 142	41,000.00			41,000.00
Account 143	42,000.00			42,000.00
Account 144	43,000.00			43,000.00
Account 145	44,000.00			44,000.00
Account 146	45,000.00			45,000.00
Account 147	46,000.00			46,000.00
Account 148	47,000.00			47,000.00
Account 149	48,000.00			48,000.00
Account 150	49,000.00			49,000.00
Account 151	50,000.00			50,000.00
Account 152	51,000.00			51,000.00
Account 153	52,000.00			52,000.00
Account 154	53,000.00			53,000.00
Account 155	54,000.00			54,000.00
Account 156	55,000.00			55,000.00
Account 157	56,000.00			56,000.00
Account 158	57,000.00			57,000.00
Account 159	58,000.00			58,000.00
Account 160	59,000.00			59,000.00
Account 161	60,000.00			60,000.00
Account 162	61,000.00			61,000.00
Account 163	62,000.00			62,000.00
Account 164	63,000.00			63,000.00
Account 165	64,000.00			64,000.00
Account 166	65,000.00			65,000.00
Account 167	66,000.00			66,000.00
Account 168	67,000.00			67,000.00
Account 169	68,000.00			68,000.00
Account 170	69,000.00			69,000.00
Account 171	70,000.00			70,000.00
Account 172	71,000.00			71,000.00
Account 173	72,000.00			72,000.00
Account 174	73,000.00			73,000.00
Account 175	74,000.00			74,000.00
Account 176	75,000.00			75,000.00
Account 177	76,000.00			76,000.00
Account 178	77,000.00			77,000.00
Account 179	78,000.00			78,000.00
Account 180	79,000.00			79,000.00
Account 181	80,000.00			80,000.00
Account 182	81,000.00			81,000.00
Account 183	82,000.00			82,000.00
Account 184	83,000.00			83,000.00
Account 185	84,000.00			84,000.00
Account 186	85,000.00			85,000.00
Account 187	86,000.00			86,000.00
Account 188	87,000.00			87,000.00
Account 189	88,000.00			88,000.00
Account 190	89,000.00			89,000.00
Account 191	90,000.00			90,000.00
Account 192	91,000.00			91,000.00
Account 193	92,000.00			92,000.00
Account 194	93,000.00			93,000.00
Account 195	94,000.00			94,000.00
Account 196	95,000.00			95,000.00
Account 197	96,000.00			96,000.00
Account 198	97,000.00			97,000.00
Account 199	98,000.00			98,000.00
Account 200	99,000.00			99,000.00
Account 201	100,000.00			100,000.00

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### What might not agree between your Valuation Report and your Brokerage Statement

- Stock Value
  - Due to slight pricing differences between broker and club accounting stock pricing sources

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.

The screenshot shows a complex financial report interface. At the top, there are several data tables with columns for various financial metrics. A red box highlights a specific value in one of the tables. Below the tables, there is a pie chart and a bar chart. The interface includes navigation tabs for 'accounting', 'administration', and 'communications'. The Bivio logo is visible in the top left corner.

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

### Monthly Treasurers Report

The screenshot shows the 'Monthly Treasurers Report' interface. It features a 'Report Date' dropdown menu set to '10/1/2008' and a 'Report Year' dropdown menu set to '2008'. Below these are several radio button options for different report types: 'Valuation Data', 'Member Status', 'Transaction History', 'Performance Statement', 'Investment Performance', 'Member Performance', 'Investment Value', 'Balance Sheet', 'Income Statement', 'Transaction Ledger', 'Member Tax Allocations', 'Capital Gains and Losses', and 'Income and Expense History'. The Bivio logo is in the top left corner.

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.

### Monthly Treasurers Report-Valuation Statement

The screenshot shows a 'bivio' logo at the top left. Below it is a table with columns for 'Market Value', 'Total Market Value', 'Total Cash Balance', 'Total Debt', 'Total Liabilities', 'Total Assets', and 'Market Value'. The table lists various assets and their corresponding values. At the bottom, there is a 'Total Assets and Liabilities' row.

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.

