

# Spring 2023 Not-for-Profit Accounting and Auditing Update

May 18, 2023

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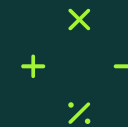
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# Agenda



**01** RECENTLY ISSUED ACCOUNTING STANDARDS  
AND OTHER NOTEWORTHY ITEMS

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**02** CURRENT EXPECTED CREDIT LOSS (CECL)

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**03** SAS 141-145

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**04** CRYPTOCURRENCY



# Learning Objectives

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- Identify changes to financial reporting and disclosures resulting from new standards, including impacts to audit reports
- Describe recent hot topics in the industry



# New Accounting Standards

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# New Accounting Standards

## ASU 2016-13 Introduction to CECL

### CECL

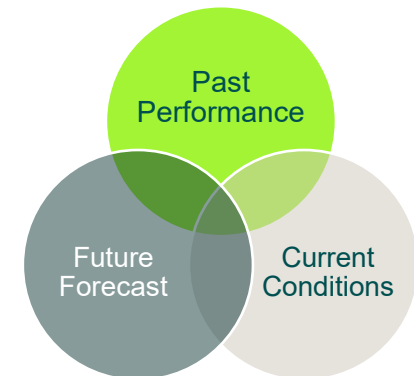
The Financial Accounting Standards Board (FASB) issued the final current expected credit loss (CECL) standard in June 2016. The new guidance particularly impacted community financial institutions by modifying or replacing existing impairment models for financial assets, such as trade receivables, loans, debt securities, and purchased credit-deteriorated assets.

### Loss Estimates

Under the CECL model, a company's estimate of expected losses should represent all contractual cash flows that a company doesn't believe it will collect over the contractual life of the financial asset. This could be up to 30 years for certain types of loans, such as consumer mortgages.

In practice, estimating credit losses over significant periods of time, as well as applying other aspects of the CECL model will be challenging.

