Financial Accounting Standards Board

ORIGINAL PRONOUNCEMENTS

AS AMENDED

Statement of Financial Accounting Standards No. 93

Recognition of Depreciation by Not-for-Profit Organizations

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STATUS

Issued: August 1987

Effective Date: For fiscal years beginning after May 15, 1988

Affects: No other pronouncements

Affected by: Paragraph 7 amended by FAS 99, paragraph 2
Footnote 1 amended by FAS 135, paragraph 5(a)

SUMMARY

This Statement requires all not-for-profit organizations to recognize the cost of using up long-lived tangible assets—depreciation—in general-purpose external financial statements. However, depreciation need not be recognized for certain works of art and certain historical treasures. The Statement also extends to not-for-profit organizations the requirements of APB Opinion No. 12, *Omnibus Opinion—1967,* to disclose information about depreciable assets and depreciation.

This Statement does not cover matters of financial statement display, recognition of assets, or measurement, such as how to measure the amount of depreciation to be recognized for a particular period.

This Statement is effective for financial statements issued for fiscal years beginning after May 15, 1988, with earlier application encouraged.

Statement of Financial Accounting Standards No. 93

Recognition of Depreciation by Not-for-Profit Organizations

CONTENTS

INTRODUCTION AND SCOPE

1. Generally accepted accounting principles for business enterprises have long required the recognition of depreciation expense in general-purpose external financial statements. Several not-for-profit organizations,[1] for example, health and welfare organizations, hospitals, private foundations, and trade associations, also have generally recognized depreciation expense. However, some not-for-profit organizations, for example, colleges, universities, and religious institutions, often have not recognized depreciation expense.

2. This Statement establishes standards of financial accounting and reporting that require all not-for-profit organizations to recognize the cost of using up long-lived tangible assets—depreciation—in general-purpose external financial statements. It also extends to those organizations the requirements of paragraph 5 of APB Opinion No. 12, *Omnibus Opinion—1967,* to disclose information about depreciable assets and depreciation.

3. FASB Statement No. 32, *Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters,* designated the specialized accounting and reporting principles and practices contained in the AICPA Guides and SOPs listed in Appendix A as preferable accounting principles for purposes of justifying a change in accounting principle under APB Opinion No. 20, *Accounting Changes.* This Statement considers provisions in two of the documents listed in that appendix:

a. Chapter 2, page 10, of AICPA Industry Audit Guide, *Audits of Colleges and Universities,* permits but does not require depreciation of certain assets.
b. Paragraph 108 of AICPA Statement of Position 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations,* exempts certain long-lived tangible assets from depreciation.

Since this Statement requires recognizing depreciation expense, those provisions are no longer acceptable accounting principles and cease to be specialized accounting principles under Statement 32.

4. This Statement does not cover matters of financial statement display, recognition of assets, or measurement, such as how to measure the amount of depreciation to be recognized for a particular period.

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[1]The term *not-for-profit organizations* in this Statement encompasses all entities described by FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations,* as possessing characteristics that distinguish them from business enterprises. Concepts Statement 4, paragraph 6, lists as the distinguishing characteristics of not-for-profit organizations (a) contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return, (b) operating purposes other than to provide goods or services at a profit, and (c) absence of ownership interests like those of business enterprises. Not-for-profit organizations have those characteristics in varying degrees. The term not-for-profit organizations encompasses the kinds of organizations covered by the AICPA specialized industry pronouncements: *Health Care Organizations* and *Not-for-Profit Organizations.*

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Recognition and Disclosure

5. Not-for-profit organizations shall recognize the cost of using up the future economic benefits or service potentials of their long-lived tangible assets—depreciation—and shall disclose the following:

a. Depreciation expense for the period
b. Balances of major classes of depreciable assets, by nature or function, at the balance sheet date
c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date
d. A general description of the method or methods used in computing depreciation for major classes of depreciable assets.

6. Consistent with the accepted practice for land used as a building site, depreciation need not be recognized on individual works of art or historical treasures whose economic benefit or service potential is used up so slowly that their estimated useful lives are extraordinarily long. A work of art or historical treasure shall be deemed to have that characteristic only if verifiable[2] evidence exists demonstrating that (a) the asset individually has cultural, aesthetic, or historical value that is worth preserving perpetually and (b) the holder has the technological and financial ability to protect and preserve essentially undiminished the service potential of the asset and is doing that.

