

Statement of Activities

The primary purpose of a statement of activities is to provide information to donors, creditors, board members, management, and others about the effects of transactions and other events that change the amount and nature of net assets; how the institution's resources are used in providing programs and services; the types of programs and services provided; and the relationship of the transactions and events to each other. The information provided in the statement of activities, together with information in the statements of financial position and cash flows and accompanying notes, should assist users of the institution's financial statements in evaluating the institution's performance during a period. This information should also help users assess the institution's service efforts and how well management has discharged their stewardship responsibilities and other aspects of their duties.

Reporting of Expenses

Expenses are outflows or other uses of assets or incurrence of liabilities from delivering or producing goods, rendering services, or carrying out other activities which constitute the institution's major operations.

Expenses Classified by Function

The functional classifications listed below are from the NACUBO Financial Accounting and Reporting Manual for Higher Education (FARM) and updated by the NACUBO Accounting Principles Council (APC). Consistent with the guidance in the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations* (NFP Guide), operation and maintenance of physical plant is not a functional category for financial statement purposes, but it is used internally to capture costs prior to allocation. When presenting expenses by functional expense classification in the financial statements, independent institutions should use the following classifications:

	BC Function Code
• Instruction	10X
• Research	3XX
• Public Service	701
• Academic Support	20X
• Student Services	401
• Institutional Support	60X
• Scholarships and Fellowships	90X
• Auxiliary Enterprises	501

Expenses by Function—Educational and General

Educational and general expenses include all expenses other than those for auxiliary enterprises. Educational and general expenses are normally further categorized as instruction, research, public service, academic support, student services, institutional support, and scholarships and fellowships.

Instruction 101, 106

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

. This subcategory includes expenses for formally organized and/or separately budgeted instructional activities that are associated with academic offerings described by the Integrated Postsecondary Education Data System (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.

Vocational/Technical Instruction

. This subcategory 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.

Community Education

. This subcategory 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 subcategory 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.

Preparatory/Remedial Instruction

. This subcategory 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, 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.

Instructional Information Technology

. This subcategory 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 applied to academic support and the remainder to institutional support.

Research 301, 302, 303

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. 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

. This subcategory includes expenses for research activities that are part of a formal research organization created to manage a number of research efforts.

Individual and Project Research

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

Research Information Technology

. This subcategory 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 applied to academic support and the remainder to institutional support.

Public Service 701

The public service category includes expenses for activities established primarily to provide non-instructional 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 non-instructional services to particular sectors of the community.

The public service category includes the following subcategories:

Community Service

. This subcategory 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.

Public Service Information Technology

. This subcategory 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 applied to academic support and the remainder to institutional support.

Academic Support 201, 202

The academic support category includes expenses incurred to provide support services for the institution's primary missions 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 development providing administration 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 category does not reflect such expenses.

This category includes the following subcategories:

Libraries 202

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

Museums and Galleries 201

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

Educational Media Services 201

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

Academic Support Information Technology

. This subcategory 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 three primary programs—instruction, research, and public service—will be applied to this category and the remainder to institutional support.

Academic Administration 201

. This subcategory includes expenses for activities specifically designed and carried out to provide administrative and management support to the academic programs. This subcategory 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 subcategory 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 subcategory, but should be classified as institutional support due to the institution-wide nature of this individual's responsibilities.

Academic Personnel Development 201

. This subcategory 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 subcategory also includes formally organized and/or separately budgeted activities that evaluate and reward professional performance of the faculty. Included in this subcategory are sabbaticals, faculty awards, and organized faculty development programs.

Course and Curriculum Development 201

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

Student Services 401

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 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 category includes the following subcategories:

Student Services Administration

. This subcategory includes expenses for organized administrative activities that provide assistance and support (excluding academic support) to the needs and interests of students. This subcategory includes only administrative activities that support more than one subcategory of student activities and/or that provide central administrative services related to the various student service activities. In particular, this subcategory includes services provided for particular types of students (for example, minority students, veterans, and disabled students). Some institutions consolidate various activities in a unit titled enrollment management; expenses for such a unit would be included in this subcategory. Excluded from this subcategory 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.

Social and Cultural Development

. This subcategory includes expenses for organized activities that provide for students' social and cultural development outside the formal academic program. This subcategory includes cultural events, student newspapers, intramural athletics, student organizations, etc. Expenses for an intercollegiate athletics program are included in this subcategory if the program is not operated as an auxiliary enterprise (in which case all the related expenses would be reported as auxiliary enterprises).

Counseling and Career Guidance

. This subcategory includes expenses for formally organized placement, career guidance, and personal counseling services for students. This subcategory includes vocational testing and counseling services and activities of the placement office. Excluded from this subcategory are formal academic counseling activities (academic support) and informal academic counseling services provided by the faculty in relation to course assignments (instruction).

Financial Aid Administration

. This subcategory includes expenses for activities that provide financial aid services and assistance to students. This subcategory does not include outright grants to students, which should be classified as revenue reductions, agency transactions, or expenses.

