



October 27, 2022

Ms. Amy Barmer
IPEDS Technical Review Panel Task Leader
RTI International
ipedstrpcomment@rti.org

Dear Ms. Barmer,

I am writing on behalf of the National Association of College and University Business Officers (NACUBO). NACUBO is a nonprofit professional organization representing chief financial officers and their staffs at approximately 1700 nonprofit (NFP) and public colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance and regularly educates higher education professionals on accounting and reporting requirements and practices. NACUBO has a close working relationship with the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). We regularly provide feedback and consultation to standard setters, auditors, federal agencies, and users of financial statements on topics and issues that impact NFP and public higher education.

Thank you for the opportunity to comment on the *Report and Suggestions from IPEDS Technical Review Panel #66: Revisiting the Purpose of the Finance Survey Component* (the report). NACUBO is the only higher education association that establishes NFP and public higher education sector guidance for financial reporting matters that extend beyond the scope of FASB and GASB standards. In keeping with NACUBO's mission and expertise, our comments are on behalf of NFP and public higher education. We begin with overall feedback and provide additional contextual information for topics covered in the report.

Overall Observations:

NACUBO supports efforts to address finance survey user needs, data quality, and institutional burden. From NACUBO's vantage point, streamlining data collection in ways that reduce burden for institutions, ensure data validity, and foster consistency and comparability among institutions are as important as the utility of information across NFP and public higher education. Although NFP and public higher education is fairly equally divided between institutions that follow FASB and GASB, we believe there is essential information that can be collected and normalized.

We fundamentally believe that data reliability can be improved by using survey questions that allow data to be validated with institutions audited financial statements, and that data utility can be enhanced by using derivation rules to present common, derived variables. The rules must involve a comprehensive understanding of data reported on the face of and notes to financial statements: their definitions, communication intent, measurement principles, and how information is operationally controlled and aggregated for financial reporting. NACUBO accounting policy staff possess this knowledge, and we

regularly work with adept business officers who prepare myriad financial reports for federal and local users; all such reports must be proved back to audited financial statements.

Establishing an IPEDS Finance Working Group:

NACUBO applauds this approach for advancing the discussion so that the IPEDS Finance survey can meet the needs of its users. We strongly encourage NCES to include NACUBO accounting policy staff, our Financial Accounting and Reporting Manual (FARM) author, and financial reporting experts from varying types and sizes of NFP and public institutions. NACUBO can assist with business officer recommendations. We believe that financial management, accounting, and reporting experts can help NCES think through how available data can solve policy and user questions. Although we were disappointed that NACUBO accounting policy representation was not invited to participate in the TRP, we believe accounting policy staff can add tremendous value as members of the finance working group.

Balance Sheet:

NACUBO agrees with the TRP conclusions that reporting only total assets, total liabilities, and net assets / net position / equity would dilute the importance of balance sheet information. Although the balance sheet may not be well understood by non-financial professionals, it contains very valuable information. For example:

NFP and public higher education institutions have campuses. The value of the campus plant and debt are important for understanding cost information: maintenance, campus security, plant-related and non-plant debt service, the extent to which a university may be over-leveraged, and the extent to which fee for service charges are needed to cover debt service and other plant related functions.

NFP and public colleges and universities can have investment portfolios comprised of many endowment funds that exist for the perpetual support of institutions. Understanding the components of an institution's endowment portfolio can help explain donor wishes, legal restrictions, sources of institutional aid, and expected annual budget relief.

Scholarships and Fellowships:

In keeping with our overarching observation that finance survey data should track to the audited financial statements, colleges and universities ought to report their institutional aid amounts applied to tuition and fees and auxiliary services directly from their financial statements. Colleges and universities can also report their total scholarship expense (institutional aid that exceeds the invoiced price that is disbursed to students). Because institutions that report under GASB recognize revenue for Pell Grants with an offsetting discount as funds are applied against student charges, all institutions should be able to report amounts of Pell Grant revenue recognized and contained in their discounts. Knowing Pell amounts will allow for derived variables that normalize the discount for the Pell Grant factor. The current forms are a bit confusing to the financial reporting preparers.

Sources of Discounts / Institutional Aid:

Although this is valuable information from a policy perspective, especially for institutions with significant endowment funds, we agree with the panel that it is not easy for many institutions to report discount sources with accuracy. Consequently, perhaps only institutions above a certain endowment threshold should be required to provide such information. Since larger and more sophisticated institutions tend to have larger endowments, the information would be easier to provide.

