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Why Nonprofits Need to Be Aware of New Crypto Accounting Standards

Crypto donations to nonprofit organizations exceeded $2 billion between 2018 and the start of 2024. By accepting crypto donations, nonprofit leaders can tap into a new revenue stream and expand their donor base, but they need to be aware of how their organization is recording crypto assets on their balance sheets. To address the rise in cryptocurrency transactions, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-08 to provide guidance to organizations on how to account for crypto assets. ASU 2023-08 provides:

- Criteria that define a crypto asset
- New guidance on how to measure the fair value of a crypto asset after its acquisition
- How to present and disclose crypto transactions and holdings in financial statements and related footnotes

This new guidance comes into effect for fiscal years beginning after December 15, 2024. Therefore, having a high-level understanding of accounting and disclosure requirements can help inform nonprofit leaders in developing their crypto donations policy, guide their organization's accounting team to maintain accuracy, and reduce the risk of incorrect financial reporting.

What counts as crypto?

To determine if a crypto asset is in scope, it must meet six criteria outlined in ASU 2023-08.

- **Asset meets the definition of intangible assets in the Accounting Standards Codification (ASC) Master Glossary**
  - Intangible assets (not including financial assets) lack physical substance. In this case, "goodwill" is not an intangible asset.
- **Asset holder is only entitled to the rights and value of the crypto asset itself**
  - When an organization owns a crypto asset, they do not have enforceable rights to or claims on underlying goods, services, or other assets.
- **Asset is created or resides on a distributed ledger based on blockchain or similar technology**
  - Distributed ledger refers to databases shared across a network and spread over various geographical locations. They are held, reorganized, and controlled by decentralized individuals called nodes, and are considered highly secure.
- **Asset is secured through cryptography**
  - Cryptography uses coded algorithms to obscure communications so unauthorized parties are unable to access them.
- **Asset is fungible**
  - Assets that are fungible can be interchanged with another individual good or asset of the same type. For example, one bitcoin is the same as another bitcoin, just as one dollar is the same as another dollar.
- **Asset is not created or issued by the reporting entity or its related parts**
  - The crypto asset cannot have been developed or created by the reporting entity or a related party.

Nonprofit leaders should be generally familiar with these criteria to determine whether they have crypto assets or are planning to accept crypto currency donations that fall

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within the scope of ASU 2023-08. Leaders should also work with their accounting department or accounting services provider to determine the risks and benefits of accepting crypto donations and evaluate how crypto donations may impact their financial reporting and disclosure process.

Determining value as crypto accounting evolves

One of the biggest changes in the new ASU is how the value of crypto assets is measured after acquisition; entities holding assets that meet the scope criteria will be required to measure their crypto assets at fair value. Crypto assets will use the FASB definition of "fair value," which per the ASC Master Glossary, is defined as, "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Once nonprofits acquire crypto assets, the ASU now requires nonprofits to remeasure the value of crypto assets for each reporting period.

Before ASU 2023-08, organizations recorded crypto assets under Generally Accepted Accounting Principles in the United States (GAAP) and as indefinite-lived intangible assets. While GAAP are still used to determine the initial measurement, recognition, and derecognition of crypto assets, crypto assets are no longer recorded as indefinite-lived intangible assets. Indefinite-lived intangible assets were examined for impairment each year, or more frequently as circumstances dictated. Now, fair value must be remeasured each reporting period, which for many organizations is quarterly, rather than annually.

Navigating disclosures

Once an organization has confirmed its crypto assets meet the criteria outlined in ASU 2023-08 and has determined their fair value, it must understand how these assets should be presented.

Crypto assets must be presented separately from other intangible assets on three major financial statements:

- **Statement of Financial Position (SOFP):** Nonprofits should disaggregate individual crypto asset holdings
- **Statement of Activities:** Nonprofits should include gains and losses from crypto assets when recording change in net assets
- **Statement of Cash Flows:** This statement of cash flows involves two major considerations:
  - If the crypto asset is received by an organization and converted near-immediately into cash, that cash is classified as operating activities in the Statement of Cash Flows
  - If a donor earmarks crypto assets for a nonprofit's long-term needs, the cash receipts for the crypto assets are classified as financing activities in the Statement of Cash Flows

Nonprofit leaders should confirm their accounting teams are aware of these presentation requirements and work with them to support financial reporting accuracy.

Accepting crypto donations — weighing risks and benefits

The FASB's new standards for crypto accounting will take effect for fiscal years beginning after December 15, 2024, but nonprofits should not wait. Early adoption of accounting and disclosure standards can help nonprofit accounting teams adjust to the new guidance and reduce potential reporting problems.

With many donors interested in crypto assets, nonprofit leaders and accounting professionals should evaluate whether crypto donations are right for their organizations.

While crypto donations could provide organizations with access to a new class of funders, nonprofits should also consider potential risks.

It can be difficult to trace crypto assets to their original donor, and some stakeholders may be uncomfortable with a potential lack of donor transparency. Additionally, the volatility of crypto assets could raise concerns from donors. If crypto assets are misrepresented or improperly reported on financial disclosures, nonprofits' donors and board members could become concerned about financial mismanagement. In addition to damaging trust with key stakeholders, miscalculated or incorrectly recorded crypto assets could hamper nonprofit organizations' efforts to forecast cashflows.

To explore more tips for determining whether to accept cryptocurrency donations, read BDO's handbook Demystifying Cryptocurrency Donations: A Guide for Nonprofit Leaders - Key Considerations.

Nonprofit leaders who choose to accept crypto donations should understand what skills or resources their organization needs to produce accurate financial statements. Accounting professionals employed by nonprofit organizations should study the latest ASU to determine if they have relevant crypto assets, calculate their value accurately, and keep future disclosures in line with the new accounting standards.

To dive deeper into the latest standards for accounting for and disclosure of crypto assets, check out BDO's 2024 Annual Nonprofit Accounting and Auditing Update.

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