

Does your club reconcile your bivio records every month?

We asked you when you registered whether you planned to do a club audit and why. I wanted to share two responses anonymously from the comments.

This club answered “No”

This was their reasoning.



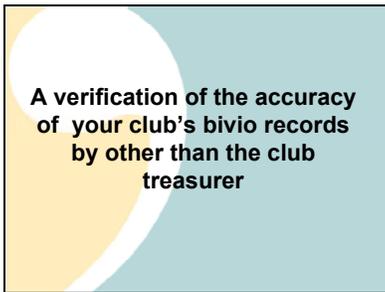
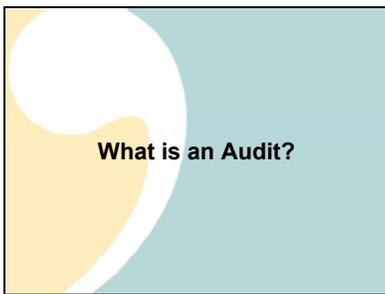
This club answered Yes:

This was their reasoning.

I hope, once you've seen this webinar, that you will all see why that the first club's reasoning for not doing an audit was faulty because their checks would not have verified all the different aspects of their accounting. Our goal in giving you a way to do a comprehensive club audit is so you can avoid the mistakes the second club had to learn the hard way.

And, you know what?

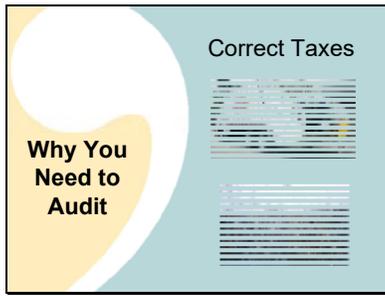
People who are members of investment clubs often are people who like to learn new things. In my experience, members have enjoyed participating in the audit process because they learn new things about their investment club accounting.



You do an audit for a variety of reasons.

For example, you should know that your treasurer is doing what you think they're doing with your club finances

This is an especially important question if it seems like they've been taking a lot of beach vacations lately.



You want to make sure your taxes are prepared accurately. Since they are prepared from the data in bivio, you need to know that is right. Just because your bivio site shows a lot of numbers doesn't mean they're useful for anything. Without verification your taxes may just be

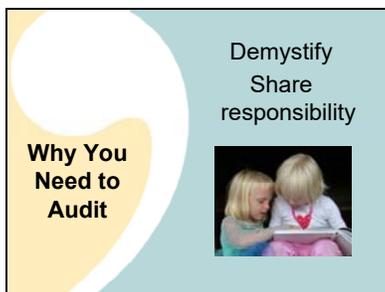
garbage in

garbage out

And, just a reminder that all of your club members will be held responsible if you don't file correct taxes.



You want to make sure each member's ownership is being tracked accurately so that income and expenses are divided up correctly and the tax status of your account is being tracked correctly.



And finally, it's important to demystify your club's finances

and spread the burden of making sure your club is keeping accurate records.

Your club treasurer has a big responsibility because your club has to comply with partnership tax requirements. Unlike your investing activities, the IRS is not as forgiving in terms of you being a novice doing so. It's important that every club member have a general understanding of what club accounting is about and what can and cannot be easily handled by your treasurer. The simpler your club finances, the simpler your audit will be. And there's no reason not to keep things simple.



There are several types of regular verification that should go on in your club. Each is a little bit different. But they all interrelate.

Each month, your club treasurer should do a monthly reconciliation. This should go very quickly. They just need to

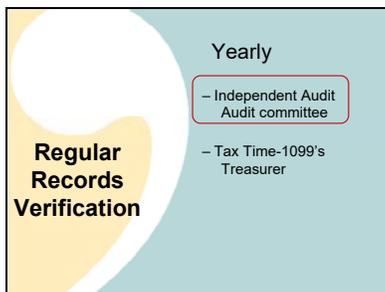
Confirm Cash Balances and

Number of Shares of Stock agree with your brokerage statements.

They should also have you confirm your Member Payments were recorded correctly

A brief report on these things should be part of the treasurers report at your club meetings.

These two quick checks won't find all the issues that might be wrong in your accounting, but they will highlight most of the most common ones and allow you to address them in a timely manner.



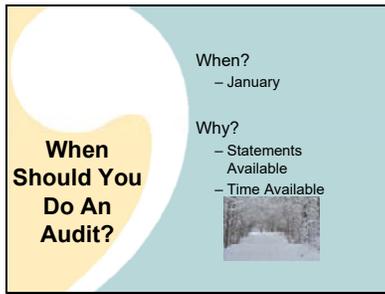
Yearly, we recommend

First, that you do an Independent Audit-

This should be done by an audit committee which does not include your treasurer..

At Tax time, your treasurer will do a final check to verify that your 1099 's agree with your club records and what is reported on your tax forms. These checks may sound like a lot of work but if you use AccountSync to make entries in your records, you set up your record keeping to be simple and your treasurer verifies everything monthly, any year end verifications should go very quickly.

Today we're discussing in depth, how to do your club Audit. Our treasurer training webinars get into more details about doing monthly reconciliations and our tax preparation webinars will be getting into further details about what to look for on your 1099's.



When should you do an audit?

We recommend that you do it in January.

Why is that?

First, your regular December, end of year brokerage statements are ready so you'll have information for the full year to compare to your bivio entries.

The biggest step in doing your club taxes is getting your records in shape. If your records are verified in January, doing taxes in February when 1099's arrive will be a very quick process.

Besides; What else do you have to do in January?

For those who get antsy about getting taxes done an audit helps fill time till taxes can be prepared

For those who live in cold climates, who wants to go outside in January? You can do your audit inside where it's nice and warm!