### Life of Loan Loss Forecast



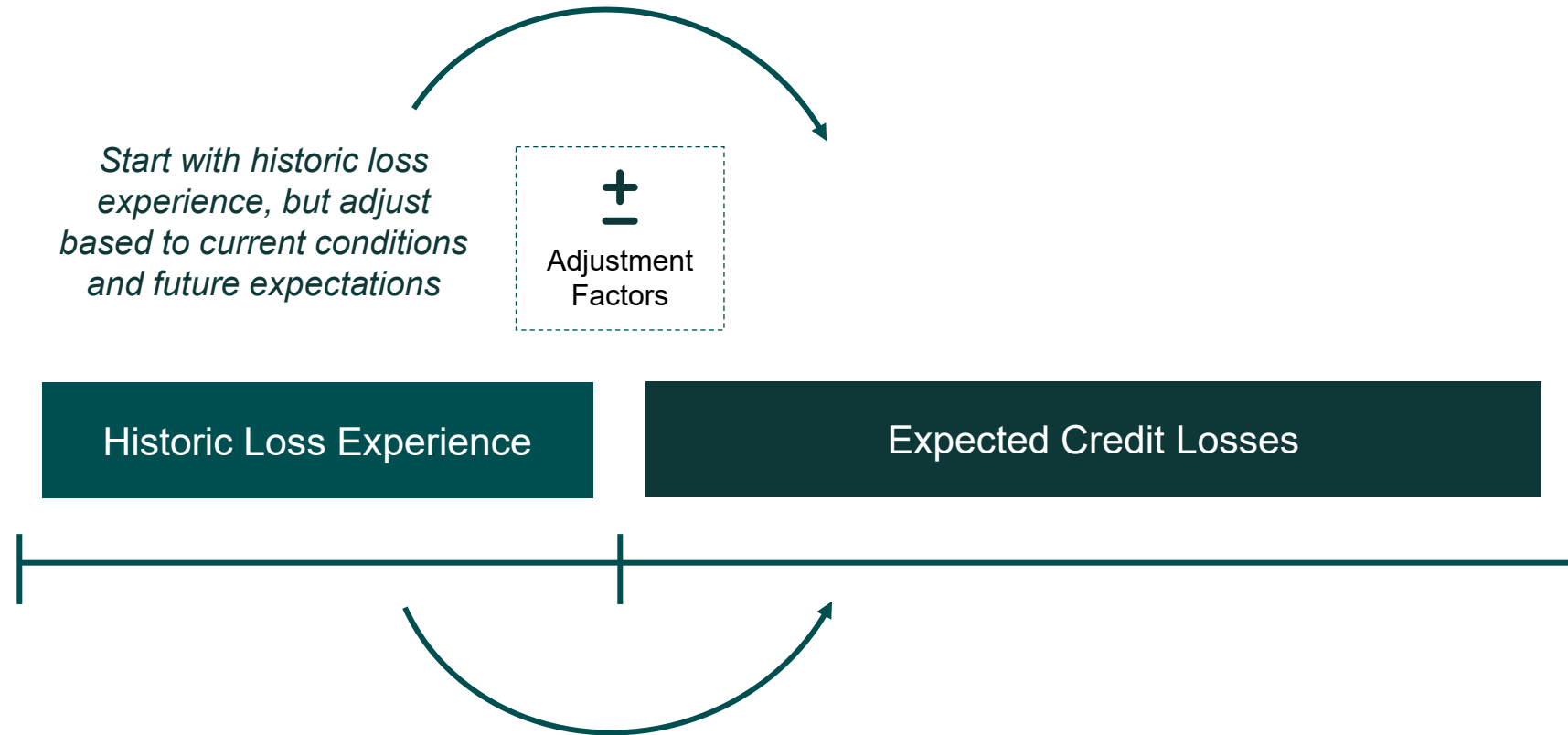
# Scope of CECL

Financial assets with contractual cash flows recognized at amortized cost, including:

- Contract assets (recognized under ASC 606)
- Loans
- Held-to-Maturity (HTM) debt securities
- Loan commitments (or other off-balance sheet credit exposures)
- Trade receivables
- Lease interests
- Reinsurance receivables



# CECL Model





# Effect on Trade Receivables

Estimates are based on historical information, adjusted for:

- Current conditions
- Reasonable and supportable forecasts

Expected credit losses can be measured:

- On a pooled basis: for pools of assets with similar risk characteristics
- On an individual basis: for an asset that doesn't have shared risk characteristics

Topic 606 requires collectability of contract assets to be assessed in accordance with CECL, any consideration not expected to be collected shall be recognized as a credit loss expense.



# Reasonable and Supportable Forecasts

“

## **ASC 326-30-9**

*An entity shall not rely solely on past events to estimate expected credit losses. When an entity uses historical loss information, it shall consider the need to adjust historical information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The adjustments to historical loss information may be qualitative in nature and should reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses on the financial asset or in the group of financial assets)..”*

## **WHAT IS THIS SAYING?**

- Can't use just historical information to estimate credit losses. Requirement to incorporate an element of forecasting.
- Historical information may need to be adjusted to reflect, depending on current conditions and forecast.
- No prescribed methodology or required information to use for reasonable and supportable forecasts.



