

First let's talk about expenses.

We use the term expense to apply to a very specific type of entry. An expense is a transaction where your club pays for something that is not a stock purchase or member withdrawal.

Money is taken out of your club assets and used to pay for the expense.

For example, your bivio subscription is a club expense.

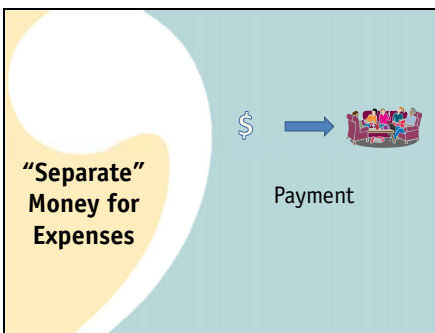
A typical investment club will have very few expenses. As we'll be discussing, any expenses which you record will affect your investment returns and most things you record will not provide you with much of any tax benefit. Despite this, club expenses tend to raise a lot of questions and take up a lot of unnecessary time for club treasurers.



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 contributions being invested. This is not the case.

As we discussed in the Orientation webinar, no matter how many club financial accounts you are tracking in your club accounting, for the purposes of the accounting,

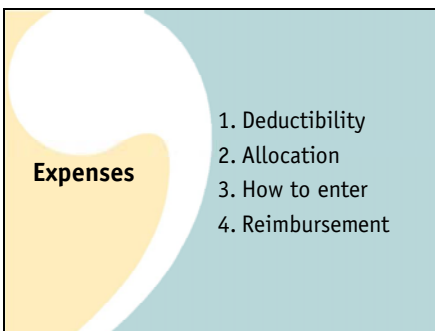
All of your assets are available for investing or for paying expenses.



Record all

cash that comes into your club from members as a

payment, no matter what it will be used for.



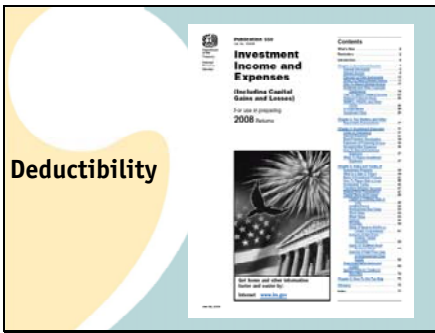
Here's an overview of what you need to know about expenses.

Everyone always wants to know about what expenses are deductible so we'll talk about that first.

Then, we'll talk about how expenses are "allocated" or divided up between club members.

I'll show you how to enter expenses in bivio

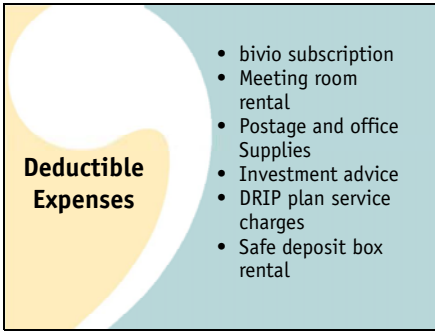
And finally, I'll show you how to reimburse a member who pays a club expense either with a check or by giving him or her additional units.



Deductibility

Only 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 have Investment Income and Expenses not Business income and expenses.



Deductible Expenses

- bivio subscription
- Meeting room rental
- Postage and office Supplies
- Investment advice
- DRIP plan service charges
- Safe deposit box rental

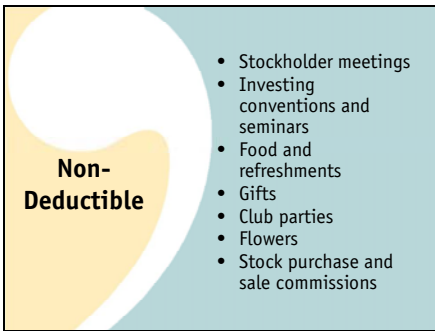
Deductible expenses include:

- bivio Subscription
- Meeting Room Rental
- Postage and Office Supplies
- Fees Paid for Counsel and Advice about Investing-which could include a club subscription to Manifest Investing or Valueline
- 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 whether something is a deductible expense, refer to Publication 550.

