

August 11, 2015

Not-for-Profit Reporting Model - Part 5: Investment Return Accounting Changes

[AUDIT, NOT-FOR-PROFIT](#)
BY [PATRICK KERNS](#)

The proposed [Accounting Standards Update on the Presentation of Financial Statements of Not-for-Profit Entities](#) put forth by the [Financial Accounting Standards Board \(FASB\)](#) includes a proposed change in the manner in which all not-for-profit organizations present their investment return. The proposed change will now allow not-for-profits to present their investment income net of all external and directly related internal investment expenses.

For years, many in the not-for-profit sector have questioned the wisdom of requiring a “gross” presentation, as many investments simply include fees as a reduction to the investment return. Those who wished to apply the existing guidance appropriately would need to review financial statements and other information supplied by the fund managers to better understand the fees that were embedded in the return.

The proposed guidance notes that, “Requiring an NFP to report investment income net of external and direct internal investment expenses would provide a more comparable measure of investment returns across all NFPs, regardless of whether their investment activities (1) are managed by internal staff, outside investment managers, volunteers, or a combination, or (2) employ the use of mutual funds, hedge funds, or other vehicles for which management fees are embedded in the investment return of the vehicle.” The FASB notes in the proposed guidance that internally allocated salaries and benefits, if netted against the return, are required to be disclosed in the accompanying notes.

The proposed guidance also has simplified some of the disclosures regarding investment return for endowment assets. The guidance removes the requirement to show the various components of investment income (dividends and interest, gains/losses and appreciation) and now permits the disclosure of the investment return as simply a net amount.

Since the goal of the proposed guidance is to increase comparability, these changes should allow all not-for-profits to better benchmark themselves to their peers.

The comment period on the proposed guidance closes this month, and we will all await a final standard from the FASB to see if this proposed change will remain as part of the final standard.

[Contact us for more information regarding the FASB's proposed guidance on the proposed not-for-profit financial reporting model and visit our not-for-profit services page to learn more about our industry group.](#)

You've heard our thoughts... We'd like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and individuals. While we enjoy sharing our ideas and insights, we're especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you'll share it with us. After all, a dialogue is an exchange of ideas, and we'd like to hear from you. Email us at contactSD@schneiderdowns.com.

Material discussed is meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary. Therefore, this information should be relied upon when coordinated with individual professional advice.

© 2019 Schneider Downs. All rights-reserved. All content on this site is property of Schneider Downs unless otherwise noted and should not be used without [written permission](#).