So what exactly are you going to do during your audit?

You're going to compare the entries you've made in bivio.

To your financial institution records

You do this using reports

And transaction lists from bivio and

Statements and

Summary lists from your brokerage and your bank (if you have a separate bank account)



How do you do an audit?

First, you'll pick a date. It will probably take you around 2 to 3 hours

Pick 2-4 people other than the club treasurer to conduct the audit

Prior to the audit day, the treasurer should gather records that will be needed for comparison from your financial institutions and from bivio.

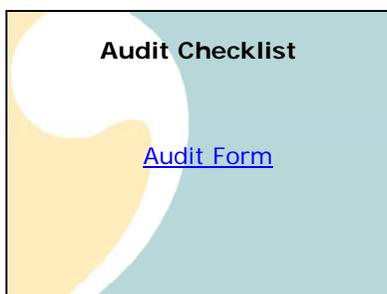
On the audit day the auditors will work through the audit steps, making the records comparisons.

If they find any discrepancies, they will note them on the audit checklist. Auditors do not make corrections themselves.

When all the steps are completed, the Auditors and the treasurer will meet to discuss anything that was found

The treasurer will determine what action is needed, make corrections, and record the action taken

Then the treasurer and the auditors will give the final report to club. It all goes quickly. Once you get done, you'll have done most of the work needed to get your records ready to prepare your club taxes quickly. All you'll need to do is wait for your 1099's to arrive so your treasurer can do a final quick records check.



To help you do your audit, we provide you with an audit checklist which gives you the steps to go through. You'll find a link to it from our help page.

It looks like this.

It contains instructions,

A list of the records you'll need to make your audit checks and

A detailed description of what you should do for each step.

We'll be going through all these steps in detail so you can see what needs to be done.



The first part of doing your audit is gathering the information you'll be comparing. As I just showed you, you'll find a list of what you'll need in the audit packet. Things you'll need from your brokerage account are:

Monthly statements

Trade Confirmation Records

You might have individual ones or your broker might be able to provide you with a special report that is a list summarizing them all

Dividend and interest transaction Records

You can find these on your monthly Statements or, again, you might be able to find a Summary List

Realized Gain/Loss Report – This will show you the capital gains by lot sold that your broker will be reporting to the IRS. It may have a slightly different name at some brokers such as a “Closed tax lot” report.

Unrealized gain/loss report – You'll need this if any of your stocks went through a reorganization such as a split, spinoff, merger, re-domicile etc. or if you paid out any withdrawals with stock. Again this one may have a slightly different name at your broker such as an “Open tax lot” report. It will show the cost basis details for each lot of each stock that you still own

For any checks you've written, you'll need

Something to verify that checks were paid by your broker.

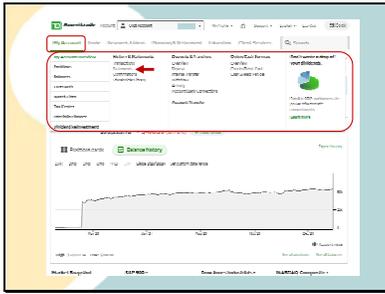
Proof could be Copies they provide or a Summary List

Your treasurer may be the person who is most familiar with both your financial institution records and with using bivio so they may need to help you find and gather this information.



Sometimes one of the learning experiences about doing an audit is learning the types of information and the way you can get it from your brokerage website.

Here's some examples of some things you'll find there.

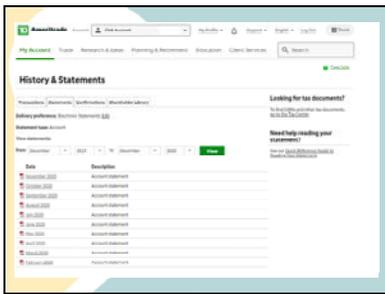


You're going to need your monthly statements. On the TD Ameritrade site you'd get them by clicking on this

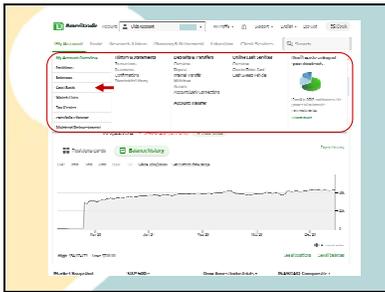
"My Account" link

To open this dropdown

From it, you'd select the "Statements" link. (Note that if your club uses a different broker than TD Ameritrade, obviously you won't see the same screen layout when you go to your broker's website. But you will be able to find all the information we're discussing on their site.)

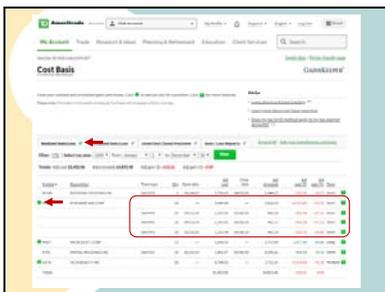


Which will take you to this page where you can download all of your monthly statements.



For TD Ameritrade, if you go back to the "My Accounts" menu, you will see a link called

"Cost basis"



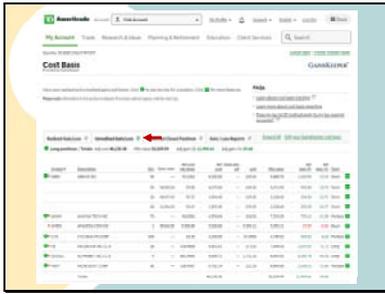
this is how you get to a page where you can get to "Realized and Unrealized gain/loss reports".

You can see different tabs here:

The information showing on the "Realized gain/loss" tab is your cost basis and capital gains for stocks you have sold. As we will see later, this will be compared with the capital gains report in Bivio to make sure your capital gains and losses will be reported on your taxes the same way your broker is reporting them. It's very important that you know how to find this.