Revenues and Other Additions:

The objective of revenue and other additions is to understand both the source and amount of revenue used by colleges and universities to support their mission and cover total expenses in the reporting period. We agree that differences between FASB and GASB accounting and reporting standards make perfect comparability impossible. Again, in keeping with our overall observation and recommendations on page 1, we suggest derived variables that at least provide a reasonable starting point for revenue source comparability. We feel confident that a working group will be able to address this.

Expenses and Other Deductions:

NACUBO is pleased with the TRP decisions to maintain the functional expense status quo, to do otherwise would be challenging, would require changes in general ledger account structure and operational processes, and, as such, would be burdensome for institutions and report preparers. We offer additional information on the functional expense definitions in the paragraphs below for the public record. We also provide an appendix to our comments on page 6 that contains definitions for functional categories discussed during the TRP. We believe the official definitions may help with the concerns about clarity that were discussed by the panel.

Historical Functional Expense Context and NACUBO

A functional expense classification is a method of grouping expenses according to the purpose for which the costs are incurred. The classifications tell *why* an expense was incurred rather than *what* was purchased. The functional expense definitions date back to the original College and University Administration Guide (CUBA) published by the American Council on Education in the 1970s and the original American Institute of Certified Public Accountants College and University Audit Guide first published in 1973. NACUBO took over the maintenance, publication, and distribution of the functional expense definitions in 1985, and NACUBO's FARM serves as the authoritative guide for assigning expenses to a primary function.

Financial Accounting and Reporting Manual

FARM uniquely addresses higher education accounting and reporting and is freely available to all NACUBO member institutions, federal agencies requiring access, and accounting standard setters. Any changes to the definitions go through a NACUBO council of experts and involve comprehensive communication to the association's member institutions as well as an Advisory Report that explains and serves as an update source to the FARM.

Chart of Accounts Structure

NACUBO's functional expense categories, subcategories, and definitions are embedded into NFP and public institutions' general ledgers via chart of account organization and account code / account string

structure. New systems – both cloud-based and institution hosted – use the definitions for new account string format and implementation.

Since 2019, FASB has required NFP financial reporting by functional and natural expenses and NFP institutions rely on the NACUBO definitions. Since 2002, GASB institutions have produced functional to natural expense reporting in their audited financial statements based on NACUBO's criteria. Finally, because Office of Management and Budget cost accounting requirements (related to sponsored research activity) are dependent on the functional expense definitions and related chart of account structure, institutions must keep these definitional standards and general ledger structure in place.

For-profit Institutions

Although there is a solid foundation for NFP and public higher education's use of standard functional expense categories, for-profit institutions that follow FASB accounting and reporting guidance do not have functional expense accounting and reporting requirements. When IPEDS added functional reporting as a finance survey requirement for public institutions, those institutions may not have had the full definitions or operational and general ledger capability to fully meet the requirement.

Revenues and Expenses:

NACUBO agrees with decisions reached by the TRP that the burden and cost of associating revenue source with functional spending categories outweighs the value of implementing desired changes. However, it may be possible to associate revenue with very high programmatic expense levels that group functional expense categories into buckets such as educational activities, auxiliary activities, sponsored research, hospitals, and independent operations. As mentioned earlier in our comments, such efforts could involve deriving variables using consistent rules. This is something the working group may consider.

Financial Health:

We understand the need for indicators of financial health. However, such indicators can be complex because it is not necessarily one-size-fits-all for every institution that reports data through the finance survey. Several years ago, a new requirement for institutions to report calculated numerators and denominators for the four key ratios comprising the composite financial index was instituted because for over 25 years the CFI has been the gold standard.

The CFI is used by many NACUBO member institutions, accreditors, analysts, and rating agencies—and the Department of Education uses a derivation of the CFI to assess financial health for NFP and for-profit institutions, known as the composite score. However, calculating the CFI ratios is not easy for many institutions. For-profit schools do not have a tested crosswalk for the formulas, and public institutions must include their significant affiliated organizations and exclude pension and other post-employment benefit income statement and balance sheet information.

Financial health is clearly an area that the proposed workgroup should tackle. Perhaps the finance survey can start with a small step, such as subtracting current liabilities from available and liquid resources.

In conclusion, I'd like to thank you for your consideration and time in reviewing our comments. We look forward to news about the IPEDS Finance Working Group. Please direct any questions to me at smenditto@nacubo.org.