Effective Date and Transition

7. This Statement shall be effective for financial statements issued for fiscal years beginning on or after January 1, 1990. Accounting changes adopted to conform to the provisions of this Statement shall be applied retroactively by restating the financial statements of any prior years presented. This Statement shall be applied by adjusting the opening net asset balance for the earliest year presented, or if no prior years are presented, for the year this Statement is first applied. In the period that this Statement is first applied, the financial statements shall disclose the nature of any restatement and its effect on the change in net assets for each period presented.

8. Retroactive application of the provisions of this Statement requires estimates of useful lives and salvage values of all recognized long-lived tangible assets. Information that has become available after acquisition of the assets may be considered in making those estimates. For example, an estimate of an asset's useful life may be the sum of the number of years from acquisition to the date this Statement is adopted plus the estimated remaining years of life based on the current condition and planned use of the asset.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Dennis R. Beresford, *Chairman*
Victor H. Brown
Raymond C. Lauver
David Mosso
C. Arthur Northrop
Robert J. Swieringa
Arthur R. Wyatt

Appendix A

BACKGROUND INFORMATION

9. In March 1986, the Board added a project to its agenda to establish standards of accounting for certain pervasive transactions of not-for-profit organizations for which inconsistencies exist in practice and in the authoritative specialized industry literature. The project includes accounting for depreciation and accounting for contributions. This Statement is about accounting for depreciation. Accounting for contributions will be considered separately at a later date.

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[2]*Verifiability* means that several measurers or observers are likely to obtain essentially the same measure or conclude that a description of an item faithfully represents what it purports to represent (FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* pars. 81–89).

10. Although depreciation expense has long been part of the financial statements of business enterprises, most not-for-profit organizations did not recognize depreciation in their accounting and financial reporting until relatively recently. Most not-for-profit organizations had been using a cash or "modified cash" (cash transactions plus accruals of some assets and liabilities) basis of accounting. A change from a cash or "modified cash" basis to accrual accounting occurred for most not-for-profit organizations in the 1960s. The use of accrual accounting—that is, recognizing transactions and other events and circumstances when they affect the entity rather than only when cash is received or paid—brought with it recognition of depreciation by many not-for-profit organizations. Some not-for-profit organizations, however, have not recognized depreciation expense. They use what some have called a "modified accrual" basis of accounting.

11. The four principal AICPA documents that focus on the specialized principles and practices of not-for-profit organizations are:

a. *Hospital Audit Guide,* 1972
b. *Audits of Colleges and Universities,* 1973
c. *Audits of Voluntary Health and Welfare Organizations,* 1974
d. Statement of Position 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations,* 1978.

In September 1979, Statement 32 designated the specialized accounting and reporting principles in those documents (among others) as preferable for purposes of applying Opinion 20.

12. The Audit Guides for hospitals and voluntary health and welfare organizations require depreciation of long-lived tangible assets. The Audit Guide for colleges and universities permits, but does not require, recognition of depreciation of the assets comprising the institutional plant; however, it requires recognition of depreciation of long-lived tangible assets that are held for investment of endowment. SOP 78-10 also requires depreciation of long-lived tangible assets (with exemptions for landmarks, monuments, cathedrals, historical treasures, and structures used primarily as houses of worship) but establishes no effective date for adoption of its recommendations. Many organizations have voluntarily adopted the recommendation of SOP 78-10 to recognize depreciation; other organizations have not.

13. The Board agreed in 1979, to extract the specialized accounting and reporting principles and practices in the AICPA's Guides and SOPs, including those for not-for-profit organizations, and to issue them as FASB Statements after appropriate due process. Before considering specific accounting standards for not-for-profit organizations, however, the Board chose to undertake a conceptual study of accounting and reporting for these organizations.

