

# Expenses Classified by Function (Program Code)

For external reporting purposes, public colleges and universities may report expenses by function or by natural classification. The functional classifications listed below have been brought forward from the previous editions of FARM and (originally) from the old *College and University Business Administration*, and have been updated by the NACUBO Accounting Principles Council.

## Classification of Expenses

When presenting expenses by functional expense categories in their general-purpose financial statements, public institutions should use the following functional expense classifications:

- A - Instruction
- B - Research
- C - Public Service
- D - Academic Support
- E - Student Services
- F - Institutional Support
- G - Operation and Maintenance of Plant
- H - Scholarships and Fellowships
- Accrual - Depreciation
- L - Auxiliary Enterprises

## Instruction

The instruction category 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 should be included.

Expenses for departmental research and public service that are not separately budgeted should be included in this classification. This category excludes expenses for those academic personnel whose primary activity is administration—for example, academic deans.

The instruction category includes the following subcategories:

General Academic Instruction  
Vocational/Technical Instruction  
Community Education  
Preparatory/Remedial Instruction  
Instructional Information Technology

## Research

The research category 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 these conditions, the category includes expenses for individual and/or project research as well as that of institutes and research centers. This category 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 category under the circumstances described. Expenses for departmental research that are separately budgeted are included in this category. However, the research category does not include expenses for departmental research that are not separately budgeted. Such expenses are included in the instructional category.

The research category includes the following subcategories:

Institutes and Research Centers  
Individual and Project Research  
Research Information Technology

## **Public Service**

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

The public service category includes the following subcategories:

- Community Service
- Cooperative Extension Service
- Public Broadcasting Services
- Public Service Information Technology

## **Academic Support**

The academic support category includes expenses incurred to provide support services for the institution's primary missions: instruction, research, and public service. It includes 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 development providing administration support and management direction to the three primary missions; and 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 category does not reflect such expenses.

This category includes the following subcategories:

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

## **Student Services**

The student services category includes expenses incurred for offices of admissions and the registrar and activities with the primary purpose of contributing to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program. It includes expenses for student activities, cultural events, student newspapers, intramural athletics, student organizations, intercollegiate athletics (if the program is not operated as an essentially self-supporting activity), counseling and career guidance (excluding informal academic counseling by the faculty), student aid administration, and student health service (if not operated as an essentially self-supporting activity). In recent years, some institutions have created an office of enrollment management; expenses for such an office are best categorized in student services.

The student services category includes the following subcategories:

- 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

## **Institutional Support**

The institutional support category 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 data processing; space management; employee personnel and records; logistical activities that provide procurement, storerooms, printing; 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 fund raising.

Appropriate allocations of institutional support should be made to auxiliary enterprises, hospitals, and any other activities not directly related to the primary program categories or the related support categories.

This category includes the following subcategories:

Executive Management

Fiscal Operations

General Administration

Administrative Information Technology

Public Relations/Development

## **Operations and Maintenance of Plant**

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. They include expenses normally incurred for such items 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. It does not include interest expense on capital related debt.

This category may be allocated to the other functional categories based on an acceptable allocation methodology such as square footage of buildings.

This category includes the following subcategories:

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

## **Scholarships and Fellowships**

Public institutions, after adoption of GASB Statements 34 and 35, should report tuition discounts and allowances and scholarships generally as reductions of tuition and fees revenues. Certain amounts of such items should still be reported as expenses in general-purpose financial statements. Institutional resources provided to students as financial aid should be recorded as scholarship allowances in amounts up to and equal to amounts owed by students to the institution. Institutional resources provided in excess of amounts owed by the students to the institution and refunded to students should be recorded as expenses.

Institutions, in applying this guidance on allocating financial aid between revenue discounts and expenses, will generally initially record all aid as an expense and then determine the amount of aid that should be reported as a reduction of revenues. Accordingly, it is still advisable to maintain expense accounts for aid granted.

The scholarships and fellowships category includes expenses for scholarships and fellowships—from restricted or unrestricted funds—in the form of grants to students, resulting from selection by the institution or from an entitlement program. The category also includes trainee stipends, prizes, and awards. Trainee stipends awarded to individuals who are not enrolled in formal course work should be charged to instruction, research, or public

service. Recipients of grants are not required to perform service to the institution as consideration for the grant, nor are they expected to repay the amount of the grant to the funding source. When services are required in exchange for financial assistance, as in the College Work-Study program, charges should be classified as expenses of the department or organizational unit to which the service is rendered. Aid to students in the form of tuition or fee remissions also should be included in this category. However, remission of tuition or fees granted because of faculty or staff status, or family relationship of students to faculty or staff, should be recorded as staff benefits expenses in the appropriate functional expense category.

This category includes the following subcategories:

Scholarships.

Fellowships.

## **Depreciation**

Depreciation expense should be calculated in accordance with the institution's capitalization and depreciation policies. Depreciation expense is considered both a functional and natural expense classification under GASB Statements 34 and 35. In addition, when functional expenses are reported in the Statement of Revenues, Expenses and Changes in Net Assets, depreciation expense can be allocated to other functions such as instruction, research and student services, or allocated only to plant operation and maintenance expenses, or reported separately. When depreciation expense is reported as a functional expense, depreciation for all activities (educational and general, auxiliary enterprises and hospitals) may be combined and reported as one amount in the Statement of Revenues, Expenses and Changes in Net Assets, or it may be segregated between these activities if the Statement shows separate columns or other means to delineate expenses between these activities.

The allocation methodology may be either a simple or complex one such as a multiple allocation approach. 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 upon the location of the equipment and the use of that space. This is also accomplished through a periodic inventory of the equipment.

## **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 as an essentially self-supporting activity. Examples are residence halls, food services, intercollegiate athletics (only if 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, including expenses for operation and maintenance of plant, depreciation (if allocated to functional expense categories) and administration. 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.

This category includes the following subcategories:

Auxiliary Enterprises—Student

Auxiliary Enterprises—Faculty/Staff

Intercollegiate Athletics

Auxiliary Enterprises—Other

Other Self-Supporting Enterprises

Auxiliary Enterprises—Depreciation