Sincerely,

A handwritten signature in black ink, appearing to read "S Menditto". The signature is fluid and cursive, with the first letter being a large, stylized 'S'.

Susan M. Menditto
Senior Director, Accounting Policy
National Association of College and University Business Officers

APPENDIX
Functional Expense Definitions from NACUBO's Financial Accounting and Reporting Manual

¶701.21 Instruction

The instruction classification 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 are included. Expenses for departmental research and public service that are not separately budgeted also are included in this classification.

This classification excludes expenses for those academic personnel whose primary activity is administration—for example, academic deans.

The instruction classification includes the following five subclasses:

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

¶701.211 General Academic Instruction

This subclass includes expenses for formally organized and/or separately budgeted instructional activities that are associated with academic offerings described by the 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.

This subclass 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.

¶701.212 Vocational/Technical Instruction

This subclass 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.

This subclass 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.

¶701.213 Community Education

This subclass 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 subclass 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.

¶701.214 Preparatory/Remedial Instruction

This subclass 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, which are 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.

¶701.215 Instructional Information Technology

This subclass 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 classified as academic support and the remainder as institutional support.

¶701.24 Academic Support

The academic support classification includes expenses incurred to provide support services for the institution's primary programs 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 providing administrative 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 classification does not include those expenses.

The academic support classification includes the following eight subclasses:

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

¶701.241 Libraries

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

¶701.242 Museums and Galleries

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

¶701.243 Educational Media Services

This subclass includes expenses for organized activities providing audiovisual and other services that aid

in the transmission of information in support of the institution's primary programs of instruction, research, and public service.

¶701.244 Ancillary Support

This subclass includes expenses for organized activities that provide support services to the three primary programs of instruction, research, and public service, but that are not appropriately classified in the previous subclasses. 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. Hospital expenses have their own functional classification.

¶703.245 Academic Administration

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

¶701.246 Academic Personnel Development

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

¶701.247 Course and Curriculum Development

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

¶701.248 Academic Support Information Technology

This subclass 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 institution's three primary programs—instruction, research, and public service—will be included to this subclass and the remainder will be included in institutional support.

¶701.25 Student Services

The student services classification includes expenses incurred for offices of admissions and the registrar and activities that, as their primary purpose, contribute to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of the formal instruction program. This classification 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 classification includes the following eight subclasses:

- Student Services Administration
- Social and Cultural Development
- Counseling and Career Guidance
- Financial Aid Administration
- Student Admissions
- Student Records
- Student Health Services
- Student Services Information Technology.

¶701.251 Student Services Administration

This subclass includes expenses for organized administrative activities that provide assistance and support (excluding academic support) to the needs and interests of students. This subclass includes only administrative activities that support more than one subclass of student activities and/or that provide central administrative services related to the various student service activities.

Some institutions consolidate various activities in a unit titled enrollment management. Expenses of an enrollment management unit would be included in this subclass.

This subclass includes services provided for particular types of students (for example, minority students, veterans, and disabled students).

Excluded from this subclass 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.

¶701.252 Social and Cultural Development

This subclass includes expenses for organized activities that provide for students' social and cultural development outside the formal academic program. It includes cultural events, student newspapers, intramural athletics, student organizations, etc.

Excluded from this subclass are expenses for an intercollegiate athletics program that is operated as an auxiliary enterprise.

¶701.253 Counseling and Career Guidance

This subclass includes expenses for formally organized placement, career guidance, and personal counseling services for students. It includes vocational testing and counseling services and activities of the placement office.

Excluded from this subclass are formal academic counseling activities (which are included in academic support) and informal academic counseling services provided by the faculty in relation to course assignments (which are included in instruction).

¶701.254 Financial Aid Administration

This subclass includes expenses for activities that provide financial aid services and assistance to students.

This subclass does not include outright scholarship or fellowship grants to students, which should be classified as revenue reductions, agency transactions, or expenses. More about classification of grants to students in public institutions is presented in [¶360.41](#). More information about the classification of grants to students in independent institutions can be found in [¶460.43](#).

¶701.255 Student Admissions

This subclass 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.

¶701.256 Student Records

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

¶701.257 Student Health Services

This subclass includes expenses for organized student health services that are not self-supporting.

(Health services that are self-supporting are reported as auxiliary enterprises.)

¶701.258 Student Services Information Technology

This subclass 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 classified as academic support and the remainder as institutional support.