

A guide on how to account for investments in your accounting records, on financial statements and where to report the results of investments on Form CT-TR-1.

Your branch is blessed with a brokerage account – now what?

A typical brokerage account generates interest, dividends, and capital gains or losses upon the disposition of assets. These items directly relate to cash.

The investments in the brokerage account will also change in value from time to time which has no impact on cash. This is called unrealized gains/losses (change in market value). Unrealized gains/losses at the end of the accounting period should be recorded for accounting purposes but have no impact on tax reporting. The change in value should be recorded in an “unrealized gain/loss” account in the Statement of Activities with a corresponding increase or decrease to the investment account in the Statement of Position.

Example: RICH Branch has a brokerage account on which they earned \$150 of interest, \$2,000 of dividends. They also sold some XYZ stock for \$10,000 which they purchased several years ago for \$1,000. The management fee for this account is \$250. The account also holds other stock that appreciated by \$5,000.

Calendar versus fiscal year – the above information was obtained from monthly statements because RICH Branch has a fiscal year beginning July 1 and ending on June 30. The information will not agree with Forms 1099 from the brokerage that reports on a calendar year.

Continuing with our example, RICH will increase Interest Income and Dividend Income accounts (Statement of Activities) by \$150 and \$2,000, respectively. It will also increase the asset Investment account (Statement of Position) by the same amounts.

For the sale of XYZ stock, RICH will decrease the Investment account (Statement of Position) by the \$1,000 cost of the asset and increase the Investment account (Statement of Position) by the \$10,000 proceeds. The difference of \$9,000 will increase the Gain/Loss on Disposition of Asset account (Statement of Activities).

To record the investment management fee RICH will decrease the Investment account (Statement of Position) by \$250 and increase the Investment Management Expense account (Statement of Activities).

To record the appreciation of ABC stock, RICH will increase the Investment account (Statement of Position) by \$5,000 and increase the Unrealized Gain/Loss on Investments account (Statement of Activities).

How to Handle Investments

Accounting for Income and/or Loss from Investments

Source	Accounting (see note 1)	Statement of Activities	Statement of Position
Receipt of Interest	Increase investment account and increase interest income.	Interest Income ¹	Investment ³
Receipt of Dividends from Securities	Increase investment account and increase dividend income.	Dividend Income ¹	Investment ³
Capital Gain Dividends	Increase investment account and increase dividend income.	Dividend Income ¹	Investment ³
Realized Gains/Losses from the disposition of assets	Increase investment account by proceeds of sale. Decrease investment account by cost of asset sold.	Gain or loss from the disposition of assets ¹	Investment ³
Unrealized Gains/Losses on Investments	Increase or decrease investment account. Increase or decrease unrealized gains or losses.	Unrealized gain or loss on investments ²	Investment ³
Management Fees	Decrease investment account. Increase investment management fees.	Investment management fees ¹	Investment ³

Note: This assumes that all activity of the investment account remains in the investment account. If or when the income is transferred to a cash account outside the brokerage account, then the entry will be to decrease the investment account and increase the cash account.

Key – Where items go on Form CT-TR-1

¹ Revenue statement – Revenue - Investments – Note that management fees are generally netted against investment income for reporting purposes.

² Unrealized gain/losses are not reported on the CT-TR-1. Unrealized gains/losses are not included for determining the \$50,000 gross receipts under which a branch may file the California postcard tax return

How to Handle Investments

(Form 199N) nor for determining Total Revenue used to determine fees on the Annual Registration Renewal Fee Report (RRF-1).

³ Balance Sheet – Assets – Investment – Note that investments must be reported at fair market value.

BALANCE SHEET

ASSETS		LIABILITIES	
Cash	\$	Accounts Payable	\$
Savings	\$	Salary Payable	\$
Investment ³	\$	Other Liabilities	\$
Land/Buildings	\$		
Other Assets	\$		
		TOTAL LIABILITIES	\$
TOTAL ASSETS	\$		
		FUND BALANCE	
		Total Assets less Total Liabilities	\$

REVENUE STATEMENT

REVENUE		EXPENSES	
Cash Contributions	\$	Compensation of Officers/Directors	\$
Noncash Contributions	\$	Compensation Staff	\$
Program Revenue	\$	Fundraising Expenses	\$
Investments ¹	\$	Rent	\$
Special Events	\$	Utilities	\$
Other Revenue	\$	Supplies/Postage	\$
		Insurance	\$
		Other Expenses	\$
TOTAL REVENUE	\$		
		TOTAL EXPENSES	\$
NET REVENUE			
Total Revenue less Total Expenses	\$		

Federal and California Income Tax Reporting of Investments

If annual gross receipts are less than \$50,000, the branch files a federal Form 990-N and California Form 199N on which no investment income or expense is reported.

Branches with over \$50,000 in annual gross receipts file federal Form 990 (federal Form 990-EZ If annual gross receipts are less than \$200,000 and assets total less than \$500,000) and California Form 199. Filing instructions for these forms at irs.gov and ftb.ca.gov indicate where income and expenses related to investment accounts are reported.