### Monthly Treasurers Report-Member Status Report

The screenshot shows a 'bivio' logo at the top left. Below it is a table with columns for 'Name', 'Paid Since', 'Total Paid', 'Tax Basis', 'Units', 'Market Value', and 'Percentage'. The table lists members and their payment status. At the bottom, there is a 'Total' row.

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.

### Monthly Treasurers Report -Transaction History

The screenshot shows a 'bivio' logo at the top left. Below it is a table with columns for 'Date', 'Description', 'Debit', and 'Credit'. The table lists various transactions and their amounts. At the bottom, there is a 'Total' row.

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.

## True Confessions Poll

## 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

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.

## Audit Verification Form

<http://www.betterinvesting.org/Members/Investment+Clubs/Club+Management/Documents/default.htm>

The image shows a document titled "Investment Club Annual Verification Report". It contains several sections of text, including a "Club Information" section with fields for Club Name, Club Number, and Club Address. There is also a section for "Club Officer Information" with fields for Treasurer, Secretary, and Club Manager. The document is a form for clubs to complete and return to the Better Investing website.

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

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<http://www.betterinvesting.org/Members/Investment/Clubs/Club/Management/Documents/default.htm>

The undersigned have conducted a verification of certain figures on the books of your investment club in accordance with the procedures outlined for the calendar year 20\_\_\_\_. \$

All deposits shown as paid-in by members have been deposited in the club's account. \$

All dividends due the club have been recorded in the club's books as received or receivable. \$

Club's cash on hand has been verified to the bank or broker's statement. \$

All of the club's securities are listed on the Broker's Statement attached, or are in club's safe deposit box and have been actually counted. Where stocks are purchased in Dividend Reinvestment Plans, club books and plan agent statements are in agreement. \$

A statement has been provided each member showing their total valuation units in the club, share of club dividends, interest, short-term and long-term capital gains and expenses for the past year. \$

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

## Audit Procedure

1. Print out end of year member contributions and withdrawals report and distribute to members to confirm contributions recorded to their accounts

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Member Contributions and Withdrawals Report 01/01/2008 to 12/31/2008  
Member Group is Investment Club, with account 00001000000000000000

Member	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
John Brock	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	13,200.00
Bill	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	13,200.00
Ernie	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	13,200.00
William	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	13,200.00
Malcolm	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	13,200.00
Samuel	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	13,200.00
Ernest	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	1,100.00	13,200.00
<b>Total</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>7,700.00</b>	<b>92,400.00</b>

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.

## Audit Procedure

8. Print out Member Tax Allocation report and distribute

Member	Allocated	Unallocated	Member Tax Allocation	Long Term Capital Gain	Other Expenses	Net Share
John Brown	15.45	108.27	(752.85)	(254.54)	177.54	(811.67)
Jane	8.99	48.47	(285.48)	(759.48)	198.87	(992.74)
Robert	1.13	8.18	(62.85)	(38.45)	8.86	(102.29)
William	8.82	44.78	(274.41)	(111.87)	139.87	(308.14)
Thomas	48.81	178.83	(759.88)	(332.28)	177.83	(852.37)
Michael	24.42	74.26	(362.84)	(282.84)	177.84	(457.84)
Charles	12.24	118.52	(488.52)	(275.27)	177.81	(688.54)
James	88.78	875.82	(3,312.77)	(1,388.54)	(758.85)	(4,834.31)

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

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- All dividends due the club have been recorded in the club's books as received or receivable.
- Club's cash on hand has been verified to the bank or broker's statement.
- All of the club's securities are listed on the Broker's Statement attached, or are in club's safe deposit box and have been actually counted. Where stocks are purchased in Dividend Reinvestment Plans, club books and plan agent statements are in agreement.
- A statement has been provided each member showing their total valuation units in the club, share of club dividends, interest, short-term and long-term capital gains and expenses for the past year.