14. The Board's work on the concepts of financial accounting and reporting by not-for-profit organizations formally began in August 1977. An FASB Research Report, *Financial Accounting in Nonbusiness Organizations,* by Professor Robert N. Anthony, was published in May 1978. A related Discussion Memorandum and an Exposure Draft led to FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations,* in December 1980. A subsequent project expanded FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises,* to encompass not-for-profit organizations and reaffirmed the Board's tentative conclusion that the qualities of useful accounting information set forth in FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information* (May 1980), apply to not-for-profit organizations as well as to business enterprises. As part of that project, the Board issued an Exposure Draft, *Proposed Amendments to FASB Concepts Statements 2 and 3 to Apply Them to Nonbusiness Organizations,* in July 1983, held public hearings in November 1983, issued a revised Exposure Draft, *Elements of Financial Statements,* in September 1985, and issued Concepts Statement No. 6, *Elements of Financial Statements,* in December 1985. The concepts Statements provide a basis for considering the specialized accounting principles for not-for-profit organizations. That work is now being followed by Board projects to establish standards of accounting for depreciation of long-lived assets and for contributions.

15. An FASB Exposure Draft, *Recognition of Depreciation by Not-for-Profit Organizations,* was issued on December 23, 1986. The Board received 193 letters of comment in response to the Exposure Draft.

Appendix B

BASIS FOR CONCLUSIONS

CONTENTS

Paragraph Numbers

Appendix B

BASIS FOR CONCLUSIONS

Introduction

16. This appendix summarizes considerations that were deemed significant by members of the Board in reaching the conclusions in this Statement. It includes reasons for accepting certain views and rejecting others. Individual Board members gave greater weight to some factors than to others. The Board concluded that it could reach an informed decision without a public hearing.

Conclusions Underlying Recognition of Depreciation

Basic Concepts

17. Concepts Statements 2, 4, and 6 established the fundamental concepts that underlie the Board's conclusion that all not-for-profit organizations should recognize depreciation in general-purpose financial statements.

18. The conclusions in this Statement result from the Board's conclusions in Concepts Statement 4 that information about the amounts and kinds of inflows and outflows of resources during a period and the relations between them and information about service efforts and (to the extent possible) service accomplishments is useful to resource providers in assessing an organization's performance during a period. That information also is useful in assessing how an organization's managers have discharged their stewardship responsibilities, not only for the custody and safekeeping of the organization's resources, but also for their efficient and effective use.[3]

19. A not-for-profit organization produces and distributes goods and services by using resources. It obtains some of the resources it uses by paying cash, some by incurring liabilities, and some by contribution. Some of its resources (assets) are used up in providing services at the time they are received, others are used up at

[3] Concepts Statement 4, pars. 9, 38, 41, and 47–53, and Concepts Statement 6, par. 19.

The Board's emphasis is on usefulness of financial reporting information to present and potential resource providers and others in making rational decisions about allocating resources to not-for-profit organizations. Those who make decisions about allocating resources to not-for-profit organizations include both (a) lenders, suppliers, employees, and the like who expect repayment or other direct pecuniary compensation from an entity and have essentially the same interest in and make essentially the same kinds of decisions about the entity whether it is a not-for-profit organization or a business enterprise and (b) members, contributors, donors, and the like who provide resources to not-for-profit organizations for reasons other than expectations of direct and proportionate pecuniary compensation (Concepts Statement 4, pars. 9, 15–19, and 29, and Concepts Statement 6, par. 9).

a later date, and still others are used up gradually over time (Concepts Statement 6, paragraphs 9–19).

20. Using up assets in providing services (or otherwise) has a cost whether those assets have been acquired in prior periods or in the current period and whether acquired by paying cash, incurring liabilities, or by contribution. In defining assets, paragraph 26 of Concepts Statement 6 discusses the cost of acquiring assets and the cost of using up assets:

> . . . Assets may be acquired at a cost[19] and they may be tangible, exchangeable, or legally enforceable. However, those features are not essential characteristics of assets. Their absence, by itself, is not sufficient to preclude an item's qualifying as an asset. That is, assets may be acquired without cost. . . .
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> [19]*Cost* is the sacrifice incurred in economic activities—that which is given up or forgone to consume, to save, to exchange, to produce, and so forth. For example, the value of cash or other resources given up (or the present value of an obligation incurred) in exchange for a resource measures the cost of the resources acquired. Similarly, the expiration of future benefits caused by using up a resource in production is the cost of using it.

