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¶700 Reporting Expenses

¶701 Functional Expenses

¶701.1 Introduction

A functional expense classification is a method of grouping expenses according to the purpose for which the costs are incurred. The classifications tell why an expense was incurred rather than what was purchased. Reporting expenses by functional classification helps donors, granting agencies, creditors, and other readers of the financial statements to understand the various mission-related activities of the institution and their relative importance.

The functional classifications listed in [¶701.2](#) as the “NACUBO Functional Category Definitions” have been widely used by both public and independent institutions for decades and date back from College and University Business Administration (CUBA) first published in 1985 by NACUBO and the original AICPA College and University Audit Guide first published in 1973. These functional categories were slightly modified in 1999 by NACUBO’s Accounting Principles Council, and the guidance in the following Advisory Reports incorporated into FARM:

[Advisory Report 1999-6](#), Accounting and Reporting Safety and Security Expenses by Higher Education

[Advisory Report 1999-3](#), Accounting and Reporting Information Technology Expenses by Higher Education

[Advisory Report 1999-4](#), Accounting and Reporting for Special Session Instruction

[Advisory Report 1999-2](#), Accounting and Reporting for Auxiliary, Auxiliary-Other, and Other Self-Supporting Activities

Both public and independent institutions are expected and required to use these definitions for functional expense classifications when reporting expense information in the Integrated Postsecondary Education Data System (IPEDS) Finance Survey. Additionally, because Office of Management and Budget cost accounting requirements (related to sponsored research activity) are dependent on the functional expense definitions and related chart of account structure that has been in place for decades, institutions are advised to keep these definitional standards and general ledger structure in place. Accounting information systems must be capable of producing expense information by that functional classification. Although not exhaustive or comprehensive, [Appendix D](#) illustrates a way to think about organizing activities, organizational units, position titles, and types of expenditures, conducted at both public and independent universities, and the item's conventional association with one or more functional expense category/subcategory combinations.

While there has been little change in those classifications, there has been a lot of conversations about how to make the functional classifications more meaningful to readers of the financial statements and more consistent allocation techniques so that the expenses are comparable across institutions. ¶703 contains some alternative classifications that institutions are using instead of the IPEDS required functions.

¶701.2 NACUBO Functional Category Definitions (for G/L Account Structure and Required for IPEDS Reporting)

The current functional expense categories are:

- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Scholarships and Fellowships
- Auxiliary Enterprise
- Hospitals
- Independent Operations
- Operations and Maintenance of Plant (Public Institutions only)

¶701.21 Instruction

The instruction classification includes expenses for all activities that are part of an institution's instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions are included.

Expenses for departmental research and public service that are not separately budgeted also are included in this classification.

This classification excludes expenses for those academic personnel whose primary activity is administration—for example, academic deans.

The instruction classification includes the following five subclasses:

- General Academic Instruction
- Vocational/Technical Instruction
- Community Education
- Preparatory/Remedial Instruction
- Instructional Information Technology.
- ¶701.211 General Academic Instruction

This subclass includes expenses for formally organized and/or separately budgeted instructional activities that are associated with academic offerings described by the IPEDS instructional program categories identified in the National Center for Education Statistics (NCES) publication, A Classification of Instructional Programs, and offered for credit as part of a formal postsecondary education degree or certificate program. Open university, short courses, and home study activities falling within this classification and offered for credit are included.

This subclass does not include instructional offerings that are part of programs leading toward degrees or certificates at levels below the higher education level, such as adult basic education.

¶701.212 Vocational/Technical Instruction

This subclass includes expenses for formally organized and/or separately budgeted instructional activities that are associated with activities characterized as vocational/technical instruction in the IPEDS instructional program categories and offered for credit as part of a formal postsecondary education degree or certificate program. Open university, short courses, and home study falling within this classification and offered for credit are included.

This subclass does not include instructional offerings that are part of programs leading toward degrees or certificates at levels below the higher education level, such as adult basic education.

¶701.213 Community Education

This subclass includes expenses for formally organized and/or separately budgeted instructional activities that do not generally result in credit toward any formal postsecondary degree or certificate. It includes noncredit instructional offerings carried out by the institution's extension division as well as noncredit offerings that are part of the adult education or continuing education program. This subclass also includes expenses for activities associated with programs leading toward a degree or certificate at a level below the higher education level, such as adult basic education.

¶701.214 Preparatory/Remedial Instruction

This subclass includes expenses for formally organized and/or separately budgeted instructional activities that give students the basic knowledge and skills required by the institution before they can undertake formal academic course work leading to a postsecondary degree or certificate. Such activities, which are supplemental to the normal academic program, generally are termed preparatory, remedial, developmental, or special educational services.

These instructional offerings may be taken prior to or along with the course work leading to the degree or certificate. They are generally noncredit offerings, although in some cases credit may be provided specifically for required preparatory or remedial skills or knowledge. If students may satisfy preparatory requirements by taking offerings provided primarily for other than remedial or preparatory purposes, those offerings should be classified elsewhere.

¶701.215 Instructional Information Technology

This subclass includes expenses for formally organized and/or separately budgeted instructional information technology. If an institution does not separately account for information technology resources, the costs associated with the three primary programs—instruction, research, and public service—will be classified as academic support and the remainder as institutional support.

¶701.22 Research

The research classification includes all expenses for activities specifically organized to produce research, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. Subject to those conditions, the classification includes expenses for individual and/or project research as well as that of institutes and research centers.

This classification does not include all sponsored programs nor is it necessarily limited to sponsored research, since internally supported research programs, if separately budgeted, might be included in this classification.

Expenses for departmental research that are separately budgeted are included in this classification. However, the research classification does not include expenses for departmental research that are not separately budgeted. Departmental research that is not separately budgeted is included in the instructional category.

The research classification includes the following three subclasses:

Institutes and Research Centers
Individual and Project Research
Research Information Technology.
¶701.221 Institutes and Research Centers

This subclass includes expenses for research activities that are part of a formal research organization created to manage a number of research efforts. While this subclass includes agricultural experiment stations, it does not include federally funded research and development centers, which are classified as independent operations.

¶701.222 Individual and Project Research

This subclass includes expenses for research activities that are managed within academic departments. Those activities may have been undertaken as the result of a research contract or grant or through a specific allocation of the institution's own general resources.

¶701.223 Research Information Technology

This subclass includes expenses for formally organized and/or separately budgeted research information technology. If an institution does not separately account for information technology resources, the costs associated with the three primary programs—instruction, research, and public service—will be classified as academic support and the remainder as institutional support.

¶701.23 Public Service

The public service classification includes expenses for activities established primarily to provide non-instructional services for the benefit of individuals and groups that are external to the institution. These activities include community service programs (excluding instructional activities) and cooperative extension services. Included in this classification are conferences, institutes, general advisory services, reference bureaus, radio and television, consulting, and similar non-instructional services to particular sectors of the community.

The public service classification includes the following four subclasses:

Community Service
Cooperative Extension Service
Public Broadcasting Services
Public Service Information Technology.
¶701.231 Community Service

This subclass includes expenses for activities organized and carried out to provide general community services, excluding instructional activities. Community service activities make available to the public various resources and special capabilities that exist within the institution. Examples include conferences and institutes, general advisory services and reference bureaus, consultation, testing services (for example, soil testing, carbon dating, structural testing), and similar activities. The activities included in this subclass are generally sponsored and managed outside the context of both the agricultural and urban extension programs and the institution's public broadcasting station.

¶701.232 Cooperative Extension Service

This subclass includes expenses for non-instructional public service activities established as the result of cooperative extension efforts between the institution and outside agencies, such as the U.S. Department of Agriculture's extension service and the affiliated state extension services. The distinguishing feature of activities in this subcategory is that the institution shares programmatic and fiscal control with the Department of Agriculture's extension service, the related state extension services, and agencies of local government.

This subclass is intended primarily for land-grant colleges and universities and includes both agricultural extension and urban extension services. Independent institutions rarely use this subclass.

¶701.233 Public Broadcasting Services

This subclass includes expenses for operation and maintenance of broadcasting services operated outside the context of the institution's instruction, research, and academic support programs.

The following broadcasting services are excluded from this subclass:

Broadcasting services conducted primarily in support of instruction, which should be classified in the ancillary support subclass of academic support

Broadcasting services operated primarily as a student service activity, which should be classified in the social and cultural development subclass of student services

Broadcasting services that are independent operations, which should be classified in the independent operations/institutional subclass of independent operations.

¶701.234 Public Service Information Technology

This subclass includes expenses for formally organized and/or separately budgeted public service information technology. If an institution does not separately account for information technology resources, the costs associated with the three primary programs—instruction, research, and public service—will be classified as academic support and the remainder as institutional support.

¶701.24 Academic Support

The academic support classification includes expenses incurred to provide support services for the institution's primary programs of instruction, research, and public service. It includes the following activities:

The retention, preservation, and display of educational materials, such as libraries, museums, and galleries

The provision of services that directly assist the academic functions of the institution, such as demonstration schools associated with a department, school, or college of education

Media, such as audio-visual services, and technology, such as computing support

Academic administration (including academic deans but not department chairpersons) and personnel providing administrative support and management direction to the three primary missions

Separately budgeted support for course and curriculum development

For institutions that currently charge some of the expenses—for example, computing support—directly to the various operating units of the institution, this classification does not include those expenses.

The academic support classification includes the following eight subclasses:

Libraries,
Museums and Galleries,
Educational Media Services,
Ancillary Support,
Academic Administration,
Academic Personnel Development,
Course and Curriculum Development, and
Academic Support Information Technology.

¶701.241 Libraries

This subclass includes expenses for organized activities that directly support the operation of a catalogued or otherwise classified collection.

¶701.242 Museums and Galleries

This subclass includes expenses for organized activities that provide for the collection, preservation, and exhibition of historical materials, art objects, scientific displays, etc. Libraries are excluded.

¶701.243 Educational Media Services

This subclass includes expenses for organized activities providing audiovisual and other services that aid in the transmission of information in support of the institution's primary programs of instruction, research, and public service.

¶701.244 Ancillary Support

This subclass includes expenses for organized activities that provide support services to the three primary programs of instruction, research, and public service, but that are not appropriately classified in the previous subclasses. Ancillary support activities usually provide a mechanism through which students can gain practical experience. An example of ancillary support is a demonstration school associated with a school of education. The expenses of teaching hospitals are excluded. Hospital expenses have their own functional classification.

¶703.245 Academic Administration

This subclass includes expenses for activities specifically designed and carried out to provide administrative and management support to the academic programs. This subclass is intended to separately identify expenses for activities formally organized and/or separately budgeted for academic administration. It includes the expenses of academic deans (including deans of research, deans of graduate schools, and college deans), but it does not include the expenses of department chairpersons (which are included in the appropriate primary function categories). The subclass also includes expenses for formally organized and/or separately budgeted academic advising.

Expenses associated with the office of the chief academic officer of the institution are not included in this subclass, but should be classified as institutional support due to the institution-wide nature of that individual's responsibilities.

¶701.246 Academic Personnel Development

This subclass includes expenses for activities that provide the faculty with opportunities for personal and professional growth and development to the extent that such activities are formally organized and/or separately budgeted. This subclass also includes formally organized and/or separately budgeted activities that evaluate and reward professional performance of the faculty. Included in this subclass are sabbaticals, faculty awards, and organized faculty development programs.

¶701.247 Course and Curriculum Development

This subclass includes expenses for activities established either to significantly improve or to add to the institution's instructional offerings, but only to the extent that those activities are formally organized and/or separately budgeted.

¶701.248 Academic Support Information Technology

This subclass includes expenses for formally organized and/or separately budgeted academic support information technology. If an institution does not separately account for information technology resources, the costs associated with the institution's three primary programs—instruction, research, and public service—will be included to this subclass and the remainder will be included in institutional support.

¶701.25 Student Services

The student services classification includes expenses incurred for offices of admissions and the registrar and activities that, as their primary purpose, contribute to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program. This classification includes expenses for student activities, cultural events, student newspapers, intramural athletics, student organizations, intercollegiate athletics (if the program is not operated as an auxiliary enterprise), counseling and career guidance (excluding informal academic counseling by the faculty), student aid administration, and student health service (if not operated as an auxiliary enterprise).