If you see little green dots next to any of the Tickers, it means you sold more than one lot of the stock.

You can click on the dot to open a detailed list showing cost basis and capital gains for each lot sold separately.



If any of your stocks went through any reorganizations during the year such as splits, spinoffs, mergers or reclassified distributions or if you transferred any stock to pay a withdrawal, you'll also need an "Unrealized gain/loss" report because those actions will probably have affected the cost basis of your stock.

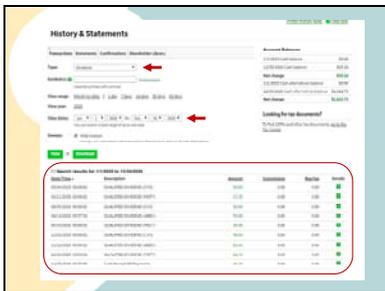
In TD Ameritrade, you get it by going to this tab. You'll get this page where you can see the cost basis details for each lot of each stock that was affected by the reorganization. You'll be comparing this to an "Investment Lot Cost Basis" report in bivio to see if you've recorded it as your broker has.



During your audit you'll be looking at specific types of transactions in bivio such as dividend payments.

What's nice is that you can get lists of just specific types of transactions at your brokerage website.

In this case, you'd find those by selecting this "Transactions" link from the "My Account" menu.



This opens a page where you can select to see lists of certain types of transactions.

In this case, we want a list of the dividends we've received

During the year.

We'll be able to easily compare this list to some of the bivio reports as we do the audit.

It's important that you become familiar with finding all this material on your brokers website. Finding it will be a little different for each broker, but it will be there somewhere. Contact your broker if you need help finding something that you'll need to do your audit.



You'll be comparing your brokerage information to a variety of reports you'll find in

bivio.

(Use demo club to demo this. Make sure to enter a 2021 date each time).

First you want to enter the date of the report you want to look at. For many of the ones you need, it will be the last day of last year.

You'll be using a Valuation Report to audit your cash balances and number of shares of each stock.

You'll use the Transaction History Report when you audit specific types of transactions such as dividends you've received.

Your Income Statement will show you dividend totals by company

The Member Contributions and Withdrawals report will show you the amount each member contributed each month and the valuation date you used to record the payment

The Capital Gain and Loss Report will show you whether your cost basis information and gain/loss information agrees with what your broker will be reporting to the IRS

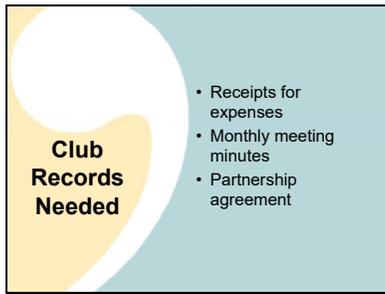
The Investment lot cost basis report will show you the cost basis details for each lot of each stock that you still own.

If you've had any withdrawals, you can find reports showing the parameters you used to enter them at this link.

You'll also find Transaction Lists, which give you the chronological list of transactions and a running balance, very useful. You don't get to these from the Reports page, you get to them from your accounting pages. For example if you go to Accounting and click on the name of one of your accounts, you'll get a list of all the transactions that have been recorded for that account. This also works for the members page and the investments page.



You also might need to refer to files you have stored in your files area which you find here under communications.



For example, good things to store there are:

Receipts for expenses

Monthly Meeting Minutes

Where you should find votes where you authorized expenses, and stock transactions. You may also find details about withdrawal discussions

Partnership Agreement

This is where you should find your clubs Terms for Paying Withdrawals

It may also show you what methods you have agreed are acceptable to allocate expenses



Once all your records are gathered, the information is given to the auditors. The audit guide includes 7 steps we recommend they do to verify your club records. They are:

- Verify cash balances and number of shares of stock –start of tax year
- Verify cash balances and number of shares of stock-end of tax year
- Verify income received is all recorded correctly
- Verify any expenses you had were recorded correctly
- Verify all your stock transactions were entered correctly and that capital gains and losses are being calculated correctly
- Verify member payments were entered correctly so your member accounts are being tracked correctly
- Verify that any withdrawals were paid according to your club agreements and that they were recorded correctly in your records.

Next, we will go through each of these steps in more detail. We'll talk about why you do it, go through an example of how you do it and discuss what to do if you find any discrepancies.

Step	File Name	Date	Size
Step 1	Valuation for EOP 2018.pdf	01/15/2020	42 KB
Step 2	Valuation for EOP 2019.pdf	01/15/2020	161 KB
Step 3	Interest & Dividends.pdf	01/15/2020	38 KB
Step 4	Expenses.pdf	01/15/2020	26 KB
Step 5	Capital Gains.pdf	01/15/2020	40 KB
Step 6	Member Contributions.pdf	01/15/2020	38 KB
File		02/05/2020	
Step 1	Valuation for EOP 2018.pdf	02/05/2020	70 KB
Step 2	Valuation for EOP 2019.pdf	02/05/2020	69 KB
Step 3	Interest & Dividends.pdf	02/05/2020	89 KB
Step 4	Capital Gains.pdf	02/05/2020	224 KB
Step 5	Dividends.pdf	02/05/2020	499 KB

First just a logistical note. In these unusual times, many of you are asking how you can do an audit if your auditors cannot physically get together. Here's an idea that my club uses. We upload the reports we need to compare into our Files area in bivio. For example, you can see here that the reports needed to do each step both from the broker and from bivio have been captured into folders corresponding to the audit steps.

With this information members can login to bivio and get the information they need to make the audit comparisons. We do it together using Zoom, but you could also assign a different club member to make the comparisons for each step. Two people could even work together over the phone using information they had gotten from your bivio site to make the comparisons.