Using up assets acquired involves a cost to the organization because the economic benefits (or service potential) used up are no longer available to the organization. That is as true for assets acquired without cost as it is for assets acquired at a cost.

21. Accrual accounting is presently considered superior to the cash basis and the so-called "modified cash" and "modified accrual" bases because, among other things, those other bases do not faithfully represent costs incurred during a period.[4] Reporting on a cash basis omits all costs not incurred in cash during the period from cost of services provided and includes cash paid for resources used in other periods. Reporting on a "modified" basis includes some costs from incurring liabilities but excludes some costs of using up assets acquired in earlier periods.

22. Reliable information about the cost of assets used by a not-for-profit organization to provide services is useful to resource providers and others in assessing how the organization carried out its services. Resource providers are interested in that information because the services are the end for which the resources are provided and their assessment of whether an organization is efficient and effective in providing services is often significant in their decisions to provide resources to an organization.

Relevance of Information about the Maintenance of Net Assets

23. Some respondents to the December 1986 Exposure Draft argued that depreciation often is not relevant for not-for-profit organizations because those organizations have no need to measure income and thus no need to "match" expenses with related revenues. The Board believes that is not the issue. In Concepts Statement 6, the Board describes depreciation as a cost of using up assets, not as a technique for "matching" expenses with revenues. In discussing accrual accounting and related concepts, the concepts Statement distinguishes matching of costs and revenues from allocating expenses to periods.

> Matching of costs and revenues is simultaneous or combined recognition of the revenues and expenses that result directly and jointly from the same transactions or other events. In most entities, some transactions or events result simultaneously in both a revenue and one or more expenses. The revenue and expense(s) are directly related to each other and require recognition at the same time. In present practice, for example, a sale of product or merchandise involves both revenue (sales revenue) for receipt of cash or a receivable and expense (cost of goods sold) for sacrifice of the product or merchandise sold to customers. Other examples of expenses that may result from the same transaction and be directly related to sales revenues are transportation to customers, sales commissions, and perhaps certain other selling costs.
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> Many expenses, however, are not related directly to particular revenues but can be related to a period on the basis of transactions or events occurring in that period or by allocation. Recognition of those expenses is largely independent of recognition of particular revenues, but they are deducted from particular revenues by being recognized in the same period.
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> . . . Many assets yield their benefits to an entity over several periods, for example, prepaid insurance, buildings, and various kinds of equipment. Expenses resulting from their

[4]Representational faithfulness is essential to reliable accounting information (Concepts Statement 2, pars. 58–97).

use are normally allocated to the periods of their estimated useful lives (the periods over which they are expected to provide benefits) by a "systematic and rational" allocation procedure, for example, by recognizing depreciation or other amortization. Although the purpose of expense allocation is the same as that of other expense recognition—to reflect the using up of assets as a result of transactions or other events or circumstances affecting an entity—allocation is applied if causal relations are generally, but not specifically, identified. For example, wear and tear from use is known to be a major cause of the expense called depreciation, but the amount of depreciation caused by wear and tear in a period normally cannot be measured. Those expenses are not related directly to either specific revenues or particular periods. Usually no traceable relationship exists, and they are recognized by allocating costs to periods in which assets are expected to be used and are related only indirectly to the revenues that are recognized in the same period. [Paragraphs 146, 147, and 149, footnote references omitted.]

24. Concepts Statement 6 also indicates why an organization's using up of its assets is significant and why information about it is needed.

> Although not-for-profit organizations do not have ownership interests or profit in the same sense as business enterprises, they nonetheless need a concept of capital maintenance or its equivalent to reflect "the relation between inflows and outflows of resources during a period." The activities of an organization during a period may draw upon resources received in past periods or may add resources that can be used in future periods.
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> Unless a not-for-profit organization maintains its net assets, its ability to continue to provide services dwindles; either future resource providers must make up the deficiency or services to future beneficiaries will decline. For example, use of an asset such as a building to provide goods or services to beneficiaries consumes part of the future economic benefits or service potential constituting the asset, and that decrease in future economic benefits is one of the costs (expenses) of using the asset for that purpose. The organization's net assets decrease as it uses up an asset unless its revenues and gains at least equal its expenses and losses, including the cost of consuming part of the asset during the period (depreciation). Even if that organization plans to replace the asset through future contributions from donors, and probably will be able to do so, it has not maintained its net assets during the current period. [Paragraphs 103 and 104, footnote references omitted.]