The student services classification includes the following eight subclasses:

Student Services Administration
 Social and Cultural Development
 Counseling and Career Guidance
 Financial Aid Administration
 Student Admissions
 Student Records
 Student Health Services
 Student Services Information Technology.
 ¶701.251 Student Services Administration

This subclass includes expenses for organized administrative activities that provide assistance and support (excluding academic support) to the needs and interests of students. This subclass includes only administrative activities that support more than one subclass of student activities and/or that provide central administrative services related to the various student service activities.

Some institutions consolidate various activities in a unit titled enrollment management. Expenses of an enrollment management unit would be included in this subclass.

This subclass includes services provided for particular types of students (for example, minority students, veterans, and disabled students).

Excluded from this subclass are activities of the institution's chief administrative officer for student affairs, whose activities are institution wide and therefore should be classified as institutional support.

¶701.252 Social and Cultural Development

This subclass includes expenses for organized activities that provide for students' social and cultural development outside the formal academic program. It includes cultural events, student newspapers, intramural athletics, student organizations, etc.

Excluded from this subclass are expenses for an intercollegiate athletics program that is operated as an auxiliary enterprise.

¶701.253 Counseling and Career Guidance

This subclass includes expenses for formally organized placement, career guidance, and personal counseling services for students. It includes vocational testing and counseling services and activities of the placement office.

Excluded from this subclass are formal academic counseling activities (which are included in academic support) and informal academic counseling services provided by the faculty in relation to course assignments (which are included in instruction).

¶701.254 Financial Aid Administration

This subclass includes expenses for activities that provide financial aid services and assistance to students.

This subclass does not include outright scholarship or fellowship grants to students, which should be classified as revenue reductions, agency transactions, or expenses. More about classification of grants to students in public institutions is presented in [¶360.41](#). More information about the classification of grants to students in independent institutions can be found in [¶460.43](#).

¶701.255 Student Admissions

This subclass includes expenses for activities related to the identification of prospective students, the promotion of attendance at the institution, and the processing of applications for admission.

¶701.256 Student Records

This subclass includes expenses for activities to maintain, handle and update records for currently and previously enrolled students.

¶701.257 Student Health Services

This subclass includes expenses for organized student health services that are not self-supporting. (Health services that are self-supporting are reported as auxiliary enterprises.)

¶701.258 Student Services Information Technology

This subclass includes expenses for formally organized and/or separately budgeted student services information technology. If an institution does not separately account for information technology resources, the costs associated with the three primary programs—instruction, research, and public service—will be classified as academic support and the remainder as institutional support.

¶701.26 Institutional Support

The institutional support classification includes expenses for central, executive-level activities concerned with management and long-range planning for the entire institution, such as the governing board, planning and programming operations, and legal services; fiscal operations, including the investment office; administrative information technology (when not accounted for in other categories); space management; employee personnel and records; logistical activities that provide procurement, storerooms, printing, and transportation services to the institution; support services to faculty and staff that are not operated as auxiliary enterprises; and activities concerned with community and alumni relations, including development and fundraising.

Appropriate allocations of institutional support should be made to auxiliary enterprises, hospitals, and any other activities not directly related to the primary programs—instruction, research, and public service—or their related support classifications.

The institutional support classification includes the following five subclasses:

- Executive Management
- Fiscal Operations
- General Administration
- Public Relations/Development
- Administrative Information Technology
- ¶701.261 Executive Management

This subclass includes expenses for all central, executive-level activities concerned with management and long-range planning for the entire institution (as distinct from planning and management for any one program within the institution). This subclass includes such operations as executive direction (for example, governing board), planning and programming operations, legal, risk, compliance, and internal audit operations.

All officers with institution-wide responsibilities are included, such as the president, chief academic officer, chief business officer, chief student affairs officer, chief research officer, chief enrollment management officer, and chief advancement officer.

¶701.262 Fiscal Operations

This subclass includes expenses for operations related to fiscal control and investments. It includes the accounting office, bursar's office, and external audits.

Independent institutions also include interest expense on working capital borrowings and any unallocable interest expense in this subclass. Public institutions report all interest in a separate classification as a nonoperating expense.

Both independent and public institutions include bad debt expense arising from student loans in this subclass. Independent institutions also include bad debts arising from student and other accounts receivables. Public institutions, however, record bad debts from receivables (other than student loans) as a reduction of the specific revenue source that generated the receivable (e.g., tuition, auxiliary fees) rather than as an expense.

¶701.263 General Administration

This subclass includes expenses for activities related to general administrative operations and services, with the exception of fiscal operations and administrative information technology. Included in this subclass are personnel administration, space management, purchasing and maintenance of supplies and materials, campus-wide communications, transportation services, general stores, and printing shops.

¶701.264 Public Relations/Development

This subclass includes expenses for activities to maintain relations with the community, alumni, or other constituents and to conduct activities related to institution-wide development and fundraising.

¶701.265 Administrative Information Technology

This subclass includes expenses for formally organized and/or separately budgeted administrative information technology. If an institution does not separately account for information technology resources, the costs associated with the three primary programs—instruction, research, and public service— will be classified as academic support and the remainder as institutional support.

¶701.27 Scholarships and Fellowships

Generally, institutions report most scholarships and fellowships as tuition discounts and allowances (reductions of tuition and fees revenues). Other student awards are funded by third parties and made to students specified by those parties (that is, recipients are not determined by the institution); they are agency transactions, as discussed in [¶403.51](#), and do not result in either revenues or expenses.

However, as discussed in as discussed in [¶460.43](#) (independent institutions) and [¶360.41](#) (public institutions), if the applied aid exceeds charges to the student (tuition and fees, dormitory, and food service), and the excess is disbursed to the student, the excess disbursed is reported as an expense in the financial statements.

The scholarships and fellowships classification includes expenses for scholarships and fellowships—from restricted or unrestricted funds—in the form of grants that neither require the student to perform service to the institution as consideration for the grant, nor require the student to repay the amount of the grant to the funding source. In public institutions, they may result from selection by the institution or from an entitlement program. The classification also includes trainee stipends, prizes, and awards. (However, trainee stipends awarded to individuals who are not enrolled in formal course work should be charged to instruction, research, or public service.)

The scholarships and fellowships classification excludes student awards that are made in exchange for services provided to the institution, such as graduate and teaching assistantships and student work-study programs. When services are required in exchange for financial assistance, charges should be classified as expenses of the department or organizational unit to which the service is rendered and reported as expenses of the function classification benefited by the work provided by the student. For example, a tuition remission to a graduate teaching assistant in the biology department would be charged to instruction. Remission of tuition or fees granted as a result of faculty or staff status or

family relationship of students to faculty or staff, should be recorded as staff benefits expenses in the benefits pool or of the department or organizational unit to which the service was rendered. (Benefit expenses will need to be allocated to the appropriate functional expense category if recorded in a broad benefit expense pool; benefit expenses directly charged to a functional category would not be allocated).

The scholarships and fellowships classification includes the following two subclasses:

¶701.271 Scholarships

This subclass includes grants-in-aid, trainee stipends, tuition and fee waivers, and prizes to undergraduate students.

¶701.272 Fellowships

This subclass includes grants-in-aid and trainee stipends to graduate students. It does not include funds for which services to the institution must be rendered, such as payments for teaching.

¶701.28 Auxiliary Enterprises, Auxiliary Enterprises—Other, and Other Self-Supporting Enterprises

An auxiliary enterprise exists to furnish goods or services to students, faculty, staff, other institutional departments, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of an auxiliary enterprise is that it is managed to operate as a self-supporting activity. Over time, the revenues will equal or exceed the expenses, although in any individual year there may be a deficit or a surplus. Examples are residence halls, food services, intercollegiate athletics (if operated as essentially self-supporting), college stores, faculty clubs, parking, and faculty housing. Student health services, when operated as an auxiliary enterprise, also are included. Hospitals, although they may serve students, faculty, or staff, are classified separately because of their financial significance.

The auxiliary enterprise category includes all expenses relating to the operation of auxiliary enterprises. Because of a desire to assess whether the enterprise is self-supporting, expenses for operation and maintenance of plant, depreciation, interest, and administration may be charged directly or allocated, even though that allocation is not required of public institutions for financial statement purposes. (Independent institutions, however, are required to make the allocation.) Also included are other direct and indirect costs, whether charged directly as expenses or allocated as a proportionate share of costs of other departments or units. To ensure that data regarding individual auxiliary enterprises are complete and adequate for management decisions, cost data should be prepared using full costing methods. Full costing means that the costs attributed to each enterprise includes a portion of indirect costs related to that enterprise, as well as the costs directly attributable to its operation.

The auxiliary enterprise classification includes the following seven subclasses:

- Auxiliary Enterprises—Student
- Auxiliary Enterprises—Faculty/Staff
- Intercollegiate Athletics
- Auxiliary Enterprises—Other
- Other Self-Supporting Enterprises
- Auxiliary Enterprises—Depreciation
- Auxiliary Enterprises—Information Technology
- ¶701.281 Auxiliary Enterprises—Student

This subclass includes expenses for auxiliary enterprise activities primarily intended to furnish services to students. A student health service, when operated as an auxiliary enterprise, is included. However, intercollegiate athletics are excluded from this category.

¶701.282 Auxiliary Enterprises—Faculty/Staff

This subclass includes expenses for auxiliary enterprise activities primarily intended to provide a service to the faculty, staff, or both. Such activities include the faculty club, faculty-staff parking, and faculty housing.

¶701.283 Intercollegiate Athletics

This subclass includes expenses for an intercollegiate sports program when the program is operated in accordance with the definition of an auxiliary enterprise (that is, it is essentially self-supporting).

¶701.284 Auxiliary Enterprises—Other

This subclass includes expenses for auxiliary enterprise activities primarily intended to furnish goods and services that are related to the higher education mission. Customers for these goods and services generally are not students, faculty, or staff. Entities of this type are formed to meet the geographic and public service needs of a region and generally relate to an institution's mission of teaching, research, or public service. Examples of such an entity would be a drug testing center or a university press department.

¶701.285 Other Self-Supporting Enterprises

This subclass includes activities that were established primarily to provide goods and services to other campus units on a fee-for-service basis. The following characteristics assist in identifying these units:

They are self-supporting units that, over time, operate on a break-even basis for those goods and services offered to other units.

They may provide, to a lesser extent, the same goods and services to faculty, staff, students, and related entities.

The goods and services are provided at an institutional level. This characteristic excludes enterprises that only serve units within the same department.

For example, a telecommunications department that services the entire institution would be considered a self-supporting enterprise while the chemistry stores department that only services other chemistry units would be reported net within the academic support classification.

Expenses incurred under this subclass should be netted against revenues since the predominance of transactions is internal. Use of this classification does not preclude entities from reporting these and similar activities in other functional categories (e.g., research, academic support).

¶701.286 Auxiliary Enterprises –Depreciation

This subclass includes depreciation expense for facilities, equipment, and infrastructure assets of the institution's auxiliary enterprises. Independent institutions are required to allocate depreciation among their functional classes. Public institutions may report depreciation expense separately, include it with operation and maintenance of plant expenses, or allocate it among all the functional expense classifications. If a public institution chooses to report depreciation as a separate line item or

to include all depreciation in the operation and maintenance of plant classification, this subclass would not be used.

¶701.287 Auxiliary Enterprises Information Technology

This subclass includes expenses for formally organized and/or separately budgeted auxiliary enterprise information technology. If an institution does not separately account for information technology resources, the costs associated with the three primary programs—instruction, research, and public service—will be classified as academic support and the remainder as institutional support.

¶701.3 Hospitals, Independent Operations, Operations and Maintenance of Plant, Depreciation and Interest

¶701.31 Hospitals

The hospital classification includes all expenses associated with the patient care operations of a hospital, including nursing and other professional services, general services, administrative services, and fiscal services. Because of a desire to assess whether the hospital is self-supporting, an allocation of expenses for operation and maintenance of plant, depreciation, and interest may be included, even though that allocation is not required of public institutions for financial statement purposes. (Independent institutions, however, are required to make the allocation.) Also included are other direct and indirect costs, whether charged directly as expenses or allocated as a proportionate share of costs of other departments and units.

Expenses for activities that take place within the hospital, but that are categorized more appropriately as instruction or research, are excluded from this classification and accounted for in their appropriate classifications.

The hospitals classification includes the following six subclasses:

- Direct Patient Care
- Health Care Supportive Services
- Administration of Hospitals
- Physical Plant Operations for Hospitals
- Depreciation of Hospital Facilities and Equipment
- Hospital Information Technology
- ¶701.312 Direct Patient Care

This subclass includes expenses for direct patient care such as prevention, diagnosis, treatment, and rehabilitation. Patient care activities solely for the benefit of the institution's students should be classified within student services.