Student Admissions

. This subcategory 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.

Student Records

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

Student Services Information Technology

. This subcategory 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 applied to academic support and the remainder to institutional support.

***Institutional Support* 60X**

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 information technology (when not accounted for in other categories); 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 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 categories.

This category includes the following subcategories:

Executive Management 601

. This subcategory 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). 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. This subcategory includes such operations as executive direction (for example, governing board), planning and programming operations, legal, risk, compliance, and internal audit operations.

Fiscal Operations 601

. This subcategory includes expenses for operations related to fiscal control and investments. It includes the accounting office, bursar's office, and external audits. Interest expense on working capital loans is also recorded with institutional support. It also includes bad debt expense and unallocable interest expense.

General Administration 601

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

Administrative Information Technology 602

. This subcategory 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 applied to academic support and the remainder to this category.

Public Relations/Development 603

. This subcategory 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.

Scholarships and Fellowships 901, 902

Generally, independent institutions report most tuition discounts and allowances and scholarships as reductions of tuition and fees revenues.

This category includes the following subcategories:

Scholarships

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

Fellowships

. This subcategory 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.

Auxiliary Enterprises 501

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 essentially 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 (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.

The auxiliary enterprise category includes all expenses relating to the operation of auxiliary enterprises, including expenses for operation and maintenance of plant, depreciation 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 cost 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

. This subcategory 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.

Auxiliary Enterprises—Faculty/Staff

. This subcategory 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.

Intercollegiate Athletics

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

Auxiliary Enterprises—Other

. This subcategory 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*.

Other Self-Supporting Enterprises

. This subcategory 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 an other self-supporting enterprise while the chemistry stores department that only services other chemistry units would be reported net within academic support under functional expense reporting.

Expenses incurred under this subcategory 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).

Auxiliary Enterprises –Depreciation

. This subcategory includes depreciation expense for facilities, equipment and infrastructure assets of the institution's auxiliary enterprises.

Auxiliary Enterprises Information Technology

. This subcategory 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 applied to academic support and the remainder to institutional support.

Operation and Maintenance of Plant Expenses 609

Although for external financial reporting purposes this category is required to be allocated to the functional categories, many independent institutions still use this category to report functional expenses internally and to capture costs prior to allocation. As a result, this category is neither a functional or natural expense category.

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. It does not include interest expense on plant-related debt.

This category includes the following subcategories:

Physical Plant Administration

. This subcategory 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 subcategory. Also included are property, liability, and all other insurance relating to property.

Building Maintenance

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

Custodial Services

. This subcategory includes expenses related to custodial services in buildings.

Utilities

. This subcategory includes 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

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

Major Repairs and Renovations

. This subcategory 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. Costs that will be capitalized in accordance with the institution's capitalization policy are excluded.

Security and Safety

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

Logistical Services

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

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 applied to academic support and the remainder to institutional support.

Independent Operations

This category 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 category 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 (i.e., 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 category. Operations with commercial aspects that primarily support instruction, research, and/or public service (for example, hospitals and ancillary support activities) are also 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. In some instances, the independent operation is a separate legal entity; in this case, the relationship should be evaluated in accordance with AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, to determine if the independent operation needs to be consolidated with the institution or whether just disclosure in the institution's notes is appropriate.

If the entity is not a separate legal entity, the nature of the independent operation needs to be evaluated. Transactions and agreements between the independent operations and resource providers should be evaluated to determine whether the transactions are contributions, agency relationships or exchange transactions. This is especially the case for private institutions responsible for FFRDC's. 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 these circumstances, the revenues and expenses of the FFRDC should be consolidated with the institution.

This subcategory includes the following subcategories:

Independent Operations/Institutional

. This subcategory includes separately organized operations owned or controlled by an institution but unrelated to, or independent of, the institution's missions. This subcategory generally includes commercial enterprises operated by the institution but not established to provide services to students, faculty, or staff or to provide support to one or more of the institution's missions. Activities operated as auxiliary enterprises (i.e., 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 subcategory. 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 activities operated as part of the institution's endowment funds.

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

. Included in this subcategory are the FFRDCs listed below; all other institutionally operated research centers should be classified as institutes and research centers in the research category.

Center	Institution
Lincoln Laboratory	Massachusetts Institute of Technology
Software Engineering Institute	Carnegie Mellon University
Argonne National Laboratory	UChicago Argonne, LLC
Fermi National Accelerator Laboratory	Universities Research Association, Inc
Princeton Plasma Physics Laboratory	Princeton University
Stanford Linear Accelerator Center	Stanford University
Thomas Jefferson National Accelerator Facility	Southeastern Universities Research Association. Inc.
Jet Propulsion Laboratory	California Institute of Technology
National Astronomy and Ionosphere Center	Cornell University
National Center for Atmospheric Research	University Corporation for Atmospheric Research
National Optical Astronomy Observatories	Association of Universities for Research in Astronomy, Inc.
National Radio Astronomy Observatory	Associated Universities, Inc.