25. Those concepts reflect that a fair assessment of the costs of efforts expended is necessary to evaluate the results of economic activity that not-for-profit organizations undertake. Depreciation is an essential part of measuring the costs of services provided during a period. Omitting depreciation produces results that do not reflect all costs of services provided. That omission can result in a misunderstanding of the economics of providing services and may contribute to inefficiencies. The Board concluded that the potential cost of omission is too great and that depreciation should be recognized for all assets in use.

Depreciation of Contributed Assets

26. Some respondents to the Exposure Draft said that depreciation should not be an expense of a not-for-profit organization to the extent that the related assets were, and their replacements are expected to be, funded by contributions or special assessments. Those respondents do not consider assets obtained by contribution or special assessment to have a cost to be charged to future periods in the same sense as assets obtained by exchanging other assets or incurring liabilities.

27. The Board concluded that whether an organization's use of an asset results in an expense does not depend on how the asset was acquired (paragraph 20) and whether and how it will be replaced. APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* and relevant AICPA industry pronouncements require donated assets to be recognized at their fair values at the date of receipt. Current practice also generally recognizes the cost of using up assets in the period of their use (the exception has been certain not-for-profit organizations).

28. Financial statements should report the effects of transactions and other events that have occurred and should be comparable[5] between entities. Therefore,

[5]Concepts Statement 2, pars. 111–122.

accounting standards should result in accounting for similar transactions and circumstances similarly and for different transactions and circumstances differently. Long-lived tangible assets provide benefits to both business enterprises and not-for-profit organizations over several periods. Whether assets were acquired by purchase or by gift, using them up over several periods is a series of events—sacrifices of service potential—that result in costs of providing services in those periods. Failure to recognize depreciation for all or some long-lived tangible assets used denies the existence of those events and those costs. The Board concluded that the credibility and usefulness of general-purpose financial statements will be enhanced and the comparability of financial results between entities will be improved if those events and costs are recognized when they occur.

Expenses and Expenditures

29. Some respondents suggested that the Board allow colleges and universities to continue their practice of reporting current expenditures to maintain capital assets as an alternative to recognizing depreciation. Those respondents and others have argued that information about expenditures for long-lived tangible assets is more relevant to users of financial statements of not-for-profit organizations than information about the cost of using those assets for a period. The Board concluded that both of those kinds of information are relevant to users of financial statements of all not-for-profit organizations, including colleges and universities.

30. Information about the cost of using assets for a period determined by accrual accounting concepts is essential to assessing an entity's performance. Information about an organization's expenditures is needed in addition to, not in place of, information about expenses and other changes in net assets:

> Financial reporting should provide information about the performance of an organization during a period. [Concepts Statement 4, paragraph 47]
>
> Financial reporting should provide information about how an organization obtains and spends cash or other liquid resources, about its borrowing and repayment of borrowing, and about other factors that may affect its liquidity. [Concepts Statement 4, paragraph 54]

Exceptions Permitted by SOP 78-10

31. The Board considered and rejected in the December 1986 Exposure Draft the assertions in paragraph 108 of SOP 78-10 that landmarks, monuments, cathedrals, and historical treasures are not exhaustible and that neither those assets nor structures used primarily as houses of worship need be depreciated. Some respondents suggested that the Board continue to allow those exemptions. Others suggested that works of art and other "collections" commonly held by museums, art galleries, libraries, and other not-for-profit organizations also should be exempt from recognizing depreciation.