Step 1 - Check end of year cash balances and number of shares prior tax year

Broker Valuation report dated 12/31/2020
 Brokerage statement, 12/31/2020
 Current year's balance and number of shares of stock
 Reporting Agent (bring audit tool module issues)
 Description _____
 Audited By _____

Your first step is to confirm that you started out the tax year with correct records. To do this you'll be comparing the

brokerage statement from the end of the prior tax year to a

bivio valuation report with the same date.

The screenshot shows two side-by-side tables. The left table is a brokerage statement with columns for 'Date', 'Description', and 'Balance'. The right table is a bivio valuation report with columns for 'Date', 'Description', and 'Balance'. Red boxes highlight specific rows in both tables to facilitate comparison.

Here is an example of doing this comparison.

First, you'll compare the cash balances shown in bivio

To what is shown on the brokers report. They should be equal or you should have a reason such as an outstanding check to validly explain any differences. If you see cash balances listed for accounts on the bivio report that you don't actually have, you have issues you need to correct. The only balances shown should be for accounts that you actually had at the end of 2020.

The image shows a screenshot of a financial report or spreadsheet. Two red rectangular boxes are drawn over the top section of the report, highlighting specific columns or rows of data. Below this, there is a larger table with multiple columns and rows of numerical data, also with some red boxes highlighting specific cells.

Then you'll compare the number of shares of each stock between

Bivio

And your broker. The number of shares should agree exactly

There may be slight variations in market value (a few pennies). This is not a problem and there is no reason to try and find anything to fix. But, if there is a big difference, you should investigate further to make sure you do not have investments without current prices. In this case, you will see a note on your valuation telling you that some of your stocks don't have current prices.

This is also a problem that needs to be investigated and addressed. Your club accounting is based on accurate valuations. If there is a stock price that is not being updated regularly, your records and taxes will not be correct.

Step 1
Prior tax year
balance check

Why?
• To start off right

Discrepancy?

STOP

This is a very important step.

Why do we do this step?

Because if the start of year numbers for cash balance, number of shares or stock price are wrong, there is no way the tax year numbers will be correct.

What do you do if you find a discrepancy?

You need to stop the audit at that point and assess the situation. There are many things in your clubs historical transactions that are still affecting your current record keeping. A problem at this point means there are issues in your accounting that need to be addressed. They could be as simple to fix as a small adjustment or as complicated as filing amended returns for your club for prior tax years. Feel free to contact us in support if you find a problem and are not sure what to do to address it.

Step 2-Check end of year cash balances and number of shares current tax year

→ Main 1031/2020 report dated 12/31/2021
→ Brokerage statement 1/31/2021
Compare cash balance and number of shares of stock

Records Agree
 Discrepancy Noted

Description _____

Audited By _____

If you get past step one, it's fine to move on to the rest of the audit.

In step 2, the same comparisons are made but you use reports dated at the end of the tax year you are auditing.

Step 2
Current tax
year balance
check

Why?

- Heads up

Discrepancy?

- Proceed
- Note corrections

Why do you do this step?

If numbers don't agree, it will give you an indication that there are items you need to find. Going through the steps of the audit will bring out where they are and what they are. Once you've found them, you'll give them to your treasurer to fix.

So for step 2, even if you find a discrepancy,

You do not need to stop.

Make a note of it and move forward with the next steps of the audit. Just a note at this point. As I mentioned before, comparing cash balance and number of shares of stock, like we do in steps 1 and 2 is something your treasurer should do every month to reconcile your accounts. If you do this, you can have a reasonable degree of comfort throughout the year that your bivio records are being kept correctly. But they don't tell you everything, which is why you are going to audit the information outlined in the next steps.

Step 3-Verify Income Received

- Bivio Income Statement date: 2021
- Brokerage Statement: 12/31/2021
- Compare total Dividends (Qualified + UMI)
- Compare Total Interest
- Bivio Transaction History report date: 12/31/2021
- Brokerage dividend Income list: 1/1/2021 - 12/31/2021
- Compare dividend transactions above amount and company

Records Agree

Discrepancy Noted

Description: _____

Audited By: _____

Step 3 is where you verify the entries for any income you have received. This will be dividends and interest.

You'll be using a bivio income and transaction history report.

From your broker you'll use your brokerage statement and a dividend transaction list.

Step 3-Part 1

Da Demo Club

Income Statement

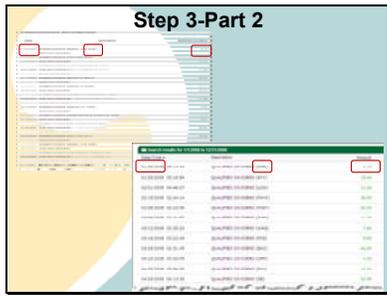
Income	
Qualified Dividend	1.00
Dividend From 401k	36.54
AGM (P) (MARK)	48.00
Fidelity Co (FASX)	12.04
Dividend Income (DISD)	8.46
Investment Management Inc (INVS)	145.40
Windsor Corp (WSPF)	55.71
7-Basis Dividend (DISD)	142.86
Total Qualified Dividend	449.91
Dividend From Capital Gain	278.83
Dividend From Capital Gain	669.87
Total Income	1398.51
Expenses	
Management Expense	55.81
Total Expense	55.81

Interest and Dividend Summary

	Month Ending	Year To Date
Income From Div	12/31/2021	1398.51
Income From Div	12/31/2021	1398.51
Income From Div	12/31/2021	1398.51

First you'll compare dividend and interest totals on the income statement to

those on the brokerage year end statement. Note that interest on money market accounts may show up as dividend income on your brokers statement. Make sure it is correctly identified as such in your bivio records



Next you'll compare the specific entries using dividend transaction lists from

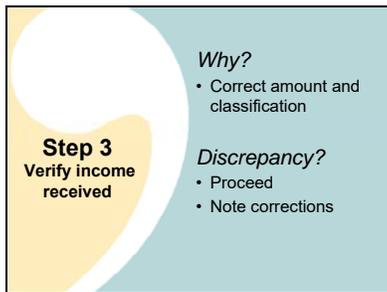
The bivio transaction history report

And a dividend transaction summary list from your broker

You'll confirm that the date of receipt,

amount and

company who paid each dividend agree.