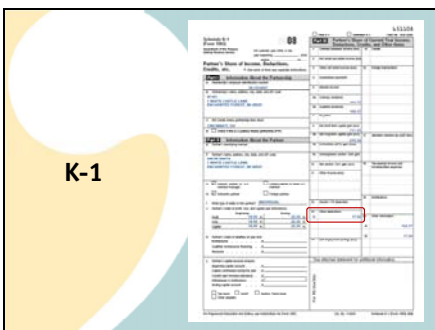


Non-Deductible

- Stockholder meetings
- Investing conventions and seminars
- Food and refreshments
- Gifts
- Club parties
- Flowers
- Stock purchase and sale commissions

Things which you might think are deductible but are not, include:

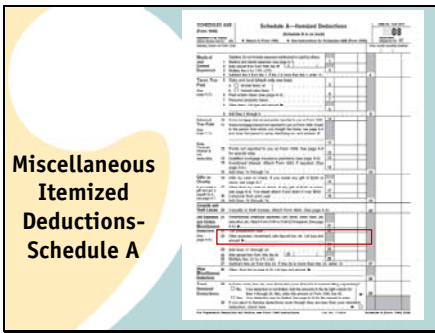
- Expenses to Attend Stockholder Meetings
- Expenses to Attend Investing Conventions and Seminars
- Food and Refreshments
- Gifts
- Club Parties
- Flowers
- Stock Purchase and Sale Commissions – You do track these and they are important for determining stock basis but they are not entered as expenses.



K-1

At the end of the year, any 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.



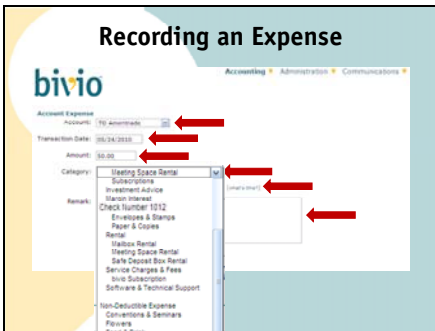
If you itemize your deductions on your personal taxes, club expenses will be deducted on schedule A in the category

Miscellaneous Deductions. You will only be able to benefit from the deduction if the total in this category exceeds 2 percent of your Adjusted Gross Income.



You record an expense in bivio this way. First go to the Accounting>Accounts page.

You will see a button labeled “expense”



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

You’ll pick the account you paid the expense from

The date you paid it.

The amount,

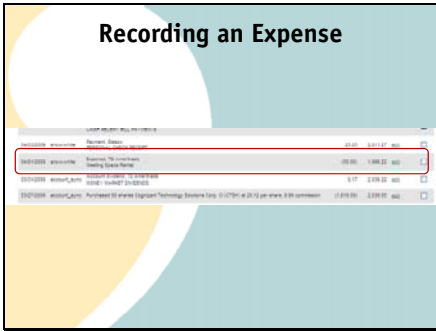
Whether it was deductible or non deductible.

We give you a menu of choices of the most common investment club expenses.

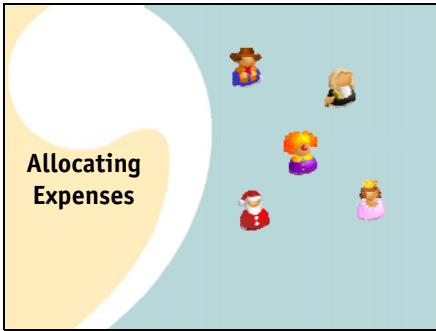
Allocate per partnership exception should be selected if you want the expense divided up in the same amount to each club member. We’ll talk a little more about this later.

Finally you’ll see a remarks box where you can enter any notes that will be helpful to you in your record keeping.

If you paid for this expense with a club check, this is a good place to make a note of the check number.



After you fill in the form, you will see the expense entered in your account transaction list.



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.

The table shows the percentage ownership of five club members for two different expenses. The members are represented by icons: a Santa Claus, a cowboy, a girl with a flower, a boy with a hat, and a girl with a crown.











Allocating Expenses-By Percent Ownership					
Date	Member 1	Member 2	Member 3	Member 4	Member 5
5/1	25%	20%	25%	20%	10%
5/18 Club subscription-Deductible Club Expense \$100	25	20	25	20	10
5/20	30%	20%	20%	15%	15%
5/26 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. 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

As you can see, 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.

Allocating Expenses-Equal Dollar Amounts

5/18 Total Units in Club=100 Unit Value \$10					
Units/Person	 25	 20	 25	 20	 10
Percent Ownership	25%	20%	25%	20%	10%
5/18 Deductible Club Expense \$100	\$20	\$20	\$20	\$20	\$20
5/18	 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. If you would like your expenses allocated this way, you would check the “Per Partnership Exception” box on the expense entry form. It is called “per partnership exception” because your partnership agreement must specify that this is an allocation method your club has agreed to.

When an expense is allocated this way each members account is reduced by the same number of units. Because of this, everyone's ownership percentage will change. Here's an example:

Suppose on 5/18 you had 100 units in your club and each one was worth \$10.

Each member owned this many shares

And therefore had this percentage ownership.






Suppose you had a deductible expense of \$100 and you wanted each person to be allocated \$20 of the expense.

You would check “per partnership exception” on the expense entry form and \$20 worth of units or 2 units at @\$10 each, would be removed from each person.

