

Subject: Operating vs. NonOperating Revenues and Expenses	Author: Anne Rademaker
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Background:

Per GASB Statement 34 governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported and disclose it in the summary of significant accounting policies and use it consistently from period to period. A consideration for defining a proprietary fund's operating revenues and expenses is how individual transactions would be categorized for the purposes of preparing a statement of cash flows using GASB Statement 9. Transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities normally would not be reported as components of operating income. This includes most revenues considered to be non-exchange and exchange-like.

Definitions:

The following definitions classify revenue and expense for the university:

Operating revenues. By definition, a business type activity (BTA) receives financing in whole or in part by charging fees for goods and services to external users. These exchange transactions are considered part of operations. The following revenue streams are considered operating:

- student tuition and fees
- clinical service revenue
- grants and contracts, and the related facilities and administrative revenue
- auxiliary operations such as intercollegiate athletics, housing and food services, and other activities traditionally recorded in the auxiliary funds
- sales and service operations such as recharge operations involving information technology, scientific equipment, etc.

Operating expenses. Most expenses of the university are considered operating. Operating expenses include salaries and wages, fringe benefits, travel, and supplies and expense. Graduate, staff, staff dependent, and staff spouse fee remissions are included with salary and wage expense in the operating expense category (consistent with NACUBO Bulletin 2000-5 where these expenses are considered compensation rather than student aid).

Non-operating revenue. Revenues designated as non-operating include state operating appropriations, gifts, investment income, gains and losses on investments, and transfers to related entities.

Non-operating expense. Primarily includes interest on short and long term borrowings.

Process:

Revenues and expenses are classified according to the above definitions. New activities will be evaluated case by case if material. The account's FIN_1 attribute value will determine the line on the financial statement. All operating revenues and expenses have a FIN_1 attribute value of OP_REV or OP_EXP and rely on the functional code designated to the program for financial statement line classification. The non-operating accounts have a specific attribute value according to the line of inclusion.

Applicability

This policy is applicable to those entities governed by the Governmental Accounting Standards Board. These primarily include, but are not limited to:

- University of Louisville
- University of Louisville Research Foundation Inc.
- University of Louisville Athletic Association Inc.
- University of Louisville Medical School Fund Inc.

This policy does not apply to the University of Louisville Foundation Inc. or any of its subsidiaries.