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Gifts-in-Kind of Cryptocurrency: Applying FASB ASU 2020-07

By Christopher M. Gordon, Partner

Questions have arisen about how cryptocurrency could apply to Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. As the title states, the ASU applies to nonprofit entities that receive contributed nonfinancial assets.

First, some background: Contribution revenue may be presented in the financial statements using different terms, such as gifts, donations, grants, gifts-in-kind, donated services, or other terms. The ASU addresses the presentation and disclosure of contributed nonfinancial assets.

Nonfinancial assets include:

- Fixed assets (such as land, buildings, and equipment);
- Use of fixed assets or utilities;
- Materials and supplies;
- **Intangible assets**;
- Services; and
- Unconditional promises of those assets

While the term "cryptocurrency" can be misleading because it includes the word "currency," cryptocurrency is classified as an intangible asset, which is a nonfinancial asset. As a result, ASU 2020-07 is applicable to cryptocurrency.

Requirements for Reporting Contributions of Cryptocurrency

Organizations are required to report the amounts for contributions of cryptocurrency as a separate line item from contributions of cash and other financial assets. Most notably, the nearly immediate liquidation of cryptocurrency through a third-party service such as Coinbase, eToro, The Giving Block, Engiven, and others **does not change the classification of cryptocurrency as an intangible asset**.

ASC Topic 958-605, *Not-for-Profit Entities—Revenue Recognition*, states that a recipient entity that is explicitly granted variance power can use assets it receives to further its own purpose from the date it accepts the assets. In that situation, the recipient entity must account for receipt of funds by recognizing an asset and corresponding contribution revenue unless the transfer is revocable, repayable, or reciprocal. Therefore, the entity has the authority to provide tax-deductible receipts for the noncash contribution of the cryptocurrency when it is donated, not when it is liquidated.

If the entity were to hold the cryptocurrency, under ASC Topic 350*, Intangibles—Goodwill and Other,* the accounting would be reported in accordance with indefinite useful life intangible assets at their fair value on the date of donation and adjusted for impairment when identified.

Furthermore, contributions of intangible assets are reported as an investing activity at the time of sale. A nearly immediate liquidation does not qualify for recognition in operating activities because ASU 2012-05, *Statement of Cash Flows*, only applies to financial assets.

Additionally, contributions of cryptocurrency are required to include these disclosures:

- A disaggregation of the amount of contributed cryptocurrency from other types of nonfinancial assets recognized within the statement of activities.

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- The following disclosures for each category of contributed nonfinancial assets, as required by ASU 2020-07:
    - Qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a nonprofit entity would disclose a description of the programs or other activities in which those assets were used. However, since cryptocurrency cannot be utilized by the organization, only disclosures related to monetization would be required when liquidated.
    - The nonprofit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets. Given the inability to utilize cryptocurrency, disclosure about the organization's liquidation policy would be helpful to the users of the financial statements.
    - A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.
    - A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, *Fair Value Measurement*, at initial recognition.
    - The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient nonprofit is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. Due to the relative ease of liquidating cryptocurrency into any fiat currency and then converting it to the principal market, this disclosure should not be overlooked. It also should not be assumed that the liquidation will occur in the nonprofit organization's principal market if there is a more advantageous market.

This standard should be adopted for annual periods beginning after June 15, 2021 (fiscal years June 30, 2022, and later). Please contact us with any questions about how this may apply to your organization.

About the Author

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Christopher joined CapinCrouse in 2006 and has nearly 15 years of experience providing attest and consulting services to various nonprofit entities, including colleges and universities, churches, foundations, international mission organizations, and relief and development organizations. He is responsible for the oversight of audit engagements and also, as appropriate, for the recommendation of internal control structures and best practices.

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