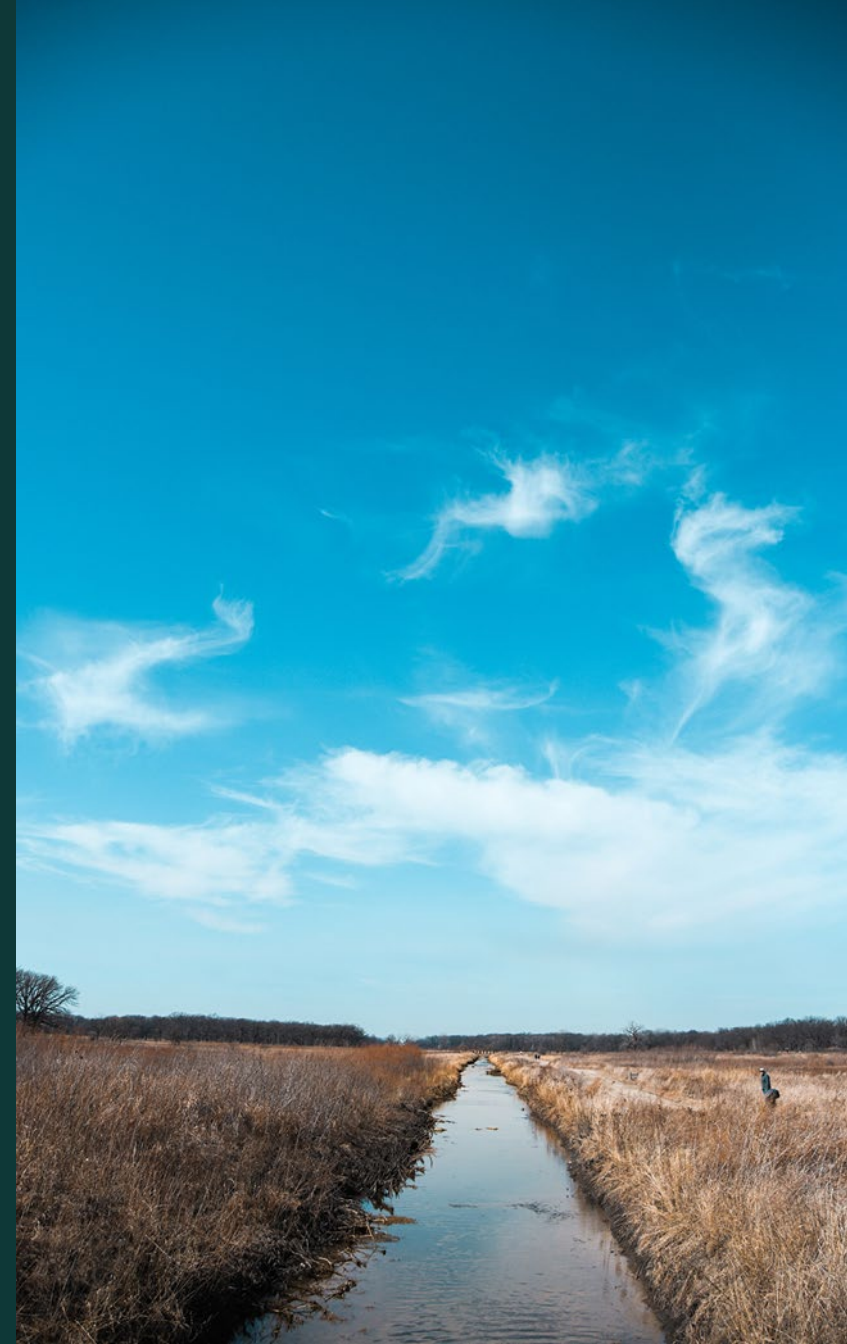
# Day 1 versus Day 2

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Adoption of CECL requires the use of the modified-retrospective approach, which means a cumulative adjustment to equity/net assets will be recorded at the start of the year of adoption for the difference between the previous historical loss allowance and CECL.

In the year of adoption, the 1/1 and 12/31 CECL balances are subject to disclosure.

For regulatory capital purposes, institutions can elect to have the impact of CECL phased in over a period of three years.



# CECL: Effective Dates

Entity Type	Effective Date
Public Business Entities*	Fiscal years beginning after Dec. 15, 2019
All Other Entities	Fiscal years beginning after Dec. 15, 2022

*\*Public Business Entities (PBEs) that meet the definition of an SEC filer, excluding entities eligible to be smaller reporting companies, as defined by the SEC.*

Early adoption permitted for all entities for fiscal years beginning after Dec. 15, 2018, including interim periods within those fiscal years.



# New Standards

<b>SAS 142</b>	Audit Evidence
<b>SAS 143</b>	Auditing Accounting Estimates and Related Disclosures
<b>SAS 144</b>	Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained From External Information Sources
<b>SAS 145</b>	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement



# Audit Evidence

The objective is to evaluate information to be used as audit evidence, including the results of audit procedures, to inform the auditor's overall conclusion about whether sufficient appropriate audit evidence has been obtained.

## **CLARIFIES THE DEFINITION OF THE FOLLOWING TERMS:**

- Appropriateness of audit evidence
- Audit evidence
- External information source
- Sufficiency of audit evidence

Effective for audits of financial statements for periods ending on or after December 15, 2022.



# Auditing Accounting Estimates and Related Disclosures

The objective is to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable, in the context of the applicable financial reporting framework.

## CLARIFIES THE DEFINITION OF THE FOLLOWING TERMS:

- Accounting estimate
- Auditor's point estimate or auditor's range
- Estimation uncertainty
- Management bias
- Management's point estimate
- Outcome of an accounting estimate

Effective for audits of financial statements for periods ending on or after December 15, 2023.



# Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

## THE STANDARD ENHANCES:

- Requirements and guidance related to the auditor's risk assessment, in particular, obtaining an understanding of the entity's system of internal control and assessing control risk
- Revised requirements to evaluate the design of certain controls within the control activities component, including general IT controls, and to determine whether such controls have been implemented
- New requirement to separately assess inherent risk and control risk
- A new stand-back requirement intended to drive an evaluation of the completeness of the auditor's identification of significant classes of transactions, account balances, and disclosures

Effective for audits of financial statements for periods ending on or after December 15, 2023.





