

1.

CHARTS OF ACCOUNTS

1.5 Determining Operating/Nonoperating Revenues/Expenses in Proprietary Funds

- 1.5.10 The disclosed [matrix](#) identifies each BARS revenue account as an operating or nonoperating revenue or expense. Some BARS accounts can be in either category and, in such cases, the first column is blank. The BARS codes not listed in the matrix are considered nonoperating. The governments may use the matrix as a guide for the preparation of their statement of revenues, expenses and changes in net position (operating statements).
- 1.5.20 Because operating revenues/expenses are not authoritatively defined in the accounting literature, there is no assurance that the usage of these term is standardized. Since the State Auditor's Office is required to provide comparative statistics for all local governments, the Office made some decisions which are based on a reasonable extension of existing standards that do not have direct citations in GAAP literature.
- 1.5.30 [GASB Statement 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments, paragraph 436](#), states that there are two criteria to consider when defining revenues and expenses as operating: (1) does the revenue/expense result from the fund's **principal purpose**, and (2) is the revenue/expense allowed to be considered operating on the statement of cash flows [again, this is a guideline, not a requirement].
- 1.5.40 The operating nature of revenue is derived **from the source** of the revenue not its purpose. The fact that the revenue supports the operations does not impact its classification which again refers to the revenue origin.
- 1.5.50 [GASB Statement 34](#), paragraph 100 requires proprietary fund revenues to be reported by major source (net of discounts and allowances). Paragraph 100, further requires proprietary to distinguish between operating and nonoperating revenues and expenses.
- 1.5.60 The objective of the distinction of nonoperating and operating is to display the extent to which operating expenses are covered by revenues generated by principal ongoing operations ([2013-2014 Comprehensive Implementation Guide, Question 7.73.4](#)). For example, interest is operating revenue if the principal activity of the fund is to provide loans to generate income. The ongoing principal operation is determined by the purpose of the individual enterprise fund.
- 1.5.70 GASB Statement 34, paragraph 102, indicates that one consideration for defining operating revenues and expenses is how individual transactions would be categorized for cash flows from operating activities in the cash flows statement. Operating revenues are generally those that enter into the determination of the operating income. This is a guideline, not a requirement. [See reference to footnote 42 on page 36, after paragraph 104 of [GASB Statement 34](#).]
- 1.5.80 According to the [GASB Statement 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting](#) operating cash

flows category would exclude most revenues that considered to be non-exchange and exchange-like transactions and financing and investment-related revenues/expenses, including:

- Operating grants and contributions (both received and made) and grants and contributions that are not restricted to either operating or capital. Capital grants are always excluded. [Grants that are essentially the same as a contract for services, however, may be reported as an operating activity.]
- Exchange-like transaction revenues, such as passenger facility charges, certain tap fees, certain developer contributions and certain grants when restricted for capital or non-capital financing purposes.
- Property or other tax revenues.
- Gains or losses on sales of capital assets.
- Interest and dividends and realized and unrealized gains and losses on investments.
- Interest expense, including premium or discount amortization on debt and debt issue expense.

1.5.90 Generally governments should record the following proprietary fund operating revenues:

- Charges for services/goods (340);
- Fees related directly to their principal operations (e.g., connection fees if offset by current period expenses, i.e., not capitalized, etc.);
- Miscellaneous revenues provided they are operating revenues (i.e., directly related to principal operations).

1.5.100 **Taxes (310)**

GAAP governments are not created to generate tax revenue. Taxes are not comparable to charges for services, as they are result of statutory authority only. It does not matter how specific the tax is regarding its use or purpose. Property and other taxes should be always reported as **nonoperating** revenue in proprietary fund statements.

Taxes are, in general, levied to assist in funding the deficit or net cost of operations and are not received due to proprietary funds operations ([2013-2014 Comprehensive Implementation Guide, Question 7.35.3](#)).

Licenses and Permits (320)

Licenses and permits are generally exchange or exchange-like transactions. Usually the price of paying the cost of issuing a license or permit amounts to the cost necessary to process that permit. Permit may be considered operating if it is an integral component of the enterprise funds' primary operations, and if it is considered operating from the perspective of the cash flows statement. Another example of permits and licenses being an operating revenue would include a permit fee collected by an enterprise fund whose purpose is to issue permits.

Grants/Intergovernmental Revenues (330)

Operating grants and contributions (both received and made) that are not restricted for capital purposes [these are reported as capital contributions] are excluded from an operating category since these are result of non-exchange transactions. Capital grants are always excluded. [GASB Statement 9](#), paragraph 21b, footnote 9, specifically includes grants or subsidies provided to finance operating deficits in the noncapital financing category, rather than the operating activities category. Based on that guidance, annual operating grants and subsidies should be reported as **nonoperating** revenues.

For example grants reported in a transit enterprise funds should not be reported as operating revenue but, rather, as non-operating revenue or as capital contributions [reported separately after non-operating revenues and expenses]. This is because the grants are funding the deficit and are not received because the state/feds are paying on-behalf of riders or passengers.

However, grants that are essentially the same as a **contract for services**, should be reported as **operating** revenues. Grants primarily benefit particular grantee furthering grantees own purpose or program. Grantor involvement is limited to administration and monitoring. It also benefits the grantor own program directly (e.g., federal government providing Medicare by law). This is in substance an exchange transaction.

Operating grants (vs. capital) are intended to finance operations, but **they are not a result of operations**.

Charges for Goods and Services (340)

If these revenues are result of the governments' **principal operations**, they should be coded as **operating**.

Fines and Penalties (350)

[GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*](#) classifies fines as imposed non-exchange transactions, which excludes them from the operating revenue category. They should be reported as **nonoperating** revenues.

Miscellaneous Revenues (360)

Majority of the miscellaneous revenues are considered **nonoperating** unless they are directly related to the government principal operation; if so, then they should be coded in the functional area. For example, interest revenue should be reported as **nonoperating**. They can be operating only if proprietary fund's principal operation is to provide loans. We believe there are no governments in the Washington State established only for this purpose.

Also, rentals and leases are all **nonoperating** unless the rental is directly related to the principal operation, (a port district that primarily functions as marina, should code all non-marina rentals as nonoperating, etc.).

Service-type special assessments are exchange or exchange-like transactions which affect only those who directly benefit from a given service. Unlike the capital-type special assessments which

should be reported as capital contributions, the service-type assessments can be reported as operating revenues if they are directly related to the principal operations of the government.

The immaterial amounts of all other revenues, not specifically listed in the BARS manual, should be coded either to 36991, *Miscellaneous Other* or 36992, *Miscellaneous Other Nonoperating* depending on their relationship to the governments' primary operations.

1.5.110 **Expenses**

Since there is no authoritative definition what constitutes the operating expenses, each government must disclose the basis on which it separates operating from nonoperating expenses. This distinction should allow to demonstrate the extent to which the government is able to recover from its customers the cost of producing goods and providing services. So, the cost of goods sold and services provided constitute operating expenses.