Seeking Depreciation Guidelines

What is the proper treatment of nonprofit depreciation? Where can a nonprofit find help?

Q: For some time, I have been concerned that a nonprofit's set–aside for depreciation of large–ticket (greater than $10,000) items is a poor use of dollars, perhaps even bordering on improper stewardship. In short, such items can usually be offset by a public request for dollars at or before time of need. To redirect scarce dollars from operational uses to an unnecessary and long–term depreciation "savings," therefore, seems ill-advised.

I am frustrated, however, in finding almost nothing in the field which speaks to proper treatment of nonprofit depreciation. Can you provide some guidelines on depreciation practices by nonprofits?

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A: It is a common misconception that depreciation is a fund from which to make replacement purchases. Depreciation, however, is a process of allocating cost and applies to exhaustible fixed (noncash) assets where the asset is not completely used up in one accounting period. Cost is defined as the use or depletion of an asset. An important element is the estimated useful life of a fixed asset and the amount of the asset which will be used in a given period. Depreciation, therefore, provides a systematic and rational manner of allocating cost. It aims to reflect the use of assets for a program or service during the period of actual use. The decision of how and when to fund replacement purchases remains with the nonprofit's board. Board members can choose to create a reserve, make a public appeal for funds, or take out a loan. None of these choices would alter the recognition of depreciation as a program cost.

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There are a number of resources which document the accounting and auditing regulations for nonprofits. Among these is the FASB (Financial Accounting Standards Board) *Statement of Financial Accounting Standards No. 93—Recognition of Depreciation by Not–for–Profit Organizations*. It requires all nonprofits to capitalize and depreciate significant exhaustible assets, effective for fiscal years beginning on or after January 1, 1990. Nonprofits appropriately write off the full cost of small equipment purchases, such as adding machines and coffee makers, in the year of purchase. This is called "expensing." It is common to set limits of $500 or $1,000 under which purchases will be expensed.

Nonprofit World readers are welcome to call Accountants for the Public Interest (API) at 202–347–1668 for referrals to accountants who will help them on a volunteer basis. API also publishes materials to help nonprofits understand the accounting standards set by FASB and other agencies.

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