After the expense was entered, each member would own this many units.

As you can see, this would also change their percentage of ownership in the club. While some may consider this method of allocation “equal”, members with lesser ownership percentages are bearing more of the brunt of the expense.

Allocating Expenses-Individual

Subscription					
	 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 way to allocate an expense to a single individual.

For example, if some members want to subscribe to something but others don't or different people want to subscribe at different levels, this is an expense that should be handled outside your club.

Individual Expenses-Meals

12/15/2009
Club dinner at Restaurant
Total Bill \$200
Pmt with Club Check

	25%	20%	25%	20%	10%
Choice 1-Default. Allocate Proportionally	50	40	50	40	20
Choice 2-Allocate Equal \$	40	40	40	40	40
NO Choice 3-Each person pays their bill	40.00	40.00	37	40	44

In addition to subscriptions, another individual expense 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. I

Allocating Expenses

Don't pay expenses that can't be allocated proportionally or equally to ALL club members using your club financial accounts!

This cannot be emphasized enough. It will seem as though any expense related to your club or your club members should be paid for using the club accounts. This is not true!

If you do not want to allocate an expense equally or proportionally to everyone, don't use your club financial accounts to pay it. There is no benefit to doing this. Your club accounting will not track the tax benefits the members might achieve and recording the cash that moves around in your club accounts requires complicated entries on your treasurers part. Members should pay the expenses themselves and keep track of the taxable expense individually to claim them as a deduction.

Reimbursing for Expenses

- Check
- Units

Since clubs cannot have credit cards, it is often convenient for an individual to pay an expense and then for the club to reimburse him. There are two ways you can do this.

You can write him a club check or

You can reimburse him with units of ownership in the club. You might want to do this because it will not change the amount of cash your club has available. It also might allow you to operate without having a checking account. In addition, it may result in quicker payment of expenses if you don't have to wait for a check to clear.

Reimbursing by Check

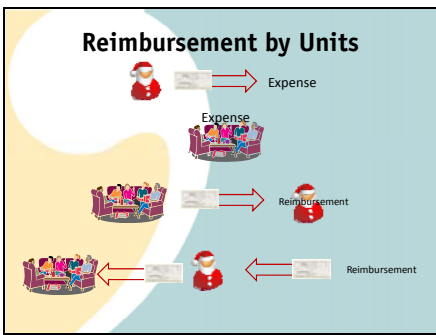
- Club incurs expense
- Member pays expense
- Treasurer records expense-note check number

First let's talk about reimbursing a member with a check. Reimbursements sometimes get a little confusing because there is no specific "reimbursement" transaction. Instead, you record the expense as if it had been paid directly by the club. You might write a club check, but the check goes to the member who paid it rather than the group that provided whatever you are paying for. It works this way:

Club Incurs expense

Member pays expense

Treasurer writes a check to the member to reimburse him, but you don't enter this as a check. You enter it as an expense using the expense form You just make a note of the check number in the remarks field.



You can also reimburse a member with units of ownership in the club. Conceptually, it works like this:

First the member pays the expense.

Then you record the expense. It is allocated to everyone so it is if each member has "chipped in" to pay it.

You could give the member a check to reimburse him.

But, instead, you hold the money in a temporary dummy club account which you can name something like "reimbursement" or "out of pocket". This money is then used to record a contribution from the member being reimbursed.

It's as if you gave it to him and

he turned around and used it to make a new payment to the club. You don't actually have to give him a check, you just record the payment.

Reimbursement-Step 1

Here are the actual steps you go through to record this.

First, if you don't already have one, use the create button to create a new account on your Accounting>Accounts page.

Call it "Reimbursements" You use a temporary account because there won't be any transactions corresponding to these on your financial account statements.

Open the expense form using the Expense button.



Record the expense as being paid from the “Reimbursement” account.



After you enter this, you will see there will be a

negative balance in the Reimbursements account. It will have a negative balance because it is an amount that has been removed from your club assets to pay the expense.



Next, you record a Payment for the member being reimbursed

Use the payment link next to his name on the Accounting>Members screen

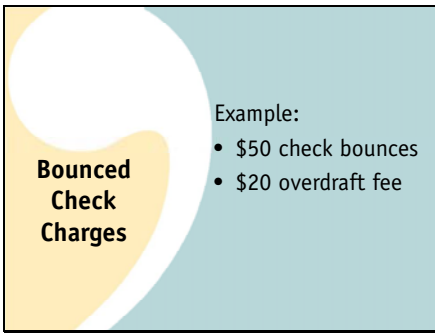


Record it as deposited into the

“Reimbursement” account- The amount taken out in the first transaction is used to purchase additional units in the club for the member being reimbursed.



