Advertising costs should be distinguished from fund-raising costs. Advertising costs would include charges incurred to generate demand for a product or service which will result in additional revenues. This would include advertising for students and athletic programs. Advertising costs should be expensed as incurred, or the first time the advertising takes place, except for direct response advertising which will result in future benefits. In this case, the excess of the future revenues over future costs may be capitalized. Of course, if no charges are made for the future services, then the advertising costs may not be deferred.

Revenues and expenses are to be reported gross, except for investment revenues and expenses, which may be reported net. Gains and losses may be reported net. The cost of special events must be reported gross (along with revenues) if the fund-raising activities are major or central activities. If the fund-raising activities are peripheral in nature, the net amount may be reported. In most cases, institutional special event fund-raising activities would be considered peripheral in nature.

Many of these major points will be discussed in more detail in later parts of this chapter. The next section of the chapter presents suggested procedures for the recording of expenses by private higher education institutions based on the new pronouncements of FASB and AICPA. Previous functional categories will be maintained, except those that must be changed by the new pronouncements, such as the elimination of the Operation and Maintenance of Physical Plant category. The materials will assume that business officers will report total program expenses and total fund-raising expenses in the notes.

¶452 Classification of Expenses by Function

For external reporting purposes, private colleges and universities report expenses by function either in the Statement of Activities or in the notes. The following functional classifications listed below have been brought forward from the previous editions of FARM and (originally) from the old College and University Business Administration. Institutions may choose to use these functional categories until the NACUBO Accounting Principles Council finishes addressing the issue of functional reporting. Operation and Maintenance of Physical Plant has been eliminated as a category due to guidance of the AICPA not-for-profit guide.

- Educational and General
  - Instruction
  - Research
  - Public Service
  - Academic Support
  - Student Services
  - Institutional Support
• Scholarships and Fellowships
• Auxiliary Enterprises
• Hospitals
• Independent Operations

¶452.1 Expenses by Function—Educational and General. Educational and general expenses are recorded for all expenses that are not for auxiliary enterprises, hospitals, or independent operations. Educational and general expenses are normally categorized as instruction, research, public service, academic support, student services, institutional support, and scholarships and fellowships. Note that operation and maintenance of physical plant, a category used for many years, is not included due to the requirements of the not-for-profit guide.

¶452.11 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 academic instruction when the primary assignment is administration—for example, academic deans. However, expenses for department chairpersons and administrators for whom instruction is an important role are included.

The instruction category includes the following subcategories:

¶452.111 General Academic Instruction. This subcategory includes expenses for formally organized and/or separately budgeted instructional activities that are carried out during the academic year, associated with academic offerings described by certain IPEDS instructional program categories and offered for credit as part of a formal postsecondary education degree or certification program. Open university, short courses, and home study activities falling within this classification and offered for credit are included. However, this subcategory 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.

¶452.112 Vocational/Technical Instruction. This subcategory includes expenses for formally organized and/or separately budgeted instructional activities that are carried out during the academic year, usually associated with IPEDS instructional program categories identified as vocational and technical 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. However, this subcategory 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.
¶452.113 Special Session Instruction. This subcategory includes expenses for formally organized and/or separately budgeted instructional activities (offered either for credit or not for credit) that are carried out during a summer session, interim session, or other period not common with the institution's regular term. This subcategory classifies expenses made solely as a result of conducting a special session (such as faculty salaries associated with the special session). Special sessions do not include regular academic terms held during the summer. Expenses for special sessions conducted over a fiscal year-end should be prorated (along with revenues) between fiscal years. The revenues and expenses for any special session should be matched in the same fiscal year.

¶452.114 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.

¶452.115 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 should be included in this category. For example, if students may satisfy preparatory requirements by taking offerings provided primarily for other than remedial or preparatory purposes, those offerings should be classified elsewhere.

¶452.12 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 for research are included in this category; however, expenses for departmental research that are not separately budgeted are not included in this category but are included in the instructional category.

This category includes the following subcategories:
¶452.121 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. This subcategory also includes agricultural experiment stations.

¶452.122 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 general resources.

¶452.13 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.

Public service includes the following subcategories:

¶452.131 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. The activities included in this subcategory are generally sponsored and managed outside the context of both the agricultural and urban extension programs and of the institution’s public broadcasting station.

¶452.132 Cooperative Extension Service. This subcategory includes expenses for noninstructional 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. This subcategory is intended primarily for land-grant colleges and universities and includes both agricultural extension and urban 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 subcategory is rarely used by private institutions.

¶452.133 Public Broadcasting Services. This subcategory includes expenses for operation and maintenance of broadcasting services operated outside the context of the institution’s instruction, research, and academic support programs. Excluded from this subcategory are broadcasting services conducted primarily in support of instruction (classified in the subcategory ancillary support), broadcasting services operated primarily as a student service activity (classified in the subcategory social and cultural development), and broadcasting services that are independent operations (classified in the subcategory independent operations/institutional).
452.14 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 (instruction, research, public service); 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.

The academic support category includes the following subcategories:

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

452.142 Museums and Galleries. 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.

452.143 Educational Media Services. 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.

452.144 Academic Computing Support. This subcategory includes expenses for formally organized and/or budgeted activities that provide computing support to the three primary programs of instruction, research, and public service. Excluded from this category is administrative data processing, which is classified as institutional support.

452.145 Ancillary Support. This subcategory includes expenses for organized activities that provide support services to the three primary programs of instruction, research, and public service, but are not appropriately classified in the previous subcategories. 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.

452.146 Academic Administration. 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 only 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