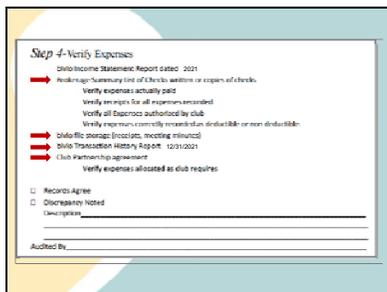
Why do you do this step

You have to pay tax on this income. The amount and dates need to be recorded correctly so the tax program will be able to classify and report it correctly as qualified or non-qualified on your taxes.

What do you do if there is a discrepancy?

Proceed with Audit.

Note entries where corrections are needed.



A club usually has very few expenses but expense entries are a common place in accounting where fraud can occur. In this step you will make sure they were both authorized and actually paid and that they were recorded correctly.

To do this, you will need meeting minutes to show expenses were authorized and receipts that you have stored in your file storage area

Cancelled checks or a summary list of checks paid from your brokerage will show whether expenses were actually paid.

These will be compared against a transaction history report from bivio.

You'll also need to know how your club has agreed to allocate expenses. Be default and per IRS regulations, expenses are allocated in proportion to ownership share. If you want to allocate them equally to each member, you need to make sure this method is specifically called out in your partnership agreement.

Step 4- Verify Expenses Paid

Da Demo Club

Income and Expense History

Portfolio Expenses		
Date	Remark	Amount
02/13/2019	Club Subscription	51.00
03/07/2019	Postage for mailing club taxes	7.75
08/10/2019	Renew DBA with County	10.00
		68.75

If you have recorded any expenses in bivio, you'll find a link on the Income statement report which will take you to a listing like this of what was recorded. Make sure you have meeting minutes that show where each expense was authorized and a receipt to show it was actually paid. Just because expense entries were recorded in bivio doesn't mean they were actually paid to the proper recipient.

Step 4- Verify Expenses Paid

bivio

Transaction History

01/01/2019 to 12/31/2019

Exp: Accounts - Income and Expenses

Date	Description	Debit	Credit	Other Expense
01/01/2019	Account Balance 12/31/2018		100.00	
01/01/2019	Expense 75.00	75.00		
01/01/2019	Account Balance 12/31/2018		100.00	
01/01/2019	Expense 75.00	75.00		
01/01/2019	Account Balance 12/31/2018		100.00	
01/01/2019	Expense 75.00	75.00		
01/01/2019	Account Balance 12/31/2018		100.00	
01/01/2019	Expense 75.00	75.00		

To Confirm how expenses were allocated, go to the Transaction history report.

If the note on an expense entry indicates the expense was allocated equally, make sure that is allowed by your partnership agreement and that is what was agreed to for the expense recorded.

Step 4 Verify Expenses

Why?

- Expenses authorized and paid
- Expense allocation

Discrepancy?

- Proceed
- Note corrections

Why do you do this step?

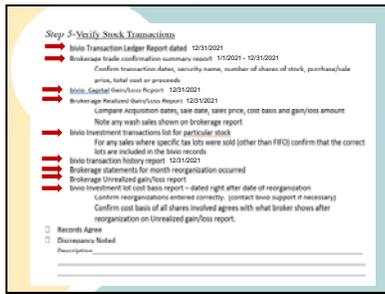
It verifies any expenses were authorized by the club and were actually paid.

It also verifies that expenses were allocated to club members in the method your club has agreed on. That will ensure their member accounts in bivio will be updated correctly.

What do you do if there is a discrepancy?

Proceed with Audit.

Note entries where corrections are needed.



Step 5 is done to verify that all your stock transactions have been entered correctly. You want to do this so you know that the value of your portfolio is being tracked properly and that capital gains and losses when you sell stock will be calculated and reported correctly on your taxes.

You'll be using a variety of reports to do this step both from bivio and from your broker including the

Bivio transaction ledger report

The bivio capital gain and loss report

Bivio investment transaction lists

A bivio transaction history report

And a bivio Investment lot cost basis report (if you had any reorganizations during the year)

From your broker you'll be looking at

Brokerage trade confirmation reports,

Brokerage realized gain/loss reports and

Brokerage statements for months where reorganizations occurred.

And an Unrealized gain/loss report (if you had any reorganizations during the year).

Let's look at exactly what we'll do with all this information.



Step 5 has three parts:

In the first part. Part 5a, you will verify purchases and sales were entered correctly

Then, in part 5b, you will verify that the Capital gains and losses shown in bivio agree with what your broker shows

Finally in part 5c – you will verify that reorganizations were entered correctly and also verify that any cost basis adjustments agree with what your broker shows.



In step 5a you should compare the stock purchases and sales in the bivio transaction ledger

to a summary list of purchases from your brokerage. You want to make sure these things agree:

Purchase/Sale prices and number of shares at your broker

And in bivio

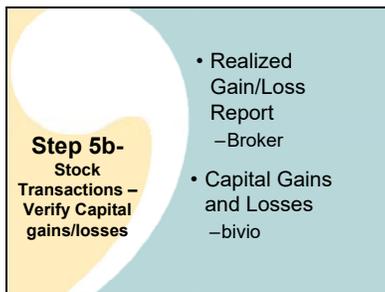
Purchase/Sale Dates at your broker

And in bivio

Total net amount at your broker

And in bivio

Total cash.