When you are done, the reimbursement account will be back to zero, the expense will be recorded and the member will be reimbursed with units of ownership in your club.



Bounced Check Charges

Example:

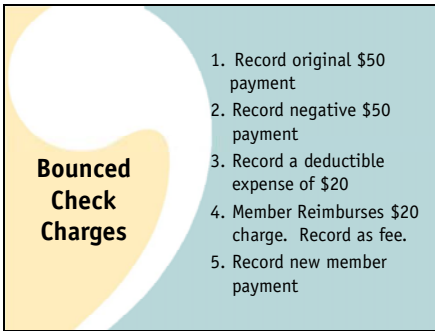
- \$50 check bounces
- \$20 overdraft fee

One type of expense clubs sometimes encounter is a bounced check charge. The charge itself is a deductible expense but there are several other accounting entries you will probably also need to make to cover everything that has happened.

Let's take an example of a

\$50 payment which bounces. Because of this, your broker charges your club a

\$20 overdraft fee.



Bounced Check Charges

1. Record original \$50 payment
2. Record negative \$50 payment
3. Record a deductible expense of \$20
4. Member Reimburses \$20 charge. Record as fee.
5. Record new member payment

If probably already have

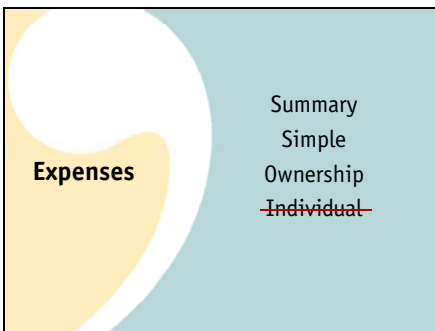
ed a \$50 member payment for this person. (This is the deposit that will bounce)

Step 2-To reverse the original deposit, you'll have to record another payment of negative \$50. Record it on the date of the original payment. Use the same valuation date you used initially)

Step 3-Then, record a deductible club expense of \$20. This is the bounced check penalty your club was charged.

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

Step 5-If the member also gives you a new check for his \$50 payment, record this as you usually do as a member payment on the date you receive it.



Expenses

Summary
Simple
Ownership
~~Individual~~

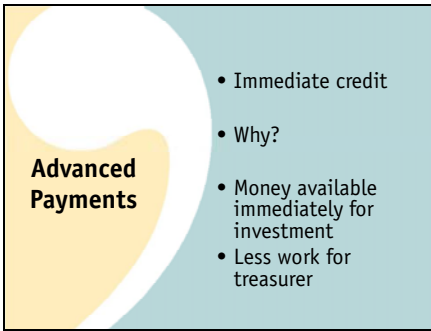
In summary, there is a lot to think about when it comes to club expenses and there is not much benefit to you when you have them.

You really should have very few to account for and we'd recommend you handle any you do have as simply as possible.

Allocate them based on club ownership and

don't use your club accounts

to pay for expenses that only apply to certain individuals.



Advanced Payments

- Immediate credit
- Why?
- Money available immediately for investment
- Less work for treasurer

I hate to even discuss recording advance payments because we like to encourage you to keep things simple.

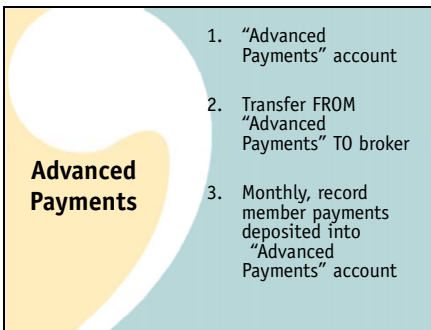
What we recommend is

That you just give members immediate credit for deposits when you receive them.

Why do we recommend this?

Because you have the money, why not use it?

And, recording things this way is less work for treasurer



Advanced Payments

1. "Advanced Payments" account
2. Transfer FROM "Advanced Payments" TO broker
3. Monthly, record member payments deposited into "Advanced Payments" account

If, however, you want to hold advance payments for the future, this is what you will need to do to account for it:

- Create an "Advanced Payments" account You'll create it on the Accounting>Accounts page in a similar manner to the way I showed you to create a Reimbursements account.

2. Record the members advanced payment as a transfer FROM "Advanced payments" TO your brokerage account. This keeps the brokerage cash balance correct. The negative balance you will have in the Advanced payments account will reflect the fact that this money is not part of your club assets yet.

Each month, as you're ready to recognize the receipt of the payment, record a member payment which is deposited into the "Advanced Payments" account. This will lower the negative amount in this account meaning your payments are now adding to your club assets.



Withdrawals

One of the more involved transactions you'll have to do occasionally as a club treasurer is to process a member full or partial withdrawal.