¶701.313 Health Care Supportive Services

This subclass includes expenses for organized activities that are unique to a teaching hospital, health services center, or clinic, and that directly support the provision of health care but cannot be considered part of the provision of direct patient care. Included in this subcategory are such activities as the pharmacy, blood bank, and X-ray services.

¶701.314 Administration of Hospitals

This subclass includes expenses for both the day-to-day functioning and the long-range viability of the hospital, excluding physical plant operations.

¶701.315 Physical Plant Operations for Hospitals

This subclass includes expenses for activities related directly to maintaining the grounds and facilities of a hospital as well as providing utility services. Like operation and maintenance of plant, this is not a functional classification for an independent institution. However, it might be used internally to accumulate costs, which would be combined with other hospital costs in the statement of activities.

¶701.316 Depreciation of Hospital Facilities and Equipment

This subclass includes depreciation expense for facilities, equipment, and infrastructure assets of the hospital. Independent institutions are required to allocate depreciation among their functional classes. Public institutions may report depreciation expense separately, include it with operation and maintenance of plant expenses, or allocate it among all the functional expense classifications. If a public institution chooses to report depreciation as a separate line item or to include all depreciation in the operation and maintenance of plant classification, this subclass would not be used.

¶701.317 Hospital Information Technology

This subcategory includes expenses for formally organized and/or separately budgeted hospital information technology. If an institution does not separately account for information technology resources, the costs associated with the three primary programs—instruction, research, and public service—will be classified as academic support and the remainder as institutional support.

¶701.32 Independent Operations

The independent operations classification includes the expenses of separately organized operations owned or controlled by an institution that are unrelated to, or independent of, the institution's mission but that may enhance its mission. This classification generally is limited to expenses associated with commercial enterprises and specific federally funded research and development centers (FFRDCs) operated by the institution but not established to provide services primarily to students, faculty, or staff.

Activities operated as auxiliary enterprises (that is, those established to provide a service to students, faculty, or staff and charging a fee related to the cost of the service) are excluded from this classification, as are operations with commercial aspects that primarily support instruction, research, and/or public service. (For example, hospitals and ancillary support activities are excluded.) Also excluded are expenses associated with property owned and managed as investments of the institution's endowment funds.

The relationship between the institution and the independent operation needs to be carefully examined to determine the proper accounting. Independent institutions need to determine if the relationship requires consolidation of the independent operation or use of the equity method of accounting (if the independent operation is a corporation). The standards for making those determinations are discussed in [¶507](#). Public institutions need to determine whether the independent operation is a component unit. The standards for making that determination are discussed in [¶205](#).

If the entity is not a separate legal entity, the nature of the independent operation needs to be evaluated. Depending upon the nature of the contractual relationship between the institution, the FFRDC and the federal sponsoring agency, the accounting may vary between recognizing all of the revenues and expenses of the FFRDC in the institution's financial statements and just recognizing the

institution's management fee for operating the FFRDC. In many cases, the employees of the FFRDC are in fact employees of the institution and the nature of the relationship is like other large research contracts or grant agreements. In those circumstances, the revenues and expenses of the FFRDC should be consolidated with the institution.

The independent operations classification includes the following two subclasses:

Independent Operations/Institutional and
Independent Operations/Federally Funded Research and Development Centers (FFRDCs).

¶701.321 Independent Operations/Institutional

This subclass includes separately organized operations owned or controlled by an institution but unrelated to, or independent of, the institution's missions and that are not federally funded research and development centers (FFRDCs).

¶701.322 Independent Operations/Federally-Funded Research and Development Centers (FFRDCs)

The National Science Foundation periodically publishes a list of all FFRDC's and that list can be found here: [NSF list of FFRDCs](#).

¶701.33 Operation and Maintenance of Plant Expenses

The operation and maintenance of plant category includes all expenses for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant. These expenses include items such as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture, and equipment; care of grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; safety; hazardous waste disposal; property, liability, and all other insurance relating to property; space and capital leasing; facility planning and management; and central receiving.

For external financial reporting purposes, independent institutions are required to allocate the costs assigned to this classification to the other functional categories. However, most independent institutions still use this functional expense category internally to capture costs prior to allocation. Consequently, although this category is necessary and important to an independent institution's general ledger structure—and a necessary cost pool for cost reporting under the Uniform Guidance—the expenses are not considered a functional expense category (for GAAP reporting) for independent institutions.

For public institutions, operation and maintenance of plant expenses may be reported as a separate functional classification or the expenses may be allocated to the other functional categories based on an acceptable allocation methodology (such as square footage of buildings). Operation and maintenance of plant is one of the classifications of expense that public institutions will be required allocate among the other functional classifications in the expenses section (Part C) of the IPEDS Finance Survey beginning in FY 2010 (that is, the survey submitted in 2011). For public institutions, this classification does not include interest expense on plant-related debt. [NACUBO Advisory Report 2010-1](#) explains IPEDS Finance Survey Allocation Requirements.

The operations and maintenance of plant classification includes the following subclasses:

Physical Plant Administration
Building Maintenance
Custodial Services
Utilities

Landscape and Grounds Maintenance
Major Repairs and Renovations
Security and Safety
Logistical services
Operations and Maintenance Information Technology
¶701.331 Physical Plant Administration

This subclass includes expenses for administrative activities that directly support physical plant operations. Activities related to the development of plans for plant expansion or modification, as well as plans for new construction, should be included in this subclass. Also included are property, liability, and all other insurance relating to property.

¶701.332 Building Maintenance

This subclass includes expenses for activities related to routine repair and maintenance of buildings and other structures, including normally recurring repairs and preventive maintenance.

¶701.333 Custodial Services

This subclass includes expenses related to custodial services in buildings.

¶701.334 Utilities

This subclass includes expenses related to heating, cooling, light and power, gas, water, and any other utilities necessary for operation of the physical plant.

¶701.335 Landscape and Grounds Maintenance

This subclass includes expenses related to the operation and maintenance of landscape and grounds.

¶701.336 Major Repairs and Renovations

This subclass includes expenses related to major noncapital repairs, maintenance, and renovations. Minor repairs should be classified as building maintenance. The institution should establish criteria to distinguish between major repairs and minor repairs.

This subclass excludes costs that will be capitalized in accordance with the institution's capitalization policy.

¶701.337 Security and Safety

This subclass includes expenses related to security; earthquake and disaster preparedness; safety, including environmental safety; and hazardous waste disposal.

¶701.338 Logistical Services

This subcategory includes expenses related to logistical services such as central receiving as well as space and capital leasing.

¶701.339 Operations and Maintenance Information Technology

This subcategory includes expenses for formally organized and/or separately budgeted operation and maintenance information technology. If an institution does not separately account for information technology resources, the costs associated with the three primary programs—instruction, research, and public service will be classified as academic support and the remainder as institutional support.

¶701.34 Depreciation

Depreciation expense is calculated in accordance with the institution's capitalization and depreciation policies. For independent institutions, see [¶415](#), especially [¶415.4](#). For public institutions, see [¶315](#).

Independent institutions are not permitted to report depreciation expense as a separate functional classification. FASB ASC 958-720-45-25 makes it clear that occupying and maintaining a building is not a separate supporting service. As a result, independent institutions allocate depreciation to the functional classifications.

For public institutions, depreciation expense may be considered either as a functional or a natural expense classification. When expenses are reported by functional classification in the SRECNP, depreciation expense can be allocated to the other functional classifications (such as instruction, research and student services) or allocated only to operation and maintenance of plant expenses, or reported separately. When depreciation expense is reported as its own functional classification, depreciation for all activities (educational and general, auxiliary enterprises, and hospitals) may be combined and reported as one amount in the SRECNP. The majority of public institutions report depreciation as a separate functional classification, in some fashion.

The allocation methodology for both independent and public institutions may be either a simple one or complex one. Generally, depreciation expense for buildings may be allocated based on the usage of the buildings. This is accomplished by a periodic inventory of the usage of the space in each building. Depreciation expense on equipment may be allocated to other functions based on the location of the equipment and the use of that space. This is also accomplished through a periodic inventory of the equipment.

¶701.35 Interest

Different rules exist for the reporting of interest expense by independent and public institutions. In accordance with FASB ASC 958-720-45-24, independent institutions allocate interest expense to functional classifications to the extent possible. Interest expenses that cannot be allocated should be reported in Institutional Support-Fiscal Operations by independent institutions.

Public institutions report interest as a nonoperating expense in the SRECNP. This classification includes interest expense on capital debt, payments on capital leases classified as interest expense, and interest expense on other borrowings such as for working capital or student loans. See [¶315.4](#) for discussion on calculation of interest on debt and capital leases. Institutions may segregate the interest expense into capital related and noncapital related debt in the SRECNP to correspond to disclosures made in the statement of cash flows.

¶701.4 Areas of Potential Inconsistency

Certain activities may vary from one institution to another. Those variances may result in inconsistencies in the reporting of expenses by function. For example, an NCAA Division I institution may classify its intercollegiate athletics programs as auxiliaries while a Division III school may classify its intercollegiate athletics as student services. When determining the appropriate functional categorization, management should look to the structure of the activities at their particular institution. If an activity is categorized in a way that may be different from the way it is classified by

other institutions, management should include a disclosure in the financial statements that discusses the reasoning for such classification.

The following are known areas of inconsistency:

Accreditation – Some institutions classify as Academic Support, other as Institutional Support. Since it pertains to the academic program, Academic Support is preferred.

Campus security – Some institutions classify as Student Services, others as Operations and Maintenance of Plant. Since the scope of responsibility has generally been expanded to safety and security of the entire campus, Operations and Maintenance of Plant seems to be a more appropriate category.

Development and fundraising – Fund raising activities conducted by an institution’s president or deans may not be segregated as fund raising expense and may instead be reported as institutional support or academic support, respectively. If the expenses are material, some allocation to institutional support/fundraising expenses should be made.

Intercollegiate athletics - Some institutions classify as Student Services, others as Auxiliaries. A hybrid approach may be preferred, in which expenses to recruit, coach, supply and field teams of student athletes could be classified as student services. Expenses of maintaining stadiums, parking, food service, etc. and the ticket revenue could be considered auxiliaries.

Intramural athletics - Some institutions classify as Instruction, others as Student Services. If the intramural activity does not lead to academic credit, classification as Student Services is preferred.

Research post-award accounting - Some institutions classify as Academic Support, others as Institutional Support, and others as Organized Research. Since the activity is not associated with specific organized research projects (and generally cannot be “direct charged”), inclusion as Organized Research is not correct and violates OMB Uniform Guidance Cost principles. Further, since the activity is primarily associated with the academic enterprise, classification as Academic Support is preferred.

Research pre-award services - Some institutions classify as Academic Support, others as Institutional Support, and others as Organized Research. Since the activity is not associated with specific organized research projects (and generally cannot be “direct charged”), inclusion as Organized Research is not correct and violates OMB Uniform Guidance Cost principles. Further, since the activity is primarily associated with the academic enterprise, classification as Academic Support is preferred.

¶701.8 Tutorials

The Tutorials that follow are short vignettes describing situations and responses for applying the accounting and reporting guidance contained in the FARM. They are offered as an additional resource to describe how theoretical concepts may translate to real-life situations.

¶701.81 Functional Expenses – Hospital or Instruction?

SITUATION

The new AVP Finance/Controller at a large research university with both a medical college and hospital, is preparing the financial statements for the first time. He is reviewing the functional classifications of expenses, specifically those related to the hospital services. He notices that in the prior year’s statements, expenses classified as hospital services are three times the expenses reported as instruction, and wonders if this is correct.

In researching it further, he finds that the function categories for expenses have been assigned in the financial system based on the organization. Therefore, the expenses incurred in all departments within the medical college and hospital organizations have been included in the “hospital” category for financial reporting. Assigning the function code by organization has resulted in the following incorrect classifications:

Clinical trials on sponsored by pharmaceutical companies are not shown as organized research. All of the medical college dean's compensation is included as a hospital expense even though she teaches two courses each semester.

RESPONSE

While some departments within universities may incur expenses associated with only one function (e.g. Finance office = institutional support), the one-for-one relationship between organization and function is almost never accurate for university academic departments that deliver instruction, research, public service, and the associated academic support services. Consequently, it is an oversimplification to rely solely on the organization field in a chart of accounts to assign the function code. The function classification is an indicator of the service being delivered, and not the department delivering the service.