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

## True Confessions Poll





Verify Capital Gains and Losses-Total Proceeds

Section	Description	Acquisition Date	Date Sold	Sales Price	Cost Basis	Net Proceed
Short-Term Capital Gains	100 Shares of ABC Corp	01/01/08	01/01/08	100.00	90.00	10.00
	100 Shares of DEF Corp	02/01/08	02/01/08	100.00	95.00	5.00
	100 Shares of GHI Corp	03/01/08	03/01/08	100.00	98.00	2.00
	100 Shares of JKL Corp	04/01/08	04/01/08	100.00	92.00	8.00
	100 Shares of MNO Corp	05/01/08	05/01/08	100.00	97.00	3.00
	100 Shares of PQR Corp	06/01/08	06/01/08	100.00	94.00	6.00
	100 Shares of STU Corp	07/01/08	07/01/08	100.00	96.00	4.00
	100 Shares of VWX Corp	08/01/08	08/01/08	100.00	93.00	7.00
	100 Shares of YZA Corp	09/01/08	09/01/08	100.00	91.00	9.00
	100 Shares of BCD Corp	10/01/08	10/01/08	100.00	99.00	1.00
Long-Term Capital Gains	100 Shares of ABC Corp	01/01/07	01/01/08	100.00	80.00	20.00
	100 Shares of DEF Corp	02/01/07	02/01/08	100.00	75.00	25.00
	100 Shares of GHI Corp	03/01/07	03/01/08	100.00	78.00	22.00
	100 Shares of JKL Corp	04/01/07	04/01/08	100.00	72.00	28.00
	100 Shares of MNO Corp	05/01/07	05/01/08	100.00	77.00	23.00
	100 Shares of PQR Corp	06/01/07	06/01/08	100.00	74.00	26.00
	100 Shares of STU Corp	07/01/07	07/01/08	100.00	76.00	24.00
	100 Shares of VWX Corp	08/01/07	08/01/08	100.00	73.00	27.00
	100 Shares of YZA Corp	09/01/07	09/01/08	100.00	71.00	29.00
	100 Shares of BCD Corp	10/01/07	10/01/08	100.00	79.00	21.00

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

Verify Capital Gains and Losses-Detail

Section	Description	Acquisition Date	Date Sold	Sales Price	Cost Basis	Net Proceed
Short-Term Capital Gains	100 Shares of ABC Corp	01/01/08	01/01/08	100.00	90.00	10.00
	100 Shares of DEF Corp	02/01/08	02/01/08	100.00	95.00	5.00
	100 Shares of GHI Corp	03/01/08	03/01/08	100.00	98.00	2.00
	100 Shares of JKL Corp	04/01/08	04/01/08	100.00	92.00	8.00
	100 Shares of MNO Corp	05/01/08	05/01/08	100.00	97.00	3.00
	100 Shares of PQR Corp	06/01/08	06/01/08	100.00	94.00	6.00
	100 Shares of STU Corp	07/01/08	07/01/08	100.00	96.00	4.00
	100 Shares of VWX Corp	08/01/08	08/01/08	100.00	93.00	7.00
	100 Shares of YZA Corp	09/01/08	09/01/08	100.00	91.00	9.00
	100 Shares of BCD Corp	10/01/08	10/01/08	100.00	99.00	1.00
Long-Term Capital Gains	100 Shares of ABC Corp	01/01/07	01/01/08	100.00	80.00	20.00
	100 Shares of DEF Corp	02/01/07	02/01/08	100.00	75.00	25.00
	100 Shares of GHI Corp	03/01/07	03/01/08	100.00	78.00	22.00
	100 Shares of JKL Corp	04/01/07	04/01/08	100.00	72.00	28.00
	100 Shares of MNO Corp	05/01/07	05/01/08	100.00	77.00	23.00
	100 Shares of PQR Corp	06/01/07	06/01/08	100.00	74.00	26.00
	100 Shares of STU Corp	07/01/07	07/01/08	100.00	76.00	24.00
	100 Shares of VWX Corp	08/01/07	08/01/08	100.00	73.00	27.00
	100 Shares of YZA Corp	09/01/07	09/01/08	100.00	71.00	29.00
	100 Shares of BCD Corp	10/01/07	10/01/08	100.00	79.00	21.00

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.

### *That's It!*

- Your records have been finally confirmed
- Your taxes can be prepared and filed



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You can put your feet up!

### *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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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

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.

*It's Worth Your While To Reconcile!*

### 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](http://www.bivio.com/club_cafe)

*Questions?*

*support@bivio.com*