Next you will confirm that your capital gain/loss information in bivio agrees with your broker. Brokers will be reporting your cost basis and capital gains to the IRS. It is important that all the details for any stock sales you had during the year agree with what they show.

To do this you compare a report all brokers will now provide you at any time during the year called a “Realized Gain/Loss Report”

With the Capital Gains and Losses Report bivio provides you

Reorganizations Cost Basis

Brokers Unrealized Gain/Loss Report

Security	Qty	Open Date	Adj Cost	Adj Basis	Cost Basis	Lot	Market	Adj Profit	Adj Profit %	Note
AMGEN INC (AMEX)	1	1/1/2018	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
AMGEN INC (AMEX) (2)	1	1/1/2018	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
AMGEN INC (AMEX)	1	1/1/2018	100.00	100.00	100.00	100.00	100.00	100.00	100.00	

bivio Investment Lot Cost Basis Report

Account	Account Name	Open Date	Qty	Market	Adj Profit	Adj Profit %	Note
AMGEN INC (AMEX)	AMGEN INC (AMEX)	1/1/2018	1	100.00	100.00	100.00	
AMGEN INC (AMEX) (2)	AMGEN INC (AMEX) (2)	1/1/2018	1	100.00	100.00	100.00	
AMGEN INC (AMEX)	AMGEN INC (AMEX)	1/1/2018	1	100.00	100.00	100.00	

When a reorganization occurs, the cost basis of the shares of stock involved in the reorganization will change. If the reorganization has been entered correctly, the cost basis of all shares after the reorganization will agree between bivio and your broker. If it doesn't there are issues in your bivio accounting that need to be investigated and addressed. If you've found that 1 or more of your club stocks went through reorganizations during the year being audited, there are a few extra checks that you need to make.

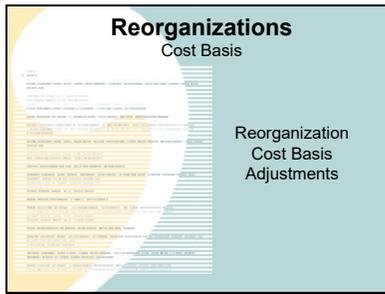
You'll need to compare information on a Brokers Unrealized gain/loss report

To information on the bivio Investment Lot Cost basis report. You'll want to run this report on a date right after the reorganization happened.

For example, in 2019, Dow chemical went through a series of three reorganizations and clubs that owned those shares ended up with three different companies, DOW, DD and CTVA. You should compare the following things between the two reports:

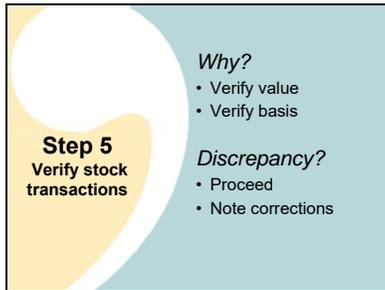
1. The number of shares of each of the stocks in each lot
2. The Open date for each of the lots
3. The total cost basis for each of the lots

All these details should agree. If you're doing automatic dividend reinvesting or have bought a stock on many different occasions, you need to make these comparisons for each lot of each stock. Entering reorganizations correctly can be one of the most difficult things your treasurer needs to do. Part of what you receive when you have a bivio subscription is access to experts that can help you account for them correctly. It is very important to make sure reorganizations have been updated in your records in a timely manner. Your treasurer should do these checks right after any reorganization is entered in your accounting. If issues are not addressed in a timely manner, it can become extremely complicated, time consuming and possibly expensive to straighten them out if they have affected subsequent transactions.



Here is a list of some of the many reorganizations we have helped clubs make entries for this year. As you can see, there were a lot of them and many clubs were impacted.

You can get to this list at a link named “Reorganization Cost Basis Adjustments” on our Help page. Note that these are only the ones we’ve addressed for clubs with questions. There may easily be others.



Why do you do this step?

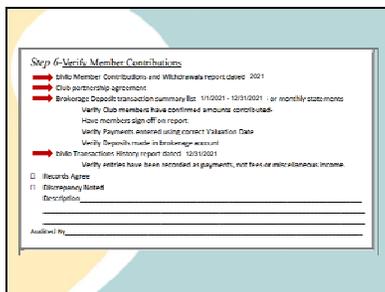
First, it verifies that all stock transactions have been recorded so that value of club is being calculated correctly. Your entire accounting and tax reporting is dependent on accurate club valuations.

Second, it verifies that basis is being tracked correctly so that correct capital gains and losses will be reported on your Income both for the current year and for future years. This is a very important step. Capital gains and losses will be reported on your 1099 form to the IRS. Your club information needs to agree with what your broker shows on them and your club records need to be updated in a timely manner when cost basis changes occur.

What do you do if there is a discrepancy?

Proceed with Audit.

Note entries where corrections are needed. Do not try and correct them yourselves, but make sure your treasurer works out your issues before you file any taxes.

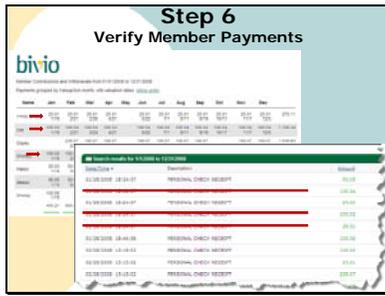


Step 6 confirms that your member’s contributions to the club have been recorded accurately. This is very important because these records affect member ownership, both the percentage of the club each person owns and the gains or losses they have had from their investment in the club. They also will affect whether the correct amount of taxable income will be shown on each members K-1 form.