Hospitals associated with universities have a dual function of both patient care and instruction. Therefore, a portion of the expenses incurred to deliver instruction to students in health care programs should be allocated to instruction. And expenses incurred in conjunction with sponsored research projects should be classified as organized research.

The various functional categories are described in very broad terms. Consequently, categorizing expenses into functional classifications is more art than science and requires sufficient judgment. Classifications should follow the general definitions and guidelines, be rational and consistent.

Based on the definitions below, it appears the critical factor is whether the cost is directly related to patient care or supports the instruction/research/public service initiatives.

Activities that are directly related to delivering the academic program should be classified as instruction. And clinical research projects should be classified as organized research.

Changes to the functional classification of expenses in the current year's financial statements will have to be applied to the prior year classifications as well. This will require a note explaining that the prior year amounts were changed to conform to the current year's presentation.

AUTHORITATIVE GUIDANCE

The NACUBO FARM is the authoritative reference for the functional classifications used in the Integrated Post Secondary Data Survey, or IPEDS. The FARM definitions relevant to this issue are noted here.

The category of Instruction includes expenses for all activities that are part of an institution's instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions are included. Expenses for departmental research and public service that are not separately budgeted also are included in this classification. This classification excludes expenses for those academic personnel whose primary activity is administration—for example, academic deans – which would be included as academic support.

The instruction classification includes five subclasses. The one relevant to the issue noted above is General Academic Instruction. The category includes expenses for formally organized and/or separately budgeted instructional activities that are associated with academic offerings described by the IPEDS instructional program categories identified in the National Center for Education Statistics (NCES) publication, A Classification of Instructional Programs, and offered for credit as part of a

formal postsecondary education degree or certificate program. Open university, short courses, and home study activities falling within this classification and offered for credit are included.

The Hospital classification includes all expenses associated with the patient care operations of a hospital, including nursing and other professional services, general services, administrative services, and fiscal services. Because of a desire to assess whether the hospital is self-supporting, an allocation of expenses for operation and maintenance of plant, depreciation, and interest may be included, even though that allocation is not required of public institutions for financial statement purposes. (Independent institutions, however, are required to make the allocation.) Also included are other direct and indirect costs, whether charged directly as expenses or allocated as a proportionate share of costs of other departments and units.

Expenses for activities that take place within the hospital, but that are categorized more appropriately as instruction or research, are excluded from this classification and accounted for in their appropriate classifications.[emphasis added]

The hospitals classification includes the following six subclasses:

| | |
|---|--|
| Direct Patient Care | Expenses for direct patient care such as prevention, diagnosis, treatment, and rehabilitation. <u>Patient care activities solely for the benefit of the institution's students should be classified within student services.</u> [emphasis added] |
| Health Care Supportive Services | Expenses for organized activities that are unique to a teaching hospital, health services center, or clinic, and that directly support the provision of health care but cannot be considered part of the provision of direct patient care. Included in this subcategory are such activities as the pharmacy, blood bank, and X-ray services. |
| Administration of Hospitals | Expenses for both the day-to-day functioning and the long-range viability of the hospital, excluding physical plant operations. |
| Physical Plant Operations for Hospitals | Expenses for activities related directly to maintaining the grounds and facilities of a hospital as well as providing utility services. Like operation and maintenance of plant, this is not a functional classification for an independent institution. However, it might be used internally to accumulate costs, which would be combined with other hospital costs in the statement of activities. |
| Depreciation of Hospital Facilities and Equipment | Depreciation expense for facilities, equipment, and infrastructure assets of the hospital. Independent institutions are required to allocate depreciation among their functional classes. |
| Hospital Information Technology | Expenses for formally organized and/or separately budgeted hospital information technology. If an institution does not separately account for information technology resources, the costs associated with the three primary programs—instruction, research, and public service—will be classified as academic support and the remainder as institutional support. |

RELATED FARM CHAPTERS

[¶701 Functional Expenses](#)

[Appendix D Activity Lookup Table](#)

Posted: November, 2018

¶702 Functional Classifications in Financial Reporting

¶702.1 Introduction

Accounting standards differ for reporting expense information by functional classification. Independent institutions are required to report functional expense information in their financial statements; public institutions are not.

Because NACUBO has long recognized that traditional functional classification information has value to the industry for multiple reporting purposes (for example, IPEDS requires functional expense reporting but after implementing GASB 34 public institutions would typically report natural expenses on the face of their statements), NACUBO Advisory Report 2000-08, Suggested Footnote Disclosure for Information Reported on the Statement of Revenues, Expenses, and Changes in Net Assets, recommended that a note be included in the financial statements of public institutions to display a matrix of expenses by functional and natural classes. That recommendation still stands and the Advisory Report is available in Appendix F as [AR 2000.08](#).

¶702.2 Functional Expense Requirements for Independent Institutions

FASB ASC 958-720-45 requires that expenses be reported by function either on the face of the statement of activities or in the notes; historically most independent institutions choose to present the information on the face of the statement. Over the years, that has changed as many institutions now report expenses using the natural classification on the face of their financial statements as described in ¶704. The standards broadly define program services and supporting activities, but do not dictate specific functional classifications to be used. They do, however, state that “occupying and maintaining a building is not a separate supporting service.” As a result, independent institutions should not include the classification operation and maintenance of plant as a separate functional classification in financial statements. Most independent institutions use that classification internally, and then allocate the accumulated costs to the other functional classifications when preparing financial statements. Interest and depreciation also are not functional classifications, and those costs are allocated to the other functional classifications using reasonable bases. Interest expenses that cannot be allocated should be reported in Institutional Support-Fiscal Operations.

With the FASB's issuance of ASU 2016-14, Financial Statements of Not-for-Profit Entities, both functional and natural expenses must be disclosed in a matrix. That information can be presented on the face of the Statement of Activities, a separate statement or in the notes.

¶702.3 Functional Expense Requirements for Public Institutions

Public institutions may report either functional or natural classifications on the face of their Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). If the primary government that will include the institution as a component unit does not mandate which should be used, the choice is an institutional decision. A nonrandom sample of 20 public institutions' 2008 financial statements indicated that half reported operating expenses by function and half reported operating expenses by natural classification. That ratio continues today.

The GASB recognizes operation and maintenance of plant as a separate functional category. Depreciation expense may be allocated to the various functional categories, included with operation and maintenance of plant, or reported as a separate functional classification.

Interest expense is shown in the nonoperating section. Because these expenses are not allocated to the other functional categories, functional expenses between public and independent institutions are not comparable.

When depreciation expense is reported as its own functional classification, depreciation for all activities (educational and general, auxiliary enterprises, and hospitals) may be combined and reported as one amount in the SRECNP. The majority of public institutions report depreciation as a separate functional classification, in some fashion.

Interest expense includes interest expense on capital debt, payments on capital leases classified as interest expense, and interest expense on other borrowings such as for working capital or student loans. See ¶315.4 for discussion on calculation of interest on debt and capital leases. Institutions may segregate the interest expense into capital related and noncapital related debt in the SRECNP to correspond to disclosures made in the statement of cash flows.

¶703 Alternate Groupings of Functional Expenses

¶703.1 Introduction

Although the traditional functional expense classifications have been in place for many years, and financial system charts of accounts include the concepts within their structures, the judgment required to classify an expense in the proper category leads to significant disparities in practice. The [article, "Regroup from Square One"](#), from the February 2014 Business Officer Magazine summarized the problem this way:

For decades, NACUBO's Financial Accounting and Reporting Manual (FARM) has served as the definitive guide for assigning expenses to a primary function. Those categories have not only shaped the organization of our general ledgers and audited financial statements, but they also form the basis of institutional reporting to the U.S. Department of Education's National Center for Education Statistics (NCES). And, while they are certainly useful, the functional expense definitions in FARM reflect how institutions of higher education were organized decades ago; they don't necessarily accommodate the complexity of programmatic functions within our institutions today. Campus security, for example, now encompasses far more than the protection of institutional property. IT functions, which didn't really exist when FARM first appeared, now permeate all other functions. The existing functional expense definitions, however, don't consistently reflect those realities.

As a result of these issues, NACUBO has worked with constituents and suggested a revised grouping of categories which is detailed in the table below. Other institutions are also experimenting and the "Highly Summarized Version" provides an example of another way to look at functional expenses. There are no wrong answers, NACUBO expects that trends will develop over time as independent institutions deal with the new requirement to provide a matrix of functional and natural expenses and as public institutions see more transactions as deferred outflows as opposed to expenses.

| Required for IPEDS | NACUBO Study Recommendation | Highly Summarized Version |
|--------------------|-----------------------------|---------------------------|
| Instruction | Education | |
| | | |

| | | |
|------------------------------|------------------------------------|--|
| Academic Support | | |
| Student Services | | Academic and Educational Activities |
| Scholarships and Fellowships | | |
| Research | Research | or |
| Public Service | Public Service | |
| Auxiliary Enterprise | Auxiliaries | Educational Activities |
| Hospitals | Medical Centers and Hospitals | Medical Centers and Hospitals |
| Independent Operations | Independent Operations | Independent Operations |
| Institutional Support | Allocated to preceding categories] | Administration with some costs allocated above |
| Operations and Maintenance | Allocated to preceding categories] | Allocated to preceding categories] |
| Depreciation | Allocated to preceding categories] | Allocated to preceding categories] |
| Interest Expense | Allocated to preceding categories] | Allocated to preceding categories] |

¶703.2 NACUBO Study Recommendation

Combining the current authoritative definitions that would comprise the new consolidated reporting leads to the following suggested definitions.

¶703.21 Education

The education classification includes expenses for all activities that are part of the educational experience provided by the institution. This category would include the following subcategories:

Instruction

Academic Support

Student Services

Scholarships and Fellowships

A portion of overhead including Institutional Support, Operation and Maintenance of Plant, Depreciation, Interest Expense, and Information Technology.

¶703.211 Instruction

This subcategory includes expenses for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions should be included.

Expenses related to the following discretely identified and tracked instructional activities should be included in this subcategory.

Academic offerings and vocational/technical instruction as described in the IPEDS instructional program categories, and offered for credit as part of a formal postsecondary education degree or certificate program. Open university, short courses, and home study activities falling within this classification and offered for credit are included.

Instructional activities that do not generally result in credit toward any formal postsecondary degree or certificate. These expenses include noncredit instructional offerings carried out by the institution's extension division as well as noncredit offerings that are part of the adult education or continuing education program. Expenses for activities associated with programs leading toward a degree or certificate at a level below the higher education level, such as adult basic education, are also included. Instructional activities that give students the basic knowledge and skills required by the institution before they can undertake formal academic course work leading to a postsecondary degree or certificate. Such activities, which are supplemental to the normal academic program, generally are termed preparatory, remedial, developmental, or special educational services. These instructional offerings may be taken prior to or along with the course work leading to the degree or certificate. They are generally noncredit offerings, although in some cases credit may be provided specifically for required preparatory or remedial skills or knowledge. If students may satisfy preparatory requirements by taking offerings provided primarily for other than remedial or preparatory purposes, those offerings should be classified elsewhere.

¶703.212 Academic Support

This subcategory includes expenses for:

The retention, preservation, and display of educational materials, such as libraries, museums, and galleries. These include expenses related to activities that directly support the operation of a catalogued or otherwise classified collection and expenses related to activities that provide for the collection, preservation, and exhibition of historical materials, art objects, scientific displays, etc. The provision of services that directly assist the academic functions of the institution, such as demonstration schools associated with a department, school, or college of education. The expenses of teaching hospitals, however, should be included in the Medical Centers and Hospitals function. Media, such as audio-visual services, and technology, such as computing support that aid in the transmission of information in support of the Education function.

Academic administration and personnel providing administrative support and management direction for the overall educational experience. These include the expenses of academic deans including deans of research, deans of graduate schools, and college deans. Also included are expenses for academic advising. In the case of deans of research an argument can also be made that such costs should be included in research. However, deans are generally not part of a research project and not part of the cost recovery process on grants and contracts.

Expenses related to activities that provide faculty with opportunities for personal and professional growth and development as well as activities that evaluate and reward professional performance of the faculty if such activities are discretely identified and tracked. This includes sabbaticals, faculty awards, and organized faculty development programs.

Support for course and curriculum development including expenses related to activities established either to significantly improve or add to the institution's instructional offerings.

