

¶342 Expenses by Functional Classification

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 (CUBA)*, and have been updated by the NACUBO Accounting Principles Council.

Public institutions should report all tuition and fee revenue net of scholarship discounts and allowances. Amounts provided to students as financial aid should be recorded as scholarship allowances (netted against revenues) in amounts up to those owed by the students. Amounts paid to the students in excess of amounts owed (e.g., for living expenses) should be recorded as student financial aid expense. Tuition remission benefits for employees and their dependents should be accounted for as compensation expense since the tuition remission benefit was given in exchange for services rendered by the employee.

¶342.1 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:

- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Operation and Maintenance of Plant
- Scholarships and Fellowships
- Depreciation
- Auxiliary Enterprises
- Hospitals
- Independent Operations

¶342.11 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 those academic personnel whose primary activity is administration—for example, academic deans.

The instruction category includes the following subcategories:

¶342.111 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. 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.

¶342.112 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. 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.

¶342.113 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.

¶342.114 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. If students may satisfy preparatory requirements by taking offerings provided primarily for other than remedial or preparatory purposes, those offerings should be classified elsewhere.

¶342.115 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—(instruction, research, and public service) will be applied to academic support and the remainder to institutional support.

¶342.12 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 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:

¶342.121 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. While this

subcategory includes agricultural experiment stations, it does not include federally-funded research and development centers, which, for public institutions, should be classified as independent operations.

¶342.122 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.

¶342.123 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—(instruction, research, and public service) will be applied to academic support and the remainder to institutional support.

¶342.13 Public Service

. 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:

¶342.131 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 the institution's public broadcasting station.

¶342.132 Cooperative Extension Service

. This subcategory 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. 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.

¶342.133 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 ancillary support subcategory in academic support), broadcasting services operated primarily as a student service activity (classified in the social and cultural development subcategory in student services), and broadcasting services that are independent operations (classified in the independent operations/institutional subcategory in independent operations).

¶342.134 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.

¶342.14 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 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 information technology

- | Academic administration (including academic deans but not department chairpersons) and personnel providing administrative support and management direction to the 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:

¶342.141 Libraries

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

¶342.142 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.

¶342.143 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.

¶342.144 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.

¶342.145 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.

¶342.146 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 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.

¶342.147 Academic Personnel Development

. 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.

¶342.148 Course and Curriculum Development

. 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.

¶342.15 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 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:

¶342.151 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 this 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.

¶342.152 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).

¶342.153 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).

¶342.154 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.

¶342.155 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.

¶342.156 Student Records

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

¶342.157 Student Health Services

. This subcategory includes expenses for organized student health services that are not self-supporting; health services that are self-supporting are reported as auxiliary enterprises.

¶342.158 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.

¶342.16 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 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 fund raising.

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, or public service—or their related support categories.

This category includes the following subcategories:

¶342.161 Executive Management

. 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.

¶342.162 Fiscal Operations

. 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 recorded with other interest expense and is not recorded as institutional support. In addition, bad debt expense arising from student loans is recorded in this subcategory. However, bad debts arising from student and other accounts receivables are recorded as a reduction of the specific revenue source (e.g., tuition, auxiliary fees) rather than as an expense.

¶342.163 General Administration

. 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.

¶342.164 Administrative Information Technology

. 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.

¶342.165 Public Relations/Development

. 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 fund raising. If institutions conduct fundraising activities in conjunction with instructional or other program or supporting activities,

Statement of Position 98-2, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*, is used to determine whether the expenses can be allocated. This SOP requires that if certain criteria—purpose, audience, and content—are met, the costs of the activity should be allocated between fundraising and the appropriate program or institutional support. If all of the criteria are not met, the entire amount is classified as fund raising costs.

¶342.17 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:

¶342.171 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.

¶342.172 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.

¶342.173 Custodial Services

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

¶342.174 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.

¶342.175 Landscape and Grounds Maintenance

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

¶342.176 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.

¶342.177 Security and Safety

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

¶342.178 Logistical Services

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

¶342.179 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.

¶342.18 Scholarships and Fellowships

. Generally, public institutions report tuition discounts and allowances and scholarships as reductions of tuition and fees revenues, as discussed in [¶331](#). Institutional resources provided in excess of amounts owed by the students, and refunded to students, should be recorded as expenses. NACUBO Advisory Report 2000-5 sets forth and illustrates the appropriate accounting and reporting or various types of tuition discounts and scholarships.

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:

¶342.181 Scholarships

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

¶342.182 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.

¶342.19 Depreciation

. Depreciation expense should be calculated in accordance with the institution's capitalization and depreciation policies. See [¶307](#) on capital assets for additional information.

Depreciation expense is considered both a functional and natural expense category. In addition, when functional expenses are reported in the SRECNA, 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 SRECNA. Alternatively, it may be segregated between these activities if the SRECNA has 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.

¶342.20 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 (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:

¶342.201 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.

¶342.202 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.

¶342.203 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).

¶342.204 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.

¶342.205 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).

¶342.206 Auxiliary Enterprises—Depreciation

. This subcategory includes depreciation expense for facilities, equipment, and infrastructure assets of the institution's auxiliary enterprises if the institution chooses to allocate depreciation among its functional expense categories.

¶342.207 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.

¶342.21 Hospitals

. The hospital category includes all expenses associated with the patient care operations of a hospital, including nursing and other professional services, general services, administrative services, fiscal services, depreciation (if allocated to functional expense categories) and charges for physical plant operations. 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 category and accounted for in the appropriate categories.

This category includes the following subcategories:

¶342.211 Direct Patient Care

. This subcategory 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.

¶342.212 Health Care Supportive Services

. This subcategory 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.

¶342.213 Administration of Hospitals

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

¶342.214 Physical Plant Operations for Hospitals

. This subcategory includes expenses for activities related directly to maintaining the grounds and facilities of a hospital as well as providing utility services.

¶342.215 Depreciation of Hospital Facilities and Equipment

. This subcategory includes depreciation expense for facilities, equipment, and infrastructure assets of the hospital if the institution chooses to allocate depreciation among its functional expense categories.

¶342.216 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 applied to academic support and the remainder to institutional support.

¶342.22 Independent Operations

. The independent operations category includes expenses that are independent of or unrelated to, but that may enhance the primary missions of, an institution. This category generally is limited to expenses associated with commercial enterprises and specific federally funded research and development centers (FFRDCs). 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) also are excluded. Also excluded are expenses associated with property owned and managed as investments of the institution's endowment funds.

This subcategory includes the following subcategories:

¶342.221 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 and that are not federally funded research and development centers (FFRDCs).

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

. Included in this subcategory are the Ames Laboratory at Iowa State University and the Lawrence Berkeley Laboratory at the University of California. All other institutionally operated research centers should be classified as institutes and research centers in the research category.