To perform the check, you’ll use the bivio member contributions and withdrawals report and the transaction history report.

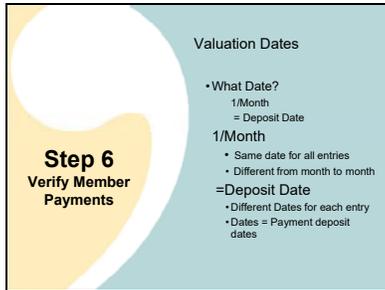
You also might want access to your club partnership agreement

You’ll be comparing these things to your brokerage deposit transaction summary list or monthly statements from your broker.



First of all, your treasurer should require that all members review the annual member contributions and withdrawals report prior to the audit and confirm that what is shown as their contributions is correct. Keep a paper or digital record with your audit report to verify they have done that.

The audit committee should compare the report to a deposits transaction list or to your monthly brokerage statements to confirm that the payments really were deposited in your brokerage account.



You'll also want to check the Valuation Dates that were used to record the payments

First of all, you will need to know the answer to the question, what does your club use for the valuation date?

Usually clubs use either 'one per month',

or they set the valuation date equal to the date a payment was deposited

If they use 'one per month' you should see two things on a member contributions and withdrawals report

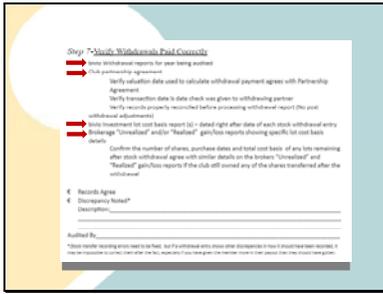
For a given month, they should all be the same

And, they should not be the same from month to month

If the valuation date is chosen to be equal to the deposit date.

You might see different valuation dates for each entry

But, the dates you see should agree with the payment deposit dates on your brokerage list.



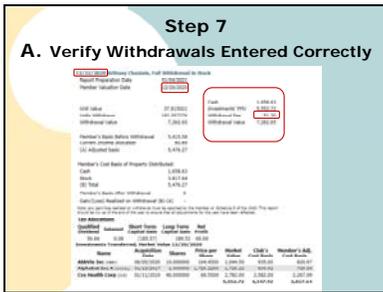
Your final check will only be necessary if you have paid out any withdrawals during the year. It will confirm that withdrawals were processed according to the terms in your partnership agreement and that the correct amounts were paid.

You'll be looking at withdrawal reports that were generated in bivio when the withdrawal was entered.

You may also need to refer to your club partnership agreement.

If you transferred any stock to pay withdrawals, you'll also need copies of bivio "Investment Lot Cost Basis" reports generated right after the dates of the withdrawals.

You'll also need copies of Unrealized and Realized gain/loss reports from your broker that show number of shares, purchase date and total cost basis for each lot of each of the stocks that you still owned or sold after the withdrawal.



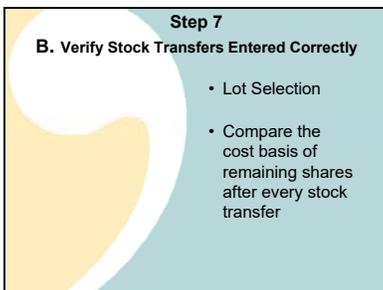
To determine whether a withdrawal was paid according to the club partnership agreement, you will have to find the section describing the requirements and then review the withdrawal reports to make sure the entries had

Proper withdrawal transaction date

Correct withdrawal valuation date

Correct fee assessed (if any)

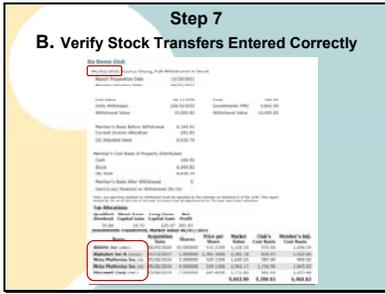
You should also make sure that your club records had been reconciled before the withdrawal amount was determined. If they were not, you might see "post withdrawal adjustments" listed in this section.



If you have paid any withdrawals with shares of stock, and you still owned any shares of those stocks after the transfer, you have an additional check to do.

You need to check that the correct shares were selected as transferred when the withdrawal was entered in bivio.

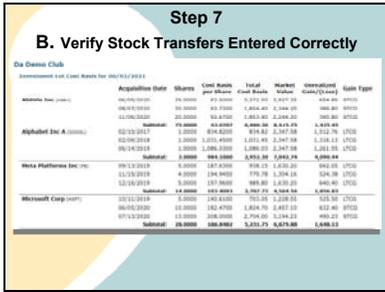
You do this by checking that the lots of each stock remaining in bivio are the same ones your broker showed you owned after the withdrawal transfer.



For example,

the demo club paid out a withdrawal with shares of stock on 6/2/2021.

They transferred shares of ABBV, GOOGL, FB and MSFT to the withdrawing member.



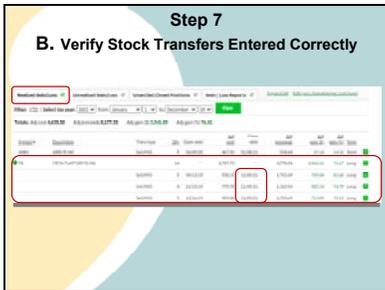
After the withdrawal was recorded, bivio showed these lots of each of those stocks left in the club accounting on the Investment Lot Cost Basis Report.