¶703.213 Student Services

Student services includes expenses incurred for offices of admissions and the registrar and activities that, as their primary purpose, contribute to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program.

These include:

Administrative activities that provide assistance and support to the needs and interests of students. These expenses include administrative activities that support student activities and/or that provide central administrative services related to the various student service activities. For example, some institutions consolidate various activities in a unit titled enrollment management. Expenses of an enrollment management unit would be included here. Also included would be expenses for services provided for particular types of students (for example, minority students, veterans, and disabled students). Activities of the institution's chief administrative officer for student affairs not attributable to another function should be included here.

Activities that provide for students' social and cultural development outside the formal academic program. This includes cultural events, student newspapers, intramural athletics, student organizations, etc. Intercollegiate athletics programs that are not operated as an auxiliary enterprise would be included here.

Career guidance and personal counseling services for students. This includes vocational testing and counseling services and activities of the placement office, as well as informal academic counseling services provided by the faculty in relation to course assignments.

Financial aid services and assistance to students. This does not, however, include outright scholarship or fellowship grants to students, which should be classified as revenue reductions, agency transactions, or scholarship expenses.

Expenses for activities related to the identification of prospective students, the promotion of attendance at the institution, and the processing of applications for admission. One could argue that these are institutional support costs, however they are so integral to student services and generally support both current and prospective students, so are generally included in this category.

Maintenance, handling and updating records for currently and previously enrolled students.

Student health services that are not self-supporting auxiliary enterprises.

¶703.214 Scholarships and Fellowships

Generally, institutions report most scholarships and fellowships as tuition discounts and allowances (reductions of tuition and fees revenues). Some student awards are funded by third parties and made to students specified by those parties (that is, recipients are not determined by the institution); those are typically treated as agency transactions and do not result in either revenues or expenses. However, if the applied aid exceeds charges to the student (tuition and fees, dormitory, and food service), and the excess is disbursed to the student, the excess disbursed is reported as an expense in the financial statements.

Scholarships

Scholarships include grants-in-aid, trainee stipends, tuition and fee waivers, and prizes to undergraduate students.

Fellowships

Fellowships include grants-in-aid and trainee stipends to graduate students. They do not include funds for which services to the institution must be rendered, such as payments for teaching.

The scholarships and fellowships subcategory includes expenses for scholarships and fellowships—from restricted or unrestricted funds—in the form of grants that neither require the student to perform service to the institution as consideration for the grant, nor require the student to repay the amount of the grant to the funding source. In public institutions, they may result from selection by the institution or from an entitlement program. This subcategory also includes trainee stipends, prizes, and awards. (However, trainee stipends awarded to individuals who are not enrolled in formal course work may need to be charged to the research or public service functions.)

Student awards that are made in exchange for services provided to the institution, such as graduate and teaching assistantships and student work-study programs are excluded. When services are required in exchange for financial assistance, charges should be classified as expenses of the department or organizational unit to which the service is rendered and reported as expenses of the function classification benefited by the work provided by the student. For example, a tuition remission to a graduate teaching assistant in the biology department would be charged to instruction. Remission of tuition or fees granted as a result of faculty or staff status or family relationship of students to faculty or staff, should be recorded as staff benefits expenses in the benefits pool or of the department or organizational unit to which the service was rendered. Those expenses may need to be allocated to the appropriate functional expense category.

¶703.215 Overhead

A portion of the expenses associated with overhead (Institutional Support, Operation and Maintenance of Plant, Depreciation, Interest, and Information Technology) may be related to the Education function. Institutions should allocate overhead expenses using a reasonable methodology that best reflects the amounts actually associated with the Education function. Refer to section 703.38 for a more detailed discussion of each of the areas of overhead to determine which expenses should be allocated to the Education function.

¶703.22 Research

The research classification includes all expenses for activities specifically organized to produce research, whether commissioned by an agency external to the institution or discretely identified and tracked by an organizational unit within the institution. Subject to those conditions, the classification includes expenses for individual and/or project research as well as that of institutes and research centers.

Expenses for departmental research that are discretely identified and tracked are included in this classification. However, the research classification does not include expenses for departmental research that are not discretely identified and tracked. Departmental research that is not discretely identified and tracked is included in the Education category.

The research classification includes:

Individual and Project Research-Expenses related to research activities that are managed within academic departments. These activities may have been undertaken as the result of a research contract or grant or through a specific allocation of the institution's own general resources.
 Institutes and Research Centers-Expenses related to research activities that are part of a formal research organization created to manage a number of research efforts. While this includes agricultural experiment stations, it does not include federally funded research and development centers, which are classified as independent operations.

¶703.221 Overhead

A portion of the expenses associated with overhead (Institutional Support, Operation and Maintenance of Plant, Depreciation, Interest, and Information Technology) may be related to the

Research function. Institutions should allocate overhead expenses using a reasonable methodology that best reflects the amounts actually associated with the Research function. Refer to section [¶703.27](#) for a more detailed discussion of each of the categories of overhead to determine which expenses should be allocated to the research function.

¶703.23 Auxiliaries

An auxiliary enterprise exists to furnish goods or services to students, faculty, staff, other institutional departments, or, incidentally, to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of an auxiliary enterprise is that it is managed to operate as a self-supporting activity. Over time, the revenues will equal or exceed the expenses, although in any individual year there may be a deficit or a surplus. Examples are residence halls, food services, intercollegiate athletics (if operated as essentially self-supporting), college stores, faculty clubs, parking, and faculty housing. Student health services, when operated as an auxiliary enterprise, also are included. Hospitals, although they may serve students, faculty, or staff, are classified separately because of their financial significance.

Some auxiliary enterprise activities are primarily intended to furnish goods and services that are related to the higher education mission. Customers for these goods and services generally are not students, faculty, or staff. Entities of this type are formed to meet the geographic and public service needs of a region and generally relate to an institution's mission of teaching, research, or public service. Examples of such an entity would be a drug testing center or a university press department.

The auxiliary enterprise category includes all expenses relating to the operation of auxiliary enterprises. Because of a desire to assess whether the enterprise is self-supporting, an allocation of expenses for institutional support, operation and maintenance of plant, depreciation, interest, and information technology should be included. Also included are other direct and indirect costs, whether charged directly as expenses or allocated as a proportionate share of costs of other departments or units. To ensure that data regarding individual auxiliary enterprises are complete and adequate for management decisions, cost data should be prepared using full costing methods. Full costing means that the costs attributed to each enterprise includes a portion of indirect costs related to that enterprise, as well as the costs directly attributable to its operation.

¶703.231 Other Self-Supporting Enterprises

These include activities established primarily to provide goods and services to other campus units on a fee-for-service basis. The following characteristics assist in identifying these units:

They are self-supporting units that, over time, operate on a break-even basis for those goods and services offered to other units.

They may provide, to a lesser extent, the same goods and services to faculty, staff, students, and related entities.

The goods and services are provided at an institutional level. This characteristic excludes enterprises that only serve units within the same department.

For example, a telecommunications department that services the entire institution would be considered a self-supporting enterprise while the chemistry stores department that only services other chemistry units would be reported net within the academic support subcategory of the education function.

Expenses incurred under this subclass should be netted against revenues since the predominance of transactions is internal. Use of this classification does not preclude entities from reporting these and similar activities in other functional categories (e.g., education, research).

¶703.24 Independent Operations

The independent operations classification includes the expenses of separately organized operations owned or controlled by an institution that are unrelated to, or independent of, the institution's mission but that may enhance its mission. This classification generally is limited to expenses associated with commercial enterprises and specific federally funded research and development centers (FFRDCs) operated by the institution but not established to provide services primarily to students, faculty, or staff.

Activities operated as auxiliary enterprises (that is, those established to provide a service to students, faculty, or staff and charging a fee related to the cost of the service) are excluded from this classification, as are operations with commercial aspects that primarily support instruction, research, and/or public service. (For example, hospitals and ancillary support activities are excluded.) Also excluded are expenses associated with property owned and managed as investments of the institution's endowment funds.

Institutional Independent Operations include separately organized operations owned or controlled by an institution but unrelated to, or independent of, the institution's missions and that are not FFRDCs. The National Science Foundation periodically publishes a list of all FFRDC's and that list can be found here: [NSF list of FFRDCs](#).

All other institutionally operated research centers should be classified as institutes and research centers in the research category.

¶703.25 Medical Centers and Hospitals

The medical center and hospital classification includes all expenses associated with the patient care operations of a hospital, including nursing and other professional services, general services, administrative services, and fiscal services. The hospitals classification includes the following:

Expenses related to direct patient care such as prevention, diagnosis, treatment, and rehabilitation. Patient care activities solely for the benefit of the institution's students should be classified within the student services subcategory of the education function.

Expenses related to activities that are unique to a teaching hospital, health services center, or clinic and that directly support the provision of health care but cannot be considered part of the provision of direct patient care. Included are such activities as the pharmacy, blood bank, and X-ray services.

Expenses related to both the day-to-day functioning and the long-range viability of the hospital.

Expenses for activities related directly to maintaining the grounds and facilities of a hospital as well as providing utility services.

Because of a desire to assess whether the hospital is self-supporting, an allocation of expenses for operation and maintenance of plant, depreciation, interest, and information technology is included. Also included are other direct and indirect costs, whether charged directly as expenses or allocated as a proportionate share of costs of other departments and units.

Expenses for activities that take place within the hospital, but that are categorized more appropriately as education or research, are excluded from this classification and accounted for in their appropriate classifications.

¶703.26 Public Service

The public service classification includes expenses for activities established primarily to provide non-instructional services for the benefit of individuals and groups that are external to the institution.

The public service classification includes the following:

Community service activities make available to the public various resources and special capabilities that exist within the institution. Examples include conferences and institutes, general advisory services and reference bureaus, consultation, testing services (for example, soil testing, carbon dating, structural testing), and similar activities. The activities included in this subclass are generally sponsored and managed outside the context of both the agricultural and urban extension programs and the institution's public broadcasting station.

Expenses for non-instructional public service activities established as the result of cooperative extension efforts between the institution and outside agencies, such as the U.S. Department of Agriculture's extension service and the affiliated state extension services. For these activities, the institution shares programmatic and fiscal control with the Department of Agriculture's extension service, the related state extension services, and agencies of local government. These types of activities are primarily seen in land-grant colleges and universities. Independent institutions rarely use this subcategory.

Expenses for operation and maintenance of broadcasting services operated outside the context of the institution's education and research support programs. Broadcast services primarily in support of instruction, operated primarily as a student service activity, or that are independent operations are excluded from this function.

¶703.261 Overhead

A portion of the expenses associated with overhead (Institutional Support, Operation and Maintenance of Plant, Depreciation, Interest, and Information Technology) may be related to the Public Service function. Institutions should allocate overhead expenses using a reasonable methodology that best reflects the amounts actually associated with the Public Service function. Refer to section 703.27 for a more detailed discussion of each of the areas of overhead to determine which expenses should be allocated to the Public Service function.

¶703.27 Overhead

To the extent that an expense can be specifically identified with a particular function, it should be assigned to that function. For example, depreciation of a student residence should be assigned directly to auxiliaries. Depreciation of buildings that have mixed use, however, would be allocated to the various functions for which the building is used. Allocations should be made using a systematic and reasonable basis and may be based on financial or nonfinancial data.

The following categories fall within the broader overhead function.

¶703.271 Institutional Support

The institutional support classification includes the following subclasses:

Executive Management – This subclass includes expenses for all central, executive-level activities concerned with management and long-range planning for the entire institution such as executive direction (for example, governing board), planning and programming operations, legal, risk, compliance, and internal audit operations. All officers with institution-wide responsibilities are included, such as the president, chief academic officer, chief business officer, chief student affairs officer, chief research officer, chief enrollment management officer, and chief advancement officer.

Fiscal Operations – This subclass includes expenses for operations related to fiscal control and investments. It includes the accounting office, bursar's office, and external audits. Bad debt expense arising from student loans should be included in this subclass. Independent institutions should include bad debts arising from student and other accounts receivables.

General Administration – This subclass includes expenses for activities related to general administrative operations and services, such as personnel administration, space management, purchasing and maintenance of supplies and materials, campus-wide communications, transportation services, general stores, and printing shops.

Public Relations/Development – This subclass includes expenses for activities to maintain relations with the community, alumni, or other constituents and to conduct activities related to institution-wide development and fundraising.