32. In rejecting assertions that specified groups of assets are not exhaustible and need not be depreciated, the Board observed that simply designating a structure or other object as, for example, a landmark or work of art, or using it for a particular purpose, for example, as a house of worship, does not preclude its service potential from being used up over time. That observation also applies to "collections" as the term is used in paragraphs 113–115 of SOP 78-10 because it is a broad and imprecise term that covers a variety of assets that differ from each other in how and at what rate their economic benefits or service potentials are used up.

33. The Board reaffirmed its conclusion that each organization needs to consider the characteristics of individual assets in making the estimates necessary to determine the amount of depreciation to be recognized. Measuring the extent to which the future economic benefits or service potential of a particular asset is used up during a period or in a particular use requires estimates of salvage values and useful lives and requires the exercise of judgment considering all the facts and circumstances. That estimation and evaluation process is not unique to particular assets or particular kinds of entities.

34. The asset broadly called land illustrates the need to consider the characteristics of individual assets in reporting depreciation. The process of using up the future economic benefit or service potential of land often takes place over a period so long that its occurrence is imperceptible—land used as a building site is perhaps the most common example—and whether depreciation is recognized is of no practical consequence. In contrast, however, that process also sometimes occurs much more rapidly—land used as a site for toxic waste, as a source of gravel or ore, or for farming under conditions in which fertility dissipates relatively quickly and cannot be restored economically are examples—and whether depreciation is recognized affects the representational faithfulness of financial statements.

35. The future economic benefits or service potentials of individual items comprising "collections" and of

buildings and other structures—including those designated as landmarks, monuments, cathedrals, or historical treasures—are used up not only by wear and tear in intended uses but also by the continuous destructive effects of pollutants, vibrations, and so forth. The cultural, aesthetic, or historical values of those assets can be preserved, if at all, only by periodic major efforts to protect, clean, and restore them, usually at significant cost. Thus, the Board concluded that depreciation of those assets needs to be recognized.

36. The only assets described in the preceding paragraph for which depreciation need not be recognized are rare works of art and historical treasures having a characteristic akin to land used as a building site—their economic benefit or service potential is used up so slowly that the amount related to a particular accounting period is of no consequence. Recognized cultural, aesthetic, or historical value and, generally, already long existence have established each of those assets as a member of a group of rare works with that characteristic. Most of them are acquired by purchase, gift, or discovery with that characteristic already having been demonstrated, and the holder or acquirer usually takes steps to protect and preserve it, for example, by keeping a work of art in a protective environment and limiting its use solely to display. While that characteristic is not limited to assets with an already long existence, an asset that has come into existence relatively recently cannot be assumed to have it in the absence of the verifiable evidence described in paragraph 6. For example, to put a painting in a protective environment is not by itself evidence of cultural, aesthetic, or historical value that is worth preserving perpetually.

37. Depreciation should be recognized, of course, on any capitalized costs of major preservation or restoration devices or efforts, which provide future economic benefits or service potentials until the next expected preservation or restoration, regardless of whether depreciation is recognized on the asset being protected or restored.

Other Considerations of Recognition, Measurement, and Display

Recognition of Assets

38. Some respondents questioned whether the Board implicitly intended to consider recognition of assets and, more specifically, to amend paragraph 113 of SOP 78-10. Paragraph 113 says "the [AICPA's Accounting Standards] division has concluded that it is often impracticable to determine a value for . . . collections [owned by museums, art galleries, botanical gardens, libraries, and similar entities] and accordingly has concluded that they need not be capitalized. If records and values do exist for the collections, the division encourages capitalization, at cost, if purchased, and at a fair value, if acquired by donation." Other respondents suggested that the Board should expand the scope of this Statement to require explicitly the recognition of assets. Still others suggested that the Board clarify that the Statement does not cover recognition of assets.

39. The Board reaffirmed its conclusion that this Statement need not cover recognition of assets because the four relevant AICPA pronouncements (paragraph 11) already require tangible assets (except "collections") to be recognized at cost if purchased or at fair value at date of contribution if contributed. The Board has decided to consider recognition of "collections," both contributed and purchased, as part of its project on accounting for contributions.