An

“Unrealized gain/loss” report

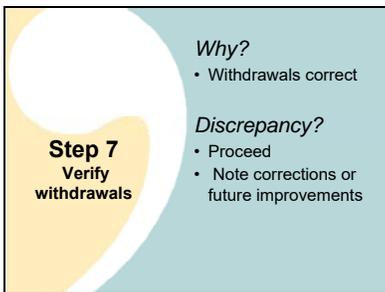
shows the cost basis details of each stock still owned as of the end of the year. Details of each lot should be compared to the bivio report to make sure they agree.



Since the club had sold the rest of their FB stock after the withdrawal.

The cost basis details for each lot of it had to be compared against those details on a “Realized gain/loss” report.

They would not show on an “Unrealized gain/loss” report run at the end of the year.



So why are you doing Step 7?

It verifies you have paid withdrawals according to the method agreed to in your partnership agreement

What do you do if there is a discrepancy?

Note entries where corrections or future improvements are needed.

Step 7
Verify
withdrawals

Corrections Needed

- Lot selection
 - Corrections Needed

If the lots of shares transferred

were identified incorrectly when the withdrawal entry was made in bivio, that will need to be fixed by your club treasurer before your taxes are filed.

Step 7
Verify
withdrawals

Corrections Needed

- Payment Amount?
 - Proceed with extreme caution

If a withdrawal has been paid, and you've paid the member the wrong amount it may be impossible to correct payment amount discrepancies because the member has left and may have already received and cashed their check.

It is also almost impossible to make withdrawal payment corrections in another tax year without creating other big issues for your club. It will be up to your club to determine whether to pursue making corrections but do not do so until you make sure you understand all the issues this might create.. You will probably not be able to fix past incorrect withdrawals, but, at a minimum, you will want to note discrepancies as recommendations for future improvement.

Audit Steps Verify

- 1) Balances – Beginning of Year
- 2) Balances – End of Year
- 3) Income
- 4) Expenses
- 5) Stock Transactions
- 6) Member Accounts
- 7) Withdrawals

That is the last step. To summarize, when you're done you will have completed these steps

- Verify cash balances and number of shares of stock –start of tax year
- Verify cash balances and number of shares of stock-end of tax year
- Verify income received is all recorded correctly
- Verify any expenses you had were recorded correctly
- Verify all your stock transactions were entered correctly and that capital gains and losses are being calculated correctly
- Verify member payments were entered correctly so your member accounts are being tracked correctly
- Verify that any withdrawals were paid according to your club agreements and that they were recorded correctly in your records.



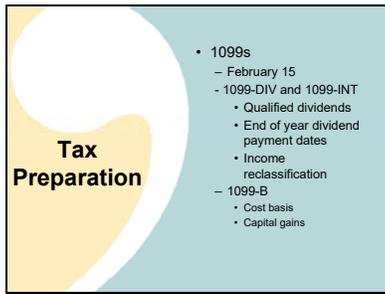
Once the auditors have gone through the steps here's what should happen

They should discuss any discrepancies found with the treasurer and report them to the club

Treasurer should report on the action taken to make corrections

Everyone should sign off on the Audit form and

You should pat yourselves on the back! It's Party Time!
Congratulations on making sure your club records are in good shape!



Just a brief note about club taxes. Doing an audit covers most of the work which needs to be done to get your taxes done, which is making sure your records are correct.

Once it is complete, there are just a couple more things your treasurer will need to do to get your taxes prepared. They will need to do a final check to make sure the information on the 1099 forms your broker sends agrees with the information you will report on your taxes. We will cover this topic in more depth when we do the tax prep webinar, but just to give you an idea...

There are several types of 1099's. Your club should receive them by February 15 but check your brokers website for their latest information on when to expect them.

Forms 1099 DIV and 1099 INT report the amount of dividends and interest you've received. Sometimes there is information on them that will mean last minute adjustments are needed to your bivio records. They include things like:

Qualified versus Non Qualified Dividend Split

Dates on end of year dividend payments

Possible reclassification of dividend income

If you have sold any stocks during the year, you will also receive a 1099 B. This is where your

cost basis and

capital gains are reported. You will need to double-check to make sure they are the same as what your bivio records show. The work you did on step 5 of the audit should have found any issues you needed to address so your treasurer won't have to take time to address them when the tax forms are ready. It can be complex and take a long time to fix problems with cost basis. The sooner you find out about them, the more time you have available to get any help you need.



Tax Preparation

- Filing Mandatory for All Clubs
- Tax Interview
- Review File Distribute
- Due March 15, 2022

Filing taxes is mandatory for all clubs. It does not matter how much income you've made or how long you've been in existence.

The good news is that once your records are all correct, preparing your taxes is a very quick process. You answer a few questions and press a button.

Then you review the forms, send them in and distribute them to your members

They are due by March 15, 2022.

All the more reason to get in the habit of spending time in January getting your records corrected so you can prepare the forms quickly when you have your 1099's and the bivio tax program becomes available in February.



Questions? support@bivio.com

So that's how to do an audit.

If you've followed our recommendations for keeping your club record keeping as simple as possible, you'll be able to complete your checks very quickly. If you have any questions as you're going through yours, the quickest way to get an answer is to email us with details at support@bivio.com. Please send actual copies of any brokers reports you are comparing to and make sure to identify the specific issues you have questions about.

If you entered any questions during this webinar or in advance that were specific to your club that I haven't addressed, send them to us in support and we can help you work through them.



Tax Preparation Webinar

Early to Mid February Tax Program

February 15, 2022 Webinar

www.bivio.com/club_cafe

The bivio tax program will be available in early to mid February.

We'll also be doing a webinar about how to prepare your club taxes on February 15.

You can sign up now for the webinar at www.bivio.com/club_cafe



Audit Party!



bivio