¶703.272 Operation and Maintenance of Plant Expenses

The operation and maintenance of plant category includes all expenses for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant.

The operations and maintenance of plant classification includes the following subclasses:

Maintenance, repairs, and renovations - This subclass includes expenses for activities related to routine repair and maintenance of buildings, furniture, equipment, and other long-lived assets, including normally recurring repairs and preventive maintenance. It also includes expenses related to major noncapital repairs, maintenance, and renovations. The institution should establish criteria to distinguish between capital and non-capital activities. This subclass excludes costs that will be capitalized in accordance with the institution's capitalization policy.

Custodial Services

Utilities including expenses related to heating, cooling, light and power, gas, water, and any other utilities necessary for operation of the physical plant.

Landscape and Grounds Maintenance

Security and safety of physical plant – This subclass includes expenses related to the security of physical plant; public safety, earthquake and disaster preparedness of physical plant; environmental safety; and hazardous waste disposal.

Logistical services including expenses related central receiving as well as leases of space and equipment.

Physical Plant Administration – This subclass includes expenses for administrative activities that directly support physical plant operations such as the development of plans for plant expansion or modification; plans for new construction; and property, liability, and all other insurance relating to property.

For external financial reporting purposes and IPEDS reporting, independent institutions are required to allocate operation and maintenance of plant to the other functional categories. As a result, for independent institutions, this category is neither a functional nor a natural expense category of the financial statements.

For public institutions, operation and maintenance of plant may be shown as a separate functional classification or the expenses may be allocated to the other functional categories based on an acceptable allocation methodology (such as square footage of buildings). For IPEDS reporting, operation and maintenance of plant is required to be allocated among the other functional classifications. For public institutions, this classification does not include interest expense on plant-related debt. [NACUBO Advisory Report 2010-1](#) explains IPEDS Finance Survey Allocation Requirements.

¶703.273 Depreciation

Depreciation expense should be calculated in accordance with the institution's capitalization and depreciation policies. For independent institutions, see [¶415](#), especially [¶415.4](#). For public institutions, see [¶315](#).

Independent institutions are not permitted to report depreciation expense as a separate functional classification. As a result, independent institutions allocate depreciation to the functional classifications.

For public institutions, depreciation expense may be considered as either a functional or a natural expense classification. When expenses are reported by functional classification in the SRECNP, depreciation expense can be allocated to the other functional classifications (such as education, research and public service) or allocated only to operation and maintenance of plant expenses, or reported separately. When depreciation expense is reported as its own functional classification, depreciation for all activities (education, auxiliary enterprises, and hospitals) may be combined and reported as one amount in the SRECNP. The majority of public institutions report depreciation as a separate functional classification.

The allocation methodology for both independent and public institutions may be either a simple one or complex one. Generally, depreciation expense for buildings is allocated based on their usage. This may be accomplished by a periodic inventory of the usage of the space in each building. Depreciation expense on equipment may be allocated to other functions based on the location of the equipment and the use of that space. This may also be accomplished through a periodic inventory of the equipment.

¶703.274 Interest

Different rules exist for the reporting of interest expense by independent and public institutions.

In accordance with FASB ASC 958-720-45-24, independent institutions allocate interest expense to functional classifications to the extent possible. Interest expenses that cannot be allocated should be reported in Institutional Support-Fiscal Operations by independent institutions.

Public institutions report interest expense on capital debt, payments on capital leases classified as interest expense, and interest expense on other borrowings such as for working capital or student loans as nonoperating expenses in the SRECNP.

See ¶315.4 for discussion on calculation of interest on debt and capital leases. Institutions may segregate the interest expense into capital related and noncapital related debt in the SRECNP to correspond to disclosures made in the statement of cash flows.

¶703.275 Information Technology

Information technology expenses include all costs of administration, supervision, operation, maintenance, preservation, and protection of the institution's information technology systems and infrastructure.

¶704 Natural Expense Classifications

Most independent institutions use natural classifications internally, and allocate the accumulated costs to the functional classifications when preparing financial statements.

¶704.1 Introduction

A natural expense classification is a method of grouping expenses according to the type of costs that are incurred. The classifications tell what was purchased rather than why an expense was incurred.

Most institutions use financial administrative systems that identify and record expenses by natural classification (i.e., by object code)—at least for the institution's operating or current funds. Expenses recorded in other funds such as student loan, plant, and endowment funds may need to be reviewed to determine their proper natural classification. Reporting expenses by natural classification is used primarily for internal reporting, such as budgets, for regulatory reporting, such as the institution's informational tax return, Form 990, and for reporting in the Integrated Postsecondary Education Data System (IPEDS) Finance Survey.

¶704.2 Use of Natural Classifications in Financial Reporting

Neither independent institutions nor public institutions are required by GAAP to report information about the natural classification of expenses in their financial statements. That will change for independent institutions when ASU 2016-14 becomes effective. Many public institutions choose to report by natural classification on the face of their statement of revenues, expenses, and changes in net position (SRECNP) or in a note to the financial statements. Many independent institutions already report by natural classification.

NACUBO recognizes, however, that both natural and functional classification information has value to the industry for multiple comparative and reporting purposes among the NACUBO membership. Thus, [NACUBO Advisory Report 2000-8](#), Suggested Footnote Disclosure for Information Reported on the Statement of Revenues, Expenses, and Changes in Net Assets (AR 2000-8) suggests that public institutions display a matrix of expenses by functional and natural classes in a note to their financial statements.

¶704.21 Independent Institutions

Most independent institutions use natural classifications internally, and allocate the accumulated costs to the functional classifications when preparing financial statements.

¶704.22 Public Institutions

Public institutions may report either functional or natural classifications on the face of their SRECNP. If the primary government that will include the institution as a component unit does not mandate which should be used, the choice is an institutional decision. A nonrandom sample of 20 public institutions' 2008 financial statements indicated that about half reported operating expenses by function and half reported operating expenses by natural classification.

AR 2000-8 suggests that when one expense perspective is presented in the SRECNP, the other should be displayed in the notes to the statements. It recommends that the note disclosure include a matrix that compares the functional information with the natural class information, using the expense classifications presented on the face of the SRECNA. The advisory report further suggests that the natural expense classifications used should be the same as those presented as direct case outflows in the statement of cash flows. [¶705.3](#) provides more information about AR 2000-8 and an illustration of the suggested matrix.

¶704.3 Primary Natural Expense Classifications

Neither FASB nor GASB requires or encourages particular natural classifications to be used in financial reporting. Most institutions determine which natural classifications work best for them. In addition, when choosing the classifications to be used in the accounting records, the natural expense classifications used for reporting to the Internal Revenue Service (IRS) and for the IPEDS Finance Survey also need to be considered.

The table below presents the most common natural expense classifications used in a sample of fifty institutions who reported by natural class on the face of their statements or in the notes.

Most institutions use 6 to 8 natural expense classifications. Many institutions report total salary and benefits on one line, but many break those numbers into the following components:

Salaries and wages

Employee benefits

Student wages (and fellowships)

Faculty (or instructional) salaries

Staff (or non-instructional) salaries

In addition, the following expenses are often separately identified in the financial statements;

Depreciation

Interest

Utilities

Supplies

Scholarships and fellowships (or Student aid)

Travel (or Travel and meetings)

Services (or Professional Services)

Insurance (or Self insurance)

Repairs and maintenance

Supplies and services

Rents and leases

Equipment (or Noncapital items)

Occupancy

Advertising and promotion

Books and publications

Bad debts

Food service

Communications

Professional fees and dues

As the above table illustrates, almost all institutions report depreciation as a natural classification, and there is some uniformity in the natural classifications used for employee compensation expenses. However, beyond that, there is little uniformity in the natural classifications used. The classifications recommended by NACUBO are discussed in [¶704.4](#).

¶704.31 Natural Expense Classifications Used in the Form 990

Part IX of the Form 990 requires institutions to report using 30 natural expense classifications and three functional expense classifications (program services, management and general, and fundraising) in a matrix format. The natural expense classifications used are:

- Grants and other assistance to governments and organizations in the U.S.
- Grants and other assistance to individuals in the U.S.
- Grants and other assistance to governments, organizations, and individuals outside the U.S.
- Benefits paid to or for members
- Compensation of current officers, directors, trustees, and key employees
- Compensation not included above, to disqualified persons
- Other salaries and wages
- Pension plan contributions (include section 401(k) and section 403(b) employer contributions)
- Other employee benefits
- Payroll taxes
- Fees for services(non-employees): Management
- Fees for services(non-employees): Legal
- Fees for services(non-employees): Accounting
- Fees for services(non-employees): Lobbying
- Professional fundraising services
- Investment management fees
- Fees for services(non-employees): Other
- Advertising and promotion
- Office expenses
- Information technology
- Royalties
- Occupancy
- Travel
- Payments of travel or entertainment expenses for any federal, state, or local public officials
- Conferences, conventions, and meetings
- Interest
- Payments to affiliates
- Depreciation, depletion, and amortization
- Insurance
- Other expenses

The level of detail required in the Form 990 far exceeds that being used by institutions in their financial statements. These classifications are identified in this manual because financial accounting systems must be able to provide expense information summarized into at least these classifications.

¶704.32 Natural Expense Classifications Used in the IPEDS Finance Survey

The completion of all IPEDS surveys is mandatory for institutions that participate in or are applicants for participation in any federal student financial aid program (such as Pell grants and federal student loans) authorized by Title IV of the Higher Education Act of 1965. The IPEDS Finance Survey includes a matrix of functional and natural classifications to be completed by independent institutions (Part E) and public institutions (Part C). The [IPEDS website](#) includes a variety of information and a copy of the most recent survey.

The six natural classifications of expenses used in the IPEDS Finance Survey matrix are:

- Salary and wage expenses
- Benefits expenses
- Operation and maintenance of plant expenses
- Depreciation
- Interest incurred on debt
- Other

The operation and maintenance of plant expenses classification appears as both a natural classification (column) and a functional classification (row) in the matrix. The combination of the column and the row is used to show the distribution of operation and maintenance of plant expenses to the various functional classifications (instructions, research, etc.) The total operation and maintenance of plant expenses is entered as a negative amount on the operation and maintenance of plant expense row of the operation and maintenance of plant column, so that the net total of the column (adding down) as well as the net total of the row (adding across) is zero. An illustration of the matrix and information on how to make the required allocations is found in [Advisory Report 2010-1](#), Public Institutions: Methodologies for Allocating Depreciation, Operations and Maintenance of Plant, and Interest Expenses to Functional Expense Categories.

¶704.4 Natural Classifications Recommended by NACUBO

Each institution most likely will report its natural expenses using classifications that reflect its cost structure, the classifications used by its peer group, or, if the institution is part of another entity, that of the governmental unit or system of higher education of which it is a part. Also, each institution's reporting will be dependent upon the capabilities and limitations of its financial administrative system software.

Certain common natural expense classifications have been developed over time and used by many institutions. These classifications generally represent the largest areas of expenses incurred by institutions. Based on examining current reporting practices by higher education institutions, NACUBO suggests that an institution use the following classifications (unless the amount of expenses incurred in that classification is immaterial):

- salaries and wages
- employee benefits
- scholarships and fellowships
- travel
- supplies
- utilities
- other outside services
- depreciation
- interest
- other

Many institutions may further refine these classifications into subclasses based on their particular needs and requirements and the requirements of regulatory bodies. For example, some institutions may choose to further refine salaries and wages by type of employee or to segregate printing and duplicating from services. Alternatively, institutions that must file Form 990 might create subclasses

that facilitate that reporting. Since the number and nature of these subclasses will vary by institution, this section covers only the broader natural expense classifications.

¶704.41 Salaries and Wages

The salaries and wages classification includes expenses for all amounts paid and owed to faculty, staff, and students including full-time and part-time employees. Payments to independent contractors not deemed employees should be classified as other contractual services expenses. Institutions generally use numerous subclasses of salaries and wages internally. Subclasses may be used to identify expenses for normal salaries and wages, overtime and shift differentials, full- and part-time employees, non-resident aliens, work-study students, and graduate assistants. In addition, expenses incurred for vacation, sickness and sabbatical leave sometimes are recorded as salaries and wages expenses, although they are more properly classified as fringe benefits.

¶704.42 Employee Benefits

This classification includes expenses for all benefits paid to or on behalf of faculty, staff, and student employees. It includes amounts required by law, contractual agreement, or institutional practice. These benefits include the institution's portion of Social Security, payroll taxes, pension, health care, workers' compensation, disability insurance, life insurance, tuition remission, vacations, sick pay, sabbaticals, and other employee-related benefit programs. Subclasses may be used to identify type of benefit or to identify costs allocated to various departments and functional classifications.