Relevant Attribute

40. Some respondents suggested that historical cost is not the most relevant attribute for measuring a not-for-profit organization's cost of using up long-lived assets. Ascertaining the appropriate attribute involves measurement questions that are not unique to not-for-profit organizations. Similar comments have been made by other respondents to various Board projects. The Board decided that the question of the appropriate attribute for measuring the cost of using up long-lived assets is a separate matter that, if considered, should be considered as part of a larger project applicable to all organizations.

Disclosure and Financial Statement Display

41. The depreciation method(s) used by an organization may significantly affect the information conveyed by its financial statements, including its reported financial position and results of operations. Not-for-profit organizations generally have disclosed, as required by APB Opinion No. 22, *Disclosure of Accounting Policies,* whether or not they recognize depreciation. Those recognizing depreciation generally have disclosed the information required of business enterprises by paragraph 5 of Opinion 12. The Board concluded that information about depreciable assets and depreciation policies and methods is useful to users of financial statements of not-for-profit organizations. Therefore, this Statement explicitly extends the requirements of Opinion 12 to not-for-profit organizations.

42. Some respondents to the Exposure Draft suggested that to increase comparability between financial statements the Board should not issue this Statement without providing additional guidance about how depreciation expense should be reported by organizations using fund accounting and reporting techniques. Others suggested the Board delay this Statement until an AICPA task force that is studying issues of financial statement display for not-for-profit organizations completes its study.

43. The Board reaffirmed its conclusion that this Statement need not provide additional guidance about how depreciation expense should be displayed because the three AICPA Audit Guides and SOP 78-10 already provide it. For example, the Guide for colleges and universities says that depreciation expense related to depreciable assets comprising the physical plant is reported neither in the statement of current funds revenues, expenditures, and other changes nor in the statement of changes in unrestricted current funds balance. Rather, depreciation may be reported in a statement of changes in the balance of the investment-in-plant fund subsection of the plant funds group. Moreover, issues of display being studied by the AICPA task force are separate from issues of recognition of depreciation.

Applicability to Units of State and Local Government

44. Several respondents expressed concern that this Statement might lead to different standards of financial reporting for public and private-sector organizations. Some suggested that the Board clarify that the provisions of this Statement apply to units of government (for example, state universities, community colleges, municipal hospitals, public broadcasting stations, museums, and libraries) that issue financial statements in accordance with the generally accepted accounting principles applicable to their not-for-profit organization counterparts (paragraph 1, footnote 1). Others suggested that the Board explicitly exempt governmental units pending the results of certain projects undertaken by the Governmental Accounting Standards Board.

45. Under the "Agreement Concerning the Structure for a Governmental Accounting Standards Board (GASB)," dated January 16, 1984, "generally accepted accounting principles applicable to separately issued general purpose financial statements of certain entities or activities in the public sector should be guided by standards of the FASB except in circumstances where the GASB has issued a pronouncement applicable to such entities or activities. Those entities and activities include utilities, authorities, hospitals, colleges and universities, and pension plans" (4(g)). Accordingly, because of this Agreement the Board concluded that no action in respect of governmental units is necessary or appropriate.

Effective Date and Transition

46. The Exposure Draft proposed that this Statement be effective for fiscal years beginning after May 15, 1987. Many respondents said that additional time was needed to develop measurement guidelines for various not-for-profit organizations and to gather necessary information. They suggested delaying the effective date of this Statement to allow for an efficient implementation of its provisions. The Board considered those requests and decided to change the effective date of this Statement to fiscal years beginning after May 15, 1988.

47. Some respondents said that the requirement for retroactive application was too burdensome. To minimize the implementation costs, some suggested that assets in use for an exceptionally long time, for which detailed historical cost records are often unavailable, should be exempted from this Statement. Others suggested that the final Statement should permit, but not require, retroactive implementation and restatement of previously issued financial statements or that the Statement be applied prospectively.

48. The Board considered those concerns about the cost of implementation and reaffirmed its conclusion that comparability would be best achieved if this Statement is applied retroactively. The Board understands that to apply this Statement retroactively to all assets may be very difficult if detailed records have not been maintained for assets that have been owned for very long periods of time. However, the Board expects that, in initially implementing the provisions of this Statement, not-for-profit organizations can make reasonable estimates that will be acceptable for the oldest assets, which probably represent the major problem area.