Grants - Operating and Non Operating Revenue

Procedure #: 600.210
Written By: Financial Services
Edited By: The Office of Research and Grants

1.0 Introduction

Accounting standards require that the college differentiate between exchange and non-exchange transactions with outside entities. In general, services, which are purchased by an outside entity, are exchange transactions and contributions and donations received are non non-exchange. This procedure will be used to determine which grant awards are to be recognized as operating (exchange transactions) and which awards are to be considered as non-operating (non-exchange transactions).

An award, as used in this policy, is a transfer of resources in support of a college project, which may or may not involve research. The sponsor is the donor or agency providing funds to the college. The sponsor may call these awards contracts, grants, or gifts. The title used by the sponsor should not determine how we recognize these awards. In an operating (exchange) transaction, the sponsor receives a benefit approximately equal in value to the value of the award. In a non-operating (non-exchange) transaction, the sponsor makes a voluntary transfer of money or property without directly receiving equal value in return.

Exchange transactions are defined in GASB 33. An exchange transaction is the reciprocal transfers in which each party receives and sacrifices something of approximately equal value. The purchase of goods or services or the rendering of a service for a fee is examples of exchange transactions.

2.0 General Definition of Responsibility

The Grants Accountant is responsible for completing the attached checklist as part of the grant establishment procedures. This checklist will end up defining the revenue budget classification for the grant.

The following revenue object codes will be used in establishing the budget:
**Operating (exchange) Transactions**
Federal Operating 0310  
State Operating 0320  
Private Operating 0330

**Non-Operating (non-exchange) Transactions**
Federal Non-Operating 0315  
State Non-Operating 0325  
Private Non-Operating 0335

**EXCHANGE (OPERATING REVENUE) OR NON EXCHANGE (NON-OPERATING)**

**DEFINITIVE FACTORS:** If the answer to A, B or C is "yes," classify the resources as described. Skip all remaining questions; they do not apply.

<table>
<thead>
<tr>
<th>A. Does the resource provider restrict the recipient's use to capital acquisitions? [If &quot;yes,&quot; report the resources as a &quot;capital contribution&quot; on the Statement of Revenues and within &quot;capital related financing activities&quot; on the Cash Flows Statement.]</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<td>B. If the resources consist of payments from federal government sources, have such sources been excluded from the State of South Carolina's Schedule of Expenditures of Federal Awards for the reason that they are deemed to represent (in accordance with specific guidelines such as that included in Circular A-133) compensation for goods or services provided as a vendor? [If &quot;yes,&quot; report as operating revenue on the Statement of Revenues and within &quot;operating activities&quot; on the Cash Flows Statement.]</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
</tr>
<tr>
<td>C. Does the substance of the agreement appear to be such that the resource provider will receive no significant benefit or financial value as a condition for providing the resources to the recipient? [If &quot;yes,&quot; report the activity as &quot;non-operating revenue&quot; on the Statement of Revenues and as &quot;non-capital financing activities on the Cash Flows Statement.]</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
</tr>
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**OTHER FACTORS:** If there were no "yes" answers to A-C above, complete Questions D, E, & F below. [Answer each yes, no, or N/A.]

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<th>D. Is the substance of the agreement between the provider and recipient essentially the same as a contract for services (i.e., an exchange transaction)? [Answer &quot;yes&quot; if you have answered &quot;yes&quot; to three or more of Questions 1-6 below; then continue to Questions E &amp; F. Otherwise, answer &quot;no&quot; to Questions D &amp; F (and skip Question E).]</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
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<tr>
<td>1. Did the primary initiative for the project come from the resource provider rather than from the recipient? (For example, generally answer &quot;yes&quot; if the provider issued a Request for Proposals and &quot;no&quot; if the recipient submitted an Application for Federal Assistance or similar application.)</td>
<td>Yes</td>
<td>No</td>
<td>N/A</td>
</tr>
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2. Did the resource provider specify the primary program objectives rather than simply approving objectives proposed by the resource recipient?  

3. Is the resource recipient required to produce and deliver to the resource provider deliverables that have current or potential future economic value?  

4. Is the primary provider (rather than the recipient or the general public) the primary party that will own, control, and/or have the right to benefit financially from any deliverables resulting from recipient's performance?  

5. Is it fair to say that the resource provider will not derive an income tax advantage from the agreement beyond that it would derive from a purchase of goods or services? (N/A if resource provider is a government.)  

6. If the resource recipient fails to provide deliverables in accordance with the agreement, must the recipient pay the resource provider an amount in excess of currently uncommitted provider resources on hand?  

**OTHER FACTORS --CONTINUED**

**E.** Do the resources finance a program that the resource recipient would not otherwise undertake (i.e., the activity is inherently part of the operations of the source provider)? 

[Answer "yes" if you have answered "yes" to two or more of Questions 1-3 below. 
Otherwise, answer "no." ]

1. Do the resources finance a program that the recipient would not otherwise undertake (for example, a senior citizens' transportation service)?  

2. Would it be fair to say the resources do not subsidize any of the recipient's existing programs?  

3. Do the resources reimburse the costs of a new program for the recipient, the activity of which is inherently part of the operations of the resource provider? [Answer "yes" if the resources provide goods or services to the resource provider's programs.]  

**F.** Did you answer "yes" to both Questions D & E above? [If "yes," report the resources as "operating revenue" on the Statement of Revenues, Expenses, and Changes in Net Assets and within "operating activities" on the Cash Flows Statement. If "no," report the activity as "non-operating revenue" on the Statement of Revenues, Expenses, and Changes in Net Assets and as "non-capital financing activities" on the Cash Flows Statement.]