Statement of Financial Accounting Standards No. 99

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Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organizations

(an amendment of FASB Statement No. 93)

September 1988

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

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Deferral of the Effective Date of Recognition of Depreciation

by Not-for-Profit Organizations

an amendment of FASB Statement No. 93

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an amendment of FASB Statement No. 93

FAS 99 Summary

This Statement amends FASB Statement No. 93, *Recognition of Depreciation by Not-for-Profit Organizations.* It defers the effective date of Statement 93 to fiscal years beginning on or after January 1, 1990.

INTRODUCTION

1. In February 1988, the National Association of College and University Business Officers (NACUBO) and others asked the FASB to consider delaying the effective date of FASB Statement No. 93, *Recognition of Depreciation by Not-for-Profit Organizations,* pending the outcome of a Financial Accounting Foundation (FAF) reconsideration of the jurisdiction arrangement for standard setting. That reconsideration is scheduled to be completed early in 1989. The Board has concluded that, for the reasons presented in the appendix to this Statement, it is appropriate to defer the effective date of Statement 93.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Amendment to Statement 93

2. The first sentence of paragraph 7 of Statement 93 is superseded by the following:

> This Statement shall be effective for financial statements issued for fiscal years beginning on or after January 1, 1990.

Effective Date

3. This Statement shall be effective upon issuance.

This Statement was adopted by the affirmative votes of four members of the Financial Accounting Standards Board. Messrs. Brown, Lauver, and Northrop dissented.

Messrs. Brown, Lauver, and Northrop dissent from this Statement's delay of the effective date of Statement 93. They believe that since the formation of a separate Board for setting standards of governmental accounting, the FASB has been charged with improving financial reporting while operating under the terms of the jurisdiction arrangement for the two Boards. They believe it is inappropriate, at this time, to anticipate changes to the jurisdiction arrangement under which Statement 93 and other Statements were issued. Delaying the effective date of Statement 93, in their view, would not be consistent with the responsibilities of the Board.

Further, Messrs. Brown, Lauver, and Northrop believe that deferral of only Statement 93 is not an evenhanded response to concerns expressed by some constituents about similar entities' being required to follow different accounting standards because of the current jurisdiction arrangement. There is no reason to delay the applicability of one standard without delaying the effective date of all standards in circumstances in which possible new jurisdiction arrangements may result from the study now under way. Such a wholesale and potentially indefinite suspension of the applicability of standards would not further sound financial reporting.

Members of the Financial Accounting Standards Board:

Dennis R. Beresford, *Chairman*
Victor H. Brown
Raymond C. Lauver
James J. Leisenring
C. Arthur Northrop
A. Clarence Sampson
Robert J. Swieringa

Appendix: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

4. Statement 93 was issued in August 1987 and requires all not-for-profit organizations to recognize the cost of using up long-lived tangible assets—depreciation—in general-purpose external financial statements.[1] Statement 93 applies to charitable and religious organizations, colleges and universities, hospitals, and other not-for-profit organizations that issue general-purpose financial statements. As issued, Statement 93 is effective for financial statements issued for fiscal years beginning after May 15, 1988, with earlier application encouraged.

5. In January 1988, the Governmental Accounting Standards Board (GASB) issued its Statement No. 8, *Applicability of FASB Statement No. 93, "Recognition of Depreciation by Not-for-Profit Organizations," to Certain State and Local Governmental Entities,* which states that public colleges and universities and certain other governmental entities "should not change their accounting and reporting for depreciation of capital assets as a result of FASB Statement 93." Paragraph 18 of GASB Statement 8 states:

> . . . until its [GASB's] projects on measurement focus and basis of accounting, capital assets, capital reporting, and college and university user needs have been completed or advanced to a stage that will provide the Board with a clearer indication of how capital assets, depreciation, and related issues will be addressed, no useful purpose will be served by applying the provisions of FASB Statement 93 to . . . governmental entities. . . .

6. In February 1988, NACUBO reiterated its "serious reservations concerning the possibility of two sets of accounting standards for colleges and universities" (letter to the FAF, November 18, 1986). NACUBO and others asked the FAF, which oversees the FASB and the GASB, to reconsider the jurisdiction arrangement for standard setting, particularly for colleges and universities. They asked the FAF to determine if a single standard-setting body could be established for higher education to enhance the comparability of financial reporting.

7. The January 16, 1984 "Agreement Concerning the Structure for a Governmental Accounting Standards Board (GASB)" (the Structure Agreement) requires a review of the governmental accounting standard-setting structure after GASB has been in operation for approximately five years. The FAF, jointly with the Governmental Accounting Standards Advisory Council (GASAC), has formed the Committee to Review Structure for Governmental Accounting Standards (Five Year Review Committee) to conduct that review. The FAF Executive Committee has urged the Five Year Review Committee to consider, among other things, the possibility of recommending that the jurisdictional provisions of the Structure Agreement be revised to designate a single standard-setting body for the separately issued statements of both public and private colleges and universities. That consideration is not limited to institutions of higher education because other entities are similarly affected by the present jurisdiction arrangement. The Five Year Review Committee has commenced its work and is expected to complete its review in time for actions by the FAF by April 1989. January 1, 1990 is the target date for implementing any suggested changes to the Structure Agreement.

8. In light of the FAF review under way to reconsider the jurisdiction arrangement and the timetable for implementing changes emanating from that review, the Board concluded that it should defer the effective date of Statement 93. It is expected that such action will facilitate that review.

9. On June 6, 1988, the FASB issued an Exposure Draft proposing deferral of the effective date of Statement 93 until fiscal years beginning on or after January 1, 1990. The Board received 132 letters of comment in response to the Exposure Draft, a large majority of which supported the proposed deferral.

10. A few respondents, including some of those in support of the Exposure Draft, suggested that the Board use the deferral period as an opportunity to reconsider (and perhaps rescind) Statement 93. The Board disagreed reaffirming its conclusion in paragraph 25 of Statement 93, which states:

> . . . 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 continues to believe that information about an entity's costs of using up assets is useful to users of its financial statements and that the interests of those who rely on financial information are best served by neutral standards that result in accounting for similar transactions and circumstances similarly and for different transactions and circumstances differently.

11. The Board expects not-for-profit organizations that under existing standards are required to depreciate long-lived assets to continue to do so. The Board also strongly encourages organizations that have been permitted, but not required, to depreciate long-lived assets to do so, particularly those that have already taken the steps necessary to implement Statement 93.

12. The Board concluded that it could reach an informed decision on the basis of existing information without a public hearing and that the effective date specified in paragraph 3 is advisable in the circumstances.

Footnotes

FAS99, Appendix, Footnote 1--Depreciation, however, need not be recognized for certain works of art and certain historical treasures. Statement 93 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.