# Review of Cryptocurrency

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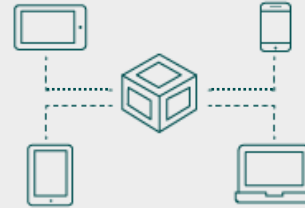
# Blockchain at a Glance

## How it Works

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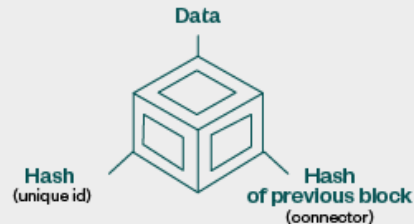
**A transaction is requested**  
(cryptocurrency, contracts, records, etc.)



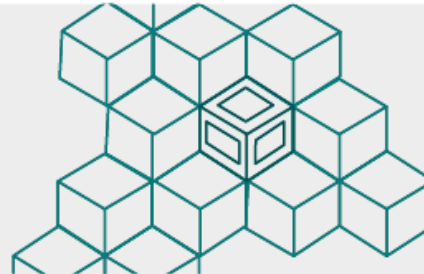
The transaction is represented as an **Online block**.  
Which is broadcasted to an encrypted P2P network of computers known as nodes



**Validation**  
the nodes validate the transaction  
and the user's status



**Once approved**, new transactions  
are combined to create a block for  
the ledger



The block is added to the existing  
blockchain, it's unique, permanent,  
and unalterable.



**The transaction is complete.**



# Crypto Asset Overview

## EIGHT DIFFERENT TYPES OF CRYPTO ASSETS

### Payment Currencies:



Used to pay for goods, services, and bills

### Blockchain Economies:



Allows you to create your own digital assets on their platform

### Privacy Coins:



Digital assets created with a focus on privacy

### Stablecoin:



A fixed-price cryptocurrency whose market value is attached to another stable asset

### Utility Coins:



Used for a blockchain-based product or services

### Security Coins:



Used for the process of crowdfunding a new blockchain or cryptocurrency project

### Non-fungible tokens:



A cryptographic token that represents something unique and isn't mutually interchangeable

### Decentralized Finance:



Blockchain-based form of finance that doesn't rely on central financial intermediaries



# Storage and Custody



## HOW TO HOLD CRYPTOCURRENCY

**Hot Wallet:** Stored online; the benefit of a hot wallet is transactions can be completed more efficiently than with a cold wallet.

**Cold Wallet:** Offline wallet stored on a platform that isn't connected to the internet, protecting it from cyber hacks and other risks associated with online wallets.



## CUSTODY ISSUES TO CONSIDER:

- Control of private keys
- Strong passwords
- Two factor authentication provides an extra layer of security
- Check to make sure URLs are proper to avoid phishing



# Cryptocurrency Accounting Considerations

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# Accounting for Contributions of Digital Assets and Cryptocurrency

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The initial recognition of contributions of cryptocurrency is similar to other contributed assets

- Per FASB ASC 958-605-25-2, recognize the revenue in the period received
- Per FASB ASC 958-605-30-2, contributions received shall be measured at their fair values



# Recording the Initial Digital Asset or Cryptocurrency Gift

- For contributions through an exchange, wallet, or other service, the fair value initially recorded could likely be the transaction price provided by the service
- For contributions received directly to a not-for-profit's own wallet, the fair value of another pricing source may be needed
- For contributions through an intermediary, you'll likely get either crypto or cash proceeds, depending on the service



# Subsequent Accounting For Cryptocurrency Coins and Tokens

**Asset classification.** The subsequent accounting is first going to depend on the type of asset you classify cryptocurrency as.

**Intangible asset.** If the not-for-profit considers the cryptocurrency to be an intangible asset, because it's not a financial asset and lacks physical substance, then account for it as an indefinite-lived intangible asset.

- Historical cost less impairment (FASB ASC 350-30-35-15 to 35-20)
- Test annually for impairment
- Recoveries of impairments not allowed