¶704.43 Scholarships and Fellowships

Scholarships and fellowships expense may be considered both a functional and natural expense classification. Institutions generally report tuition discounts and allowances and scholarships as reductions of tuition and fees revenues, as discussed in [¶460.43](#) for independent institutions and in [¶360.41](#) for public institutions. Certain amounts may still be reported as a natural expense classification in financial statements. Institutional resources provided to students as financial aid are recorded as scholarship allowances up to amounts owed by students. In some circumstances, the amount of aid awarded may exceed the tuition and fees, housing, and meals provided by or procured from the institution. In those circumstances, the excess of aid over tuition and fees and institutional housing and meals should be treated as an expense.

When classifying scholarships and fellowships between revenue allowances (discounts) and expenses, institutions often will initially record all aid as an expense, and then determine the amount of aid that should be reported as a reduction of revenues. Accordingly, most institutions maintain expense accounts for aid granted.

The scholarships and fellowships classification includes expenses for scholarships and fellowships in the form of grants to students that have been selected by the institution or, for public institutions, from an entitlement program. Recipients of grants are not required to perform service to the institution as consideration for the grant—support tied to services are classified as salaries and wages expenses. Recipients of grants also are not expected to repay the amount of the grant to the funding source—support that must be repaid are classified as loans. However, the scholarship and fellowship classification includes trainee stipends, prizes, and awards. (However, trainee stipends awarded to individuals who are not enrolled in formal course work should be charged to salaries and wages expenses.)

Because services are required in exchange for financial aid, the College Work-Study program's charges should be classified as salaries and wages expenses. Remission of tuition or fees granted because of faculty or staff status, or because of a student's family relationship to faculty or staff, should be recorded as employee benefits expenses.

Institutions may use subclasses for each type of scholarship or fellowship granted. Additional subclasses used may include schools or divisions, departments, and graduate, undergraduate, and post-doctoral students. Alternatively, subclasses may be based on the various tuition and fee waivers used by the institution.

¶703.10 provides additional information about the functional classification of scholarships and fellowships.

¶704.44 Travel

This classification includes travel for all personnel for institutional activities such as meetings, training, recruiting, fund raising, and sporting competitions. Institutions will generally use subclasses such as foreign and domestic travel. Further subclasses may include lodging, airfare, mileage, tolls, meals, etc. In addition, institutions may also assign subclasses to specific departments or functions such as athletics, the president's office, or trustees.

¶704.45 Utilities

This classification includes expenses related to heating, cooling, light and power, gas, water, telephone, and any other utilities necessary for operation of the physical plant.

¶704.46 Other Contractual Services

This classification generally is significant monetarily and covers a broad range of expenses including legal, audit, custodial, security, maintenance, repairs, postage, mailing and messenger, printing and duplicating, freight, advertising, rental of real and personal property, professional fees, professional development, and dues. This classification does not include services that are provided by employees; those services are included in the salaries and wages classification. Because of the breadth of the class, most institutions use subclasses to specify types of services such as rent, insurance, maintenance, and health care (for the institution's hospital or medical services). Other subclasses may be used to segregate payments made by the institution to the governmental unit or system of higher education.

¶704.47 Supplies

This classification is very broad and includes supplies for administration, instruction, research, and medical purposes. It also includes equipment purchased that does not meet the institution's capitalization threshold. Because of the breadth of this class, most institutions use subclasses to identify different types of supplies used and equipment purchased that does not meet the institution's capitalization threshold.

This classification also includes all materials purchased for use in the institution's library such as books, periodical subscriptions and electronic media and Internet access, unless library materials are capitalized or are reported as a separate natural classification.

Some institutions capitalize certain of their library materials (e.g., rare books). Those institutions generally record all items as an expense and then determine which items need to be capitalized in accordance with the institution's capitalization policies. Subclasses may be used to differentiate items to be capitalized from those that will be expensed. Other subclasses may include items designated for the institution's collection, such as rare books.

Institutions that elect to expense library materials treat their acquisition as individual transactions which do not meet the institution's capitalization threshold. Those electing to capitalize library

materials treat the acquisitions for a given fiscal year as a single asset which meets the capitalization threshold. Both positions are acceptable. For more information about capitalizing library materials, independent institutions should see [¶415.35](#) and public institutions should see [¶315.36](#).

¶704.48 Depreciation

This classification includes both depreciation of the institution's plant, property, and equipment, depletion, and amortization of assets acquired by capital lease. Depreciation expense should be calculated in accordance with the institution's capitalization and depreciation policies. Independent institutions, see [¶415](#), especially [¶415.4](#), and public institutions, see [¶315](#) for additional information.

When expenses are reported by their natural classifications, depreciation expense is not allocated to other classifications. When expenses are reported by functional classification, independent institutions are required to allocate it among the functional classifications. Public institutions may combine depreciation for all activities (e.g., research, instruction, auxiliary enterprises, and hospitals) and report the sum as its own functional classification in the SRECNP, they may report depreciation as part of the operations and maintenance of plant functional classification, or they may allocate depreciation to the other functional classifications.

[¶701.34](#) provides additional information about the functional classification of depreciation, including the required allocation of depreciation among the functional classifications in the expenses section (Part C) of the IPEDS Finance Survey.

¶704.49 Interest

This classification includes interest expense on capital debt, the portion of payments on capital leases that is classified as interest expense, and interest expense on other borrowings, such as those for working capital or student loans. Institutions may use subclasses to segregate the interest expense by type of borrowing or into capital-related and noncapital-related debt. The latter subclasses are often used by public institutions because they are required to report interest paid on capital debt as a capital financing cash outflow and interest paid on other debt as a noncapital financing cash outflow in their statements of cash flows.

¶704.50 Other

Expenses that do not fit in any of the classifications in [¶704.41](#) to [¶704.49](#) are included in this classification. The expenses included in this classification vary because the definition for this classification is dependent upon the other natural classifications an institution uses in its financial statements. Expenses typically included in this classification are bad debts, income taxes, changes in value in split interest agreements, and changes in environmental liability obligations or pension liabilities. Some institutions use subclasses to distinguish other operating expenses from other nonoperating expenses.

¶704.8 Tutorials

The Tutorials that follow are short vignettes describing situations and responses for applying the accounting and reporting guidance contained in the FARM. They are offered as an additional resource to describe how theoretical concepts may translate to real-life situations.

¶704.81 How Many Expense Categories are too Many?

SITUATION

Two controllers, one from a public university and one from an independent university, are at a conference commiserating over the proliferation of expenses categories in their respective financial systems. With the emphasis on analytics and understanding the various cost drivers, they are fielding numerous requests for new categories, to track very specialized expense for academic and administrative departments. Examples include codes to keep track of different types of advertising (print, web, radio, and TV) by the office of Communications and Marketing; and categories of travel by some academic departments to differentiate between students accompanying faculty to conferences for presenting research results, travel for faculty candidates, and travel for faculty professional development.

All of the new codes have caused significant department confusion. Consequently, the one code most commonly chosen is “other expense”.

The two colleagues wonder about the best way to provide the detail that departments are seeking without exponentially expanding the number of codes available; or creating so much confusion that the data in the financial system is not accurate.

RESPONSE

Resources available for assisting with this issue include policies of other universities, the NACUBO FARM, the IRS Form 990, and charts of accounts for accounting systems commonly used by higher education, such as Banner, Quali and Workday. Reporting useful information is common to all institutions, and the need to maintain a valid list of revenue and expense categories is common to both public and independent institutions. Useful examples can be found at the following links:

Brown University <https://www.brown.edu/about/administration/controller/workday>

Cornell University <https://www.dfa.cornell.edu/accounting/chartofaccounts/objectcodes>

Clemson University <https://www.clemson.edu/finance/controller/codes.html>

University of California-Irvine: <http://www.accounting.uci.edu/support/fiscalofficers/coa/objectcodes.html>

A good rule of thumb is that if a distinction in the type of expense is only useful for one or a few departments in an institution, then ideally other modifiers would be available to classify the expense. The Banner software includes an ability to add attributes to any field in the accounting string, and Quali Financials includes a “sub-object code” that can be set at the department level to further categorize expenses for specific department needs.

Another best practice to slow the growth or reduce the number of codes is to “cleanse” the list of revenue and expense codes each year by identifying those that have no activity. It’s likely that currently unused codes can not be deleted due to past transactions; however, most systems include a feature to deactivate codes. Deactivation removes the codes from an active list and prevents them from being selected for transactions. Codes should never be reused within a system, as the new label will likely create confusion when looking at historic data.

It's important to avoid creating expense categories that describe something other than a natural classification of expense; examples of non-descriptive categories include those that describe an event such as "family weekend" or "homecoming"; or are too generic, such as "program expense". These categories of natural classifications do not provide sufficient information as to the type of expenses. Does "family weekend" include wages for setting up the event, is it catering, advertising, audio-visual services, etc.? If the type of expense incurred is not clear from the category, then the category should be deactivated and not available for future use.

It is also a good practice to maintain a data dictionary with definitions and uses of all revenue and expense codes to assist users to select the most descriptive code to properly classify transactions.

Communication and Marketing:

In the above example, the new expense codes to further classify advertising expenses are not added. Instead, the controller assists the Office of Communications and Marketing to set up "department use only" codes to further classify the transactions. These codes are entered when establishing purchase orders and included in the accounting line when the expense is recorded.

Travel Expenses:

The further classification of travel expenses is viewed as being useful for many departments within the institution, and those new codes are added, with definitions, to the travel category.

ACCOUNTING CITATION:

FASB

General guidance about reporting expenses for non-profit organizations is found in FASB ASC 958-205-45-2c: "Aggregate items of revenues, expenses, gains, and losses into reasonably homogeneous groups and classify and report them as increases or decreases in net assets with donor restrictions or net assets without donor restrictions."

Effective for fiscal years beginning after December 15, 2017, non-profit organizations are required to show a matrix of expenses, described as follows in FASB ASC 958-720-45-15.

"All NFPs shall report information about all expenses in one location on the face of the statement of activities, as a schedule in the notes to financial statements, or in a separate financial statement, as discussed in paragraph [958-205-45-6](#). The relationship between functional classification and natural classification for all expenses shall be presented in an analysis that disaggregates functional expense classifications...by their natural expense classifications, such as salaries, rent, electricity, interest expense, supplies, depreciation, awards and grants to others, and professional fees. To the extent that expenses are reported by other than their natural classification (such as salaries included in cost of goods sold or facility rental costs of special events reported as direct benefits to donors), they shall be reported by their natural classification in the analysis of expenses by nature and function. For example, salaries, wages, and fringe benefits that are included as part of the cost of goods sold on the statement of activities shall be included with other salaries, wages, and fringe benefits in the analysis of expenses by nature and function. External and direct internal investment expenses that have been netted against investment return shall not be included in the analysis of expenses by nature and function. Certain items that are typically excluded from net income and that are included in other comprehensive income of business entities such as those items listed in paragraph [220-10-45-10A](#), are considered gains or losses and, like other gains and losses, shall not be included in the analysis of expenses by nature and function. See Note F in paragraph [958-205-55-21](#) for an example of how to report expenses by nature and function."

The natural classification of expense categories shown on the financial statements will likely be highly summarized. It will be important to use categories that provide sufficient information at the right level of detail. Examples can be found in FARM Chapter ¶506.8 and the [NACUBO Advisory Report 2000-08](#).

GASB

Statement of Governmental Accounting Standard (SGAS) 34 (para 41) requires governments (public institutions) to report all expenses by function except for those that meet the definitions of special or extraordinary items. And currently, GASB does not have a requirement that parallels the FASB expense “matrix”. Consequently, tracking expenses by natural classification is not required for financial reporting purposes. However, understanding the types of expenses incurred is essential for data informed decision-making, resource allocation, and budget monitoring. All of the considerations noted above apply to both public and independent institutions.

RELATED FARM CHAPTERS

[¶704-Natural Expense Classification](#)

Posted: November 2018

¶705 Financial Reporting of Expenses

¶705.1. Public Institutions

GASB has several primary requirements for reporting expenses:

Operating expenses are reported separately from nonoperating expenses. Certain expense information must be reported in management’s discussion and analysis, as required supplementary information for public institutions.

