COLLEGE DEPRECIATION: FASB vs. GASB

Look carefully at the building where your accounting class is held—does it look as if it is depreciating? Probably so. Is your college or university recognizing this depreciation? Maybe not. In August 1987, the FASB issued Statement No. 93, which required all not-for-profit organizations, including public and private colleges and universities, to recognize depreciation in their external financial statements. Prior to the issuance of the statement, more than 90% of colleges and universities had not reported depreciation and many questioned its usefulness. However, the FASB adopted Statement No. 93 with a unanimous vote.

Soon after Statement No. 93 was adopted, the Governmental Accounting Standards Board (GASB), which has responsibility for setting accounting standards for governmental bodies, issued Statement No. 8, which exempted public colleges and universities from the FASB's depreciation rule. A significant issue of comparability arose because public universities would now be reporting under a different set of standards from that of private universities. Some private universities threatened to openly disregard the rule. Others declared their intention to ask Congress to force the FASB to back down. Bond-rating agencies promised not to lower the bond ratings of any institutions that refused to comply with the rule. In the face of all this opposition, the FASB issued Statement No. 99, delaying the effective date of the depreciation standard until January 1990.

The Financial Accounting Foundation (FAF), which oversees both the FASB and the GASB, was faced with a critical jurisdictional dispute. Clearly, the FASB had authority to set accounting standards for business entities. Clearly, the GASB had authority to set accounting standards for governmental entities. However, who had authority to set the standards for those special entities whose ownership could be either public or private, such as hospitals and universities? The FAF originally considered giving jurisdiction over all these special entities to the FASB. This was deemed unacceptable by many governmental officials, and they threatened to withdraw their support from the FAF and establish their own independent body for setting governmental accounting standards. In late 1989, the FAF altered its position and gave the GASB authority over financial reporting by all governmental entities. For now, the comparability issue for special entities remains something that will have to be ironed out by the FASB and the GASB on a case-by-case basis. As to depreciation, private colleges and universities recognize it, and public ones usually don't. For example, in its 1997/98 statement of activities, STANFORD UNIVERSITY (a private school) reported depreciation expense for the year of $91.1 million, in comparison to total university revenue for the year of $1,524.2 million.

QUESTIONS:
1. What reasons are there for requiring colleges and universities to report depreciation? What arguments could be made against the requirement?
2. What dangers are there in jurisdictional disputes of this kind?
3. Are there any reasons that a college or university would want to recognize depreciation?

SOURCES: