

NACUBO Functional Classification of Expense

Introduction

NACUBO functional classification of expense categorizes a transaction by intent – i.e., what deliverable of the institution the expense is intended to support. Functional classification structure follows industry standard categories issued by the National Association of College and University Business Officers (NACUBO) and is reported in the Annual Financial Report and to many external organizations. This system helps internal and external parties (such as donors, government agencies, creditors, etc.) understand how we utilize our resources in relation to the missions of our institutions. This document is intended as a quick reference to look at each of the major NACUBO function categories.

Categories

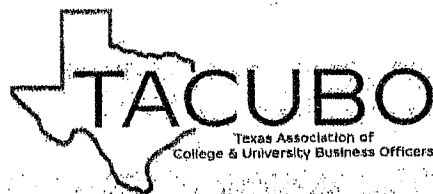
- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Operations & Maintenance
- Scholarships & Fellowships
- Auxiliary Enterprises
- Independent Operations
- Hospitals

Instruction

Expenses classified as Instruction are those activities related to academic instruction. These expenses are to be viewed as those directly contributing to the classroom. This does not include academic personnel whose primary duties are administrative (ex: academic Deans). Departmental research and public service activities that are not budgeted separately should also be coded as Instruction.

Research

The Research category is meant for those activities specifically organized to produce research, whether commissioned by the institution or an external agency or entity. This includes, but is not limited to, individual and project research, as well as that of institutes and research centers. Expenses for departmental research that are separately budgeted are included, however, if the research is NOT separately budgeted, it would be included in the Instruction category and not as Research. This is not limited to just sponsored research.



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Public Service

Public Service is defined as activities that provide non-instructional services for the benefit of internal and external groups and individuals. This would include non-instructional community service programs and activities, cooperative extension services, among others. Inclusive activities in Public Service would include, but not be limited to, conferences, institutes, general advisory services, and many other non-instructional services. What can be called a Public Service is very broad, but the service must be for the community at-large.

Academic Support

Academic Support includes any expenses incurred in providing support services for the primary programs of instruction, research, and public service. These services include: academic administration excluding department Chairs (which would be classified as Instruction), administrative support personnel, libraries, museums, galleries, media and audio-visual arts, course and curriculum development, and academic support IT. Academic Support is somewhat of a "catchall."

Student Services

This category includes expenses from activities that, as their primary purpose, contribute to students' emotional and physical well-being and intellectual, cultural, and social development outside of formal classroom instruction. Major uses of this category are for admissions and enrollment offices, registrar, student activities, cultural events, student newspaper, intramural activities, student organizations, counseling and career guidance and student aid administration. It is important to note that to be classified as Student Services, the activity cannot be operated as an auxiliary enterprise (see Auxiliary Enterprises).

Institutional Support

The Institutional Support category includes administrative areas responsible for management and long-range planning of the institution, such as the Board of Regents, executive management (any and all VPs/Chiefs/etc.), legal service, financial operations, IT (when not applicable to other categories), business services, Human Resources, community and alumni relations and space management.

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Independent Operations

The Independent Operations category includes expenses of separately organized operations owned or controlled by entities that are unrelated to or independent of the institution's primary mission. These expenses are generally associated with commercial enterprises that **are not** established for the primary benefit of students, faculty or staff of the institution (as opposed to Auxiliaries). Independent Operations are often referred to as "Agency Funds."

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. 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.

Function in Practice

Other Things to Know...

-NACUBO Functional classifications are not audited and because of this, your institution may interpret certain definitions differently than others. There is no one single source of truth so your institution has wide latitude for interpretation..

-Follow the 95/5 rule... 95% of the time you will use the same classification for the same expenses. Once in a while, there may come a situation where you have to reach out for help. And remember, size and scope matter. Your time is valuable!

-Academic departments and their support staff operating expenses will generally be considered as Instruction, whereas a Deans' office operations are Academic support. Also, Provosts and other VPs are, by definition, to be recorded as Institutional Support, even if their direct reports are coded in other categories (ex: VP Student Services).

-If your position and/or department has System-wide or institution-wide responsibilities, usually expenses will be recorded as Institutional Support or Student Services.

-Intercollegiate athletics are allowed to be categorized as either Student Services or Auxiliary Enterprises.

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Operations & Maintenance

Includes all activity related to the operation and maintenance of physical plant, excluding those amounts that could be included in another category such as auxiliary enterprises or hospitals. Building maintenance, custodial services, landscape and grounds maintenance, non-capitalized repairs and renovations, and administrative activities directly related to support of physical plant operations.

Also included as an O&M expense are police departments. This is based on the fact that police and security forces are there to protect the assets of the institution and those who utilize them.

Scholarships & Fellowships

This category is defined as student awards that are recorded as expenses rather than reductions to tuition and fees. This can include grants-in-aid, trainee stipends, and tuition and fee waivers.



Auxiliary Enterprises

Auxiliary Enterprises are defined as generally self-supporting enterprises that provide goods or services for the primary benefit of institutional stakeholders where a fee is charged for the good or service. Examples of Auxiliaries are dining services, housing, parking, and student health services. Auxiliaries will often be found in student unions or recreational centers. Intercollegiate athletics is also often considered as an auxiliary.