An institution must disclose its policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

GASB permits expenses to be reported by either functional or natural classification in the statement of revenues, expenses, and changes in net position (SRECNP). GASB does not prescribe specific functional or natural classifications. Instead, NACUBO provides industry classifications and definitions functional expenses in ¶701 and provides guidance and examples for natural classification of expenses in ¶704. NACUBO also encourages a matrix showing both functional and natural classification of expense. See [¶705.3](#).

¶705.11 Required Operating vs. Nonoperating Classification

GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments (SGAS 34), requires that the SRECNP distinguish between operating and nonoperating revenues and expenses. The SRECNP is to provide a subtotal for operating revenues, operating expenses, and operating income. In the GASB-prescribed format for that statement, nonoperating revenues and expenses are to be reported after operating income.

Each institution must establish a policy to distinguish between operating and nonoperating revenues and expenses and disclose that policy as a part of its summary of significant accounting policies (SGAS 34, paragraph 115). When developing that policy, SGAS 34 requires that consideration be given to the categories presented in the statement of cash flows in conformity with GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental

Entities That Use Proprietary Fund Accounting (SGAS 9). Transactions that would not be classified as operating cash flows (noncapital financing, capital and related financing, and investing) are not normally reported as operating revenues or expenses.

One example is that interest expense should be classified as a nonoperating expense, as SGAS 9 requires that interest payments to be classified as noncapital financing or capital and related financing, as appropriate. As a result, if functional classifications are used for external financial reporting purposes, interest expense cannot be allocated to the functional categories shown as operating expenses. Interest expense must be reported as a nonoperating expense, regardless of whether operating expenses are reported by functional or natural classification.

If a public institution reports expenses by functional classification, the functional classifications included in ¶701 are generally included as operating expenses, as well as operation and maintenance of plant and depreciation as operating expenses. NACUBO Advisory Report 2010-1, Public Institutions: Methodologies for Allocating Depreciation, Operations and Maintenance of Plant, and Interest Expenses to Functional Expense Categories ([Advisory Report 2010-1](#)), suggests that public institutions should consider the many users of their external audited financial statements and evaluate the possible benefits of having Part C IPEDS survey allocation results, or methodologies, be consistent with, used, or disclosed in general purpose external financial statements or other external reports.

Additional information about reporting revenues and expenses in operating and nonoperating classifications in the SRECNP is provided in [¶604.21](#).

¶705.12 Management's Discussion and Analysis

SGAS 34 requires that public institutions prepare a management's discussion and analysis (MD&A) as required supplementary information (RSI) to the financial statements. SGAS 34 requires that MD&A provide an objective and easily readable analysis of the institution's financial activities based on currently known facts, decisions, or conditions. MD&A for public institutions reporting as business-type activities should discuss, in a condensed way, information in the basic financial statements, providing comparisons with the prior year and analysis of trends and changes in financial position. Expense information would be a part of that and should include comparisons and analysis. Specifically mentioned is the requirement that total expenses be included in the MD&A. Most public institutions also include summarized financial information about functional expense classifications in the MD&A. For an in-depth discussion of MD&A requirements, see [¶603](#).

¶705.13 Release of Restrictions

Quite often, restricted resources are available to support expenses, especially if the expenses are for department costs, research, or scholarships and fellowships. In addition, a payment of debt service principal or interest might reduce the amount restricted due to debt covenants.

When writing SGAS 34, GASB specifically considered whether to require a reclassification from restricted to unrestricted net assets when an expense is incurred for a purpose for which restricted net assets are available. Paragraph 325 of SGAS 34 explains that GASB concluded that "the decision whether to first apply restricted or unrestricted resources to specific expenses should be a management matter and therefore did not include a similar requirement" [to FASB Accounting Standards Codification (ASC) 958-205-45-11 {formerly paragraph 17 of FASB Statement No. 116, Accounting for Contributions Received and Contributions Made} in which FASB requires that independent institutions release the restrictions on the net assets when an expense is incurred for which temporarily restricted net assets are available, in effect using the restricted resources first (see [¶705.21](#)). Because public institutions can choose whether to first apply unrestricted or restricted resources when an expense is incurred for which both are available, SGAS 34, paragraph 115 requires note disclosure, as a part of the summary of significant accounting policies, of the institution's policy.

The following example of such a note is taken from the 2009 financial statements of Arizona State University:

“When an expense is incurred that can be paid from either restricted or unrestricted net assets, the University’s policy is to allow the department incurring the expense to determine the appropriate funding source. Factors used by departments to determine which resources to use include relative priorities of the department in accordance with the University’s strategic initiatives, externally imposed matching requirements of certain restricted funds, and any pertinent lapsing provisions of the available restricted or unrestricted funding resources. Major capital purchases are many times split funded from multiple restricted and unrestricted funding sources.”

¶705.2 Independent Institutions

The following guidance reflects FASB Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. The ASU requires changes in a number of areas throughout the financial statements. It is effective for annual financial statements issued for fiscal years beginning after December 15, 2017—FY19 for most independent institutions. FASB has four primary requirements for reporting expenses, as follows:

FASB has four primary requirements for reporting expenses, as follows:

All expenses are reported as decreases in net assets without donor restrictions.

An analysis of functional and natural classifications of expenses must be shown in the same location within a financial report. See [¶705.3](#).

The components of total program expenses should be apparent either from the face of the statement of activities or from the notes.

Total fundraising expenses must be disclosed on the face of the statement of activities or in the notes. Beyond that, FASB permits a great deal of flexibility in the reporting of expenses in the financial statements. FASB does not define functional and natural classifications to be used in financial statements for reporting expenses. Instead, NACUBO provides industry classifications and definitions for functional expenses in [¶701](#) and provides guidance and examples for natural classification of expenses in [¶704](#).

A small but significant minority of independent institutions—principally certain large research universities—choose to report expenses by natural classification (salaries, supplies, travel, etc.) on the face of the statement of activities.

¶705.21 Expenses Reported as Decrease in Net Assets without Donor Restrictions

FASB ASC 958-220-45-7 requires that all expenses be reported as decreases in net assets without donor restrictions with the exception of investment expenses which must be netted against investment returns and reported in the net asset category in which the net investment return is reported. Quite often, donor-restricted resources are available to support the expenses, especially if the expenses are for department costs, research, or scholarships and fellowships. FASB ASC 958-205-45-11 states that “if an expense is incurred for a purpose for which both net assets without donor restrictions and net assets with donor restrictions are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specific external source of revenue.” That is, if restricted resources are available to meet a given purpose restriction, FASB requires that, for financial reporting purposes, the restriction on those resources be released and a reclassification from net assets with donor restrictions to net assets without donor restrictions be reported equal to the amount used. See [¶490](#) for discussion and illustration of the reclassification of net assets when restrictions are met.

¶705.22 Analysis of Both Functional and Natural Classifications of Expenses

An analysis that shows the relationship of total expenses by both their function and nature must be presented in a single location either on the face of the statement of activities, as a schedule in the notes to financial statements, or in a separate financial statement. Enhanced disclosures about how costs are allocated among functions are also required.

Functional classifications are not prescribed by FASB, although FASB ASC 958-720-45 provides descriptions of expenses that would be classified as program and supporting activities. ¶701 provides more information about the functional classification of expenses.

Institutions should consider the level of granularity of both natural and functional expenses that they want to present in order to make the information most useful to readers. The examples in [NACUBO's Advisory Guidance](#) show functional categories that differ from the detailed functional expense categories in ¶701 and required in the Integrated Postsecondary Education Data System (IPEDS) Finance Survey. While this is acceptable and perhaps preferable for financial statement purposes, it's important to note that NACUBO's functional expense categories have not changed. Therefore, functional expense information should continue to be kept at a more detailed level in order to accurately report the data in IPEDS.

¶705.23 Total Program Expenses

FASB ASC Master Glossary defines program services as: "The activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the not-for-profit entity (NFP) exists. Those services are the major purpose for and the major output of the NFP and often relate to several major programs."

FASB ASC Master Glossary defines supporting activities as: "All activities of a not-for-profit entity (NFP) other than program services. Generally, they include the following: (a) management and general activities, (b) fundraising activities, and (c) membership development activities."

Institutions must use judgment in classifying expenses as program services or supporting activities. For most institutions, all expenses that are classified as instruction, research, and public service represent program services. Academic support costs generally are directly related to instruction, research, and public service and, therefore, can be classified as program services. However, if academic support also provides supporting services, the amount should be allocated between program services and supporting activities for the required note disclosure. Student services such as admissions, records, and counseling also can be considered part of the costs of delivering programs, as would the amount reported as scholarship and fellowship expenses. Hospitals and independent operations also are program expenses, as the institution has chosen those patient care and research activities as part of its mission.

Institutional support is generally considered supporting expense, in part management and general and in part fundraising.

When considering the classification of auxiliary enterprise expenses as program or supporting activities, an independent institution must consider the type of activities included therein. For each activity, the institution should consider whether the activity is related to its mission (and therefore a program service) or not (a supporting activity). For example, dormitories and dining halls are closely related to the ability to provide instruction, and the expenses of those auxiliary enterprises would be classified as program services.

The analysis that includes total program expenses should describe the expenses that are considered to be program expenses, and those that are not. The following example is taken from the [NACUBO](#)

[Advisory Guidance](#), and while this detail is not required, it provides useful information to the financial statement reader.

| |
|---|
| Expenses are categorized on a functional expense basis as follows: |
| Educational activities include expenses for all activities that are part of the institution's instructional program such as expenses for academic, vocational, and technical instruction; remedial and tutorial instruction; regular, special, and extension sessions; and academic support. |
| Research includes all expenses for activities specifically organized to produce research, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. |
| Auxiliary enterprises include all expenses relating to the operation of the institution's auxiliary activities such as housing, food service, parking, and so forth. |
| Student services are considered programmatic and include activities that, as their primary purpose, contribute to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program. This category also includes expenses incurred for offices of admissions, student financial services, and the registrar. |
| Support activities includes centralized expenses incurred to provide support services for the institution's primary mission and program functions. This category includes the university's fundraising activities as well as executive management, fiscal operations, general administration and central technology. |

¶705.24 Fundraising Expenses

FASB ASC Master Glossary defines fundraising activities as: "activities undertaken to induce potential donors to contribute money, securities, services, materials, facilities, other assets, or time." FASB ASC 958-720-45-9 states that "fundraising activities include the following: (a) publicizing and conducting fundraising campaigns; (b) maintaining donor mailing lists; (c) conducting special fundraising events; (d) preparing and distributing fundraising manuals, instructions, and other materials; and (e) conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others." Fundraising expenses include the cost of obtaining contributed services, regardless of whether or not those contributed services meet the criteria for recognition.

Traditionally, most institutions have included fundraising activities within institutional support. Almost all independent institutions meet the requirement to disclose total fundraising expenses by including a note to the financial statements that discloses the total amount and the fact that it is included in institutional support.

To determine the amount to include in the required disclosure, an institution must decide which of its activities meet the definition of fundraising quoted above. Activities that comprise fund raising include donor cultivation, gift processing and stewardship. The salaries of the chief development officer and the staff involved in raising funds normally would be included, along with allocated employee benefits and the other costs involved in running the departments in which they work. These costs may include travel, marketing and advertising, and credit card fees related to gifts. Institutions should also determine whether fundraising activities occur at the school or department level, and if so, whether those costs are included within academic support or other functional categories. If the amounts are material, the school and departmental costs should also be included in the disclosure of fundraising expenses.

Fundraising expenses are only the costs related to solicitation of contributions; efforts to obtain grants that are exchange transactions and costs incurred in advertising of other activities that result in exchange revenues should not be included in total fundraising expenses.

¶705.3 Table of Functional and Natural Expenses

NACUBO Advisory Report 2000-8, Suggested Footnote Disclosure for Information Reported on the Statement of Revenues, Expenses, and Changes in Net Assets (AR 2000-8) ([Advisory Report 2000-8](#)), recommends that, whichever classification of expenses a public institution reports on the face of its SRECNP, the other classification be disclosed in the notes to the financial statements. In other words, if a public institution reports expenses by functional classification in the SRECNP, expenses by natural classification would be disclosed in the notes. Alternatively, if an institution reports expenses by natural classification in the SRECNP, the notes would disclose expenses by functional classification. Further, AR 2000-8 recommends that an expense matrix that categorizes expenses by both functional and natural classification be included as a disclosure in the notes to the financial statements.

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