
Accounting for Losses on Investments—Added Complications

If you review the status of your investment portfolio as of your year-end, do you have certain holdings whose fair value is below cost? If so, you have some added assessment and potential accounting work to do.

Other-than-temporary losses/impairment of investments is an important topic in the accounting community these days due in part to the investment market, the current economic climate and the difficulty in making a determination as to whether a loss/impairment of investment is other-than-temporary.

As you are preparing for the end of the fiscal year for your non-profit organization, it will be critical for you to assess if an investment loss is other-than-temporary.

When determining if an investment is impaired and if such impairment is other-than-temporary, you should follow the guidance of FASB Staff Position Nos. FAS124-1 (Staff Position). The Staff Position has a 3-step process to help you make such determination and determine the proper accounting treatment. The process is as follows:

- **Step 1: Determine whether an investment is impaired**
 - At the end of each period, a basic test should be performed on each individual security: Is the fair value less than cost? If the answer to this question is “yes”, the Organization must proceed to Step 2.
 - The impairment should be assessed at the individual security level, which is the level and method of aggregation used by the Organization to measure realized and unrealized gains/losses. The Staff Position refers to the CUSIP number in order to determine the individual security level.
 - Even if an investment was previously tested for impairment under Step 2 and the Organization concluded that the investment was not other-than-temporarily impaired, the company shall continue to evaluate whether the investment is impaired in each subsequent reporting period until either (a) the investment experiences a recovery of fair value up to (or beyond) its cost or (b) the investor recognizes an other-than-temporary impairment loss.

- **Step 2: If impaired, evaluate whether an impairment is other-than-temporary**
 - When the fair value of an investment is less than its cost at the statement of financial position date of the reporting period for which impairment is assessed, the impairment is either temporary or other-than-temporary.
 - Determining such fact involves judgment and documentation of the thought process used by the Organization is necessary. Factors to consider when making such determination include: (a) Length of time and the extent to which the market value has been less than cost, (b) the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, and (c) the intent and ability of the Organization to retain its investment in the issuer if for a period sufficient for any anticipated recovery in market value.

- **Step 3: If the impairment is other-than-temporary, recognize the loss**
 - If it is determined in Step 2 that the impairment is other-than-temporary, then an impairment loss shall be recognized in the statement of activities equal to the entire difference between the investment's cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment shall not include partial recoveries subsequent to the statement of financial position date. The fair value of the investment would then become the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.

Throughout this process, management should document its response to each step and maintain any supporting documentation substantiating any conclusions reached. It remains management's responsibility to perform such assessment. Given the current performance of the markets and closing of the general ledger for calendar year-end is here, management should include this process as part of its year-end closing.

If you need any assistance with this process, please feel free to contact us at 614.221.1120.