# Accounting for Investments in Digital Assets and Cryptocurrency

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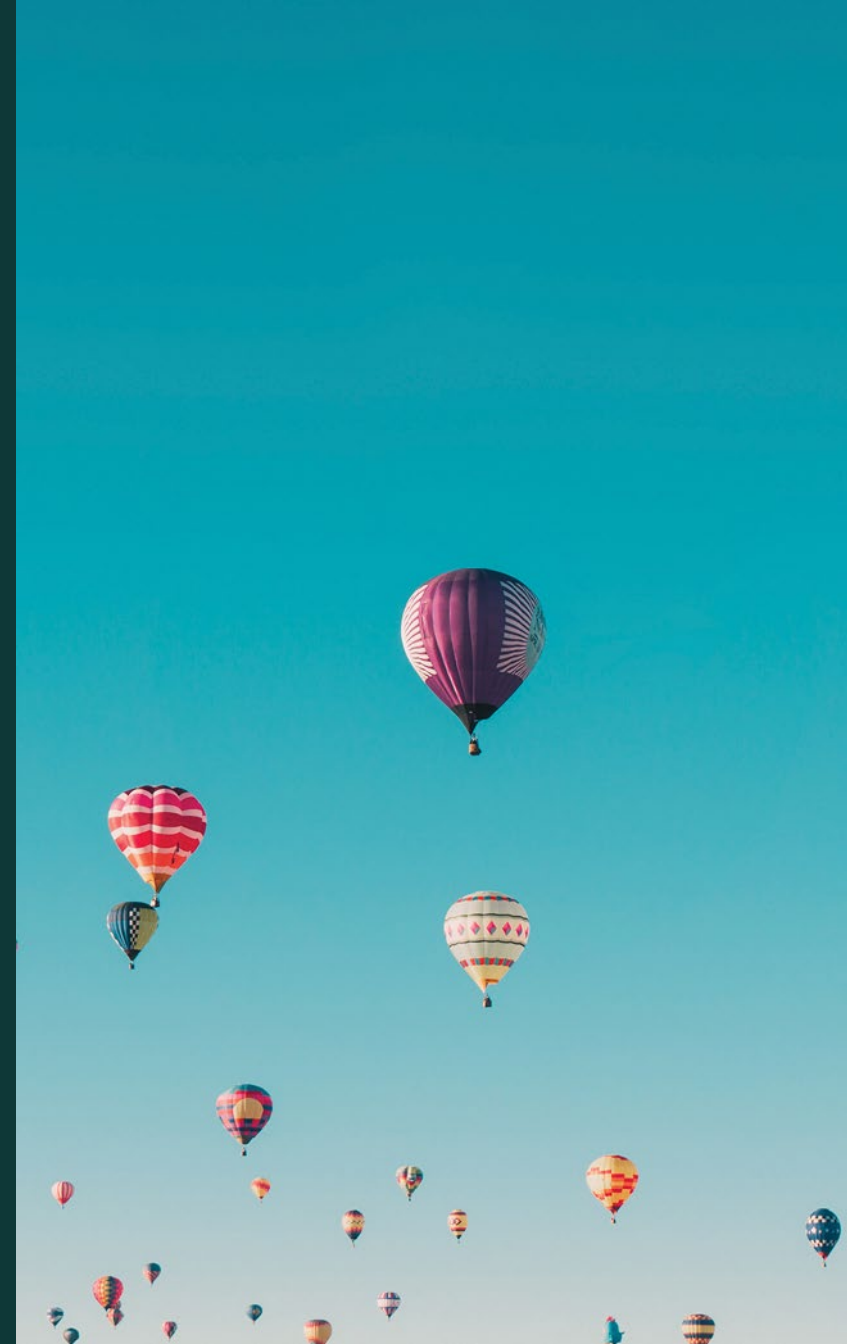
Identify the vehicle used to invested in cryptocurrency

## **DIRECT INVESTMENT**

Under current GAAP, required to hold the asset as intangibles

## **INVESTMENT THROUGH AN INVESTMENT COMPANY**

Fair value accounting



# Current Accounting and Auditing Considerations

## AICPA:

In December 2021, the AICPA released practice aid titled Accounting and Auditing of Digital Assets.

## KEY TAKEAWAYS:

- Digital asset should be accounted for as intangible assets and evaluated for impairment
- Auditors should engage in specific client acceptance and continuation procedures of digital audit asset risks



# FASB Issues Proposed ASU on Crypto Asset Accounting

## RELEVANT DATES:

<b>February 1, 2023</b>	FASB completed initial deliberations of the proposed ASU and instructed the FASB staff to draft the proposed ASU
<b>March 23, 2023</b>	FASB issued proposed ASU
<b>June 6, 2023</b>	Comments due on proposed ASU



# FASB Issues Proposed ASU on Crypto Asset Accounting

## SCOPE

The guidance would apply to digital assets that satisfy the following criteria:

- Meet the US GAAP definition of an intangible asset
- Don't provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
- Reside or are created on a distributed ledger based on blockchain technology
- Are secured through cryptography
- Are fungible
- Aren't created or issued by the reporting entity or its related parties



# FASB Issues Proposed ASU on Crypto Asset Accounting

## MEASUREMENT OF IN-SCOPE CRYPTO ASSETS

- They would be measured at fair value, with fair value changes recorded in current period earnings
- Commissions, transaction fees, and other charges incurred to acquire crypto assets would be expensed as incurred





# Q & A



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