

July 2023

## Revenue Recognition Protocol and Classification | FY 23

### Revenue Recognition Protocol and Classification

This revenue recognition protocol aligns with standard US non-profit accounting practices as set forth by the Financial Accounting Standard Board (FASB). It is reviewed annually by the Director of Headquarter Accounting and Operations and updated as needed based on the latest guidance from FASB. Accounting professionals charged with financial oversight of non-profit organizations must follow this protocol set forth by FASB.

### Restricted Donations Classification

In accordance with the latest ASC-606 from the Financial Accounting Standard Board and Revenue Recognition pronouncements, any gift donated to Water.org that has one or more of the following conditions stated in the signed agreement between the donor and Water.org (or communications accompanying a grassroots gift) is considered restricted:

- A. Language that stipulates how the gift must be utilized (purpose of gift).<sup>1</sup> This includes the following:
  - a. Restricting the gift's usage to specific partners or interventions.
  - b. Restricting the gift's usage to specific programmatic types (example infrastructure) or themes (example Water + Climate).
  - c. Restricting the gift's usage to specific sets of people, specific countries, or geographic regions.
- B. Language in the signed agreement that stipulates the funds must be spent over a specific period of time (time limit for the gift to be encumbered or expended) and/or grant or project periods also indicating that the funds must be expended by a certain date.<sup>2</sup>
- C. The agreement includes reference to the right of return of the gift.

Water.org is required to report its restricted gifts on the FAR (Financial Activity Report) quarterly. The information from the FAR is directly linked to our annual 990 filings.

- A. When any gift is received with conditions, a liability is recorded on the Balance Sheet, until all those specified conditions set by the donor are met.
- B. All restricted gifts become part of Net Assets and are released from restriction when conditions specified in the donor agreements are met.

#### *Example:*

Amazon donated \$5 million to Water.org, on October 1st, 2022. In the agreement, Amazon ask that the funds be used over 5 years starting October 1, 2022, supporting water and sanitation in Brazil. The grant agreement indicates that the full award amount must be fully expended, or the funds must be returned. On October 1, 2022, Amazon sends Water.org a check for \$1 million. On October 1, 2022, Water.org will record revenue of \$1 million, and \$4 million to deferred revenue, and a liability will be recorded on Water.org's balance sheet. Water.org must ensure that the first \$1 million received on October 1, 2022, is spent, or accrued by September 30, 2023, to recognize the revenue on Water.org's books. If unspent, it remains deferred. Water.org will release the deferred revenue account every year by the total use of revenue earned in that fiscal year.

Once the grant ends, any unspent funds must be returned to the donor, unless the donor extends the agreement or releases the funds for unrestricted purposes. These changes must be in writing.

<sup>1</sup> Note that language indicating that a gift can be utilized for general purposes including overall mission, general operations, as needed, where most needed, etc., does NOT make the gift restricted.

<sup>2</sup> This does not include expected impact timelines or timelines indicating when gift tranches will be made to Water.org.

This grant is considered restricted because the grant agreement:

- Limits the gift's use to a particular geography
- Indicates that the funds must be spent by the end of the grant
- Includes language stipulating the right of return

### **Unrestricted Donations Classification**

Gifts are considered unrestricted when the donor stipulates that the gift can be used for any general purpose, does not expect reporting based on the use of their specific funds, and the gift does not meet any of the conditions identified above that make gifts restricted. In this case, revenue is recognized immediately as soon as the gift is received by Water.org.

- A donor may ask for the organization's annual report. This is not a condition of restriction.
- Water.org may provide general impact reporting for unrestricted gifts using the organization metrics such cost per person to estimate the number of people reached, volumetric water benefit, etc. based upon the size of the gift to Water.org. Refer to the Donor Impact Allocation Protocol for additional details.
- A donor may ask for stories or images of people who benefit from Water.org's work. This is not considered a restriction as long as no additional story/image collection is required. In this case, Water.org may provide the donor with existing impact stories and images from Water.org's Marketing Department. Messaging alongside the story should reflect that the donation did not directly impact that specific individual/family, but instead helps individuals/families like those featured.
- Estimated impact numbers (sometimes referred to as targets) regarding the number of people reached, volumetric water benefit, capital mobilized, etc. do NOT make a gift restricted. Instead, they communicate the estimated impact of the gift and reflect the donor's contribution to Water.org's general mission.
- References to Water.org's general mission and operations do NOT make a gift restricted. Instead, this communicates Water.org's overall mission and purpose.
- Inclusion of anticipated timelines regarding when estimated impact will be achieved does NOT make a gift restricted.
- Payment schedules do not make a gift restricted. Contract start and end dates do not make a gift restricted.

*Example 1:*

A corporation donates \$4 million to Water.org, the agreement stipulates the use of the gift to be for general purposes and does not ask for any reporting on how the gift was spent. This is considered an unconditional and unrestricted gift because the corporation has designated the funds for general purposes and does not require reporting on how their specific funds were spent.

*Example 2:*

A donor donates \$500,000 to Water.org and the grant agreement notes that 100,000 people will be reached. This gift is considered unrestricted because it does not include any of the criteria that make gifts restricted. The targeted number of people reached is an estimate and the result of Water.org's general mission. Any reporting to the donor regarding the number of people benefiting from the gift will be estimated and based on Water.org's organizational metrics, not on the specific use of the donor's gift.

*Example 3:*

A donor donates \$6 million dollars to Water.org over three years. The funds are not designated for any particular purpose or geography. The grant agreement states that the donor will donate \$2 million in Year 1; \$2 million in Year 2; and \$2 million in Year 3. The grant agreement does not include language indicating that the funds must be spent by a particular date nor does it include the right of return of the funds. This is considered unrestricted because the timeline only outlines the dates and amounts of each tranche released to Water.org; it does not indicate dates by which the funds must be spent.

*Example 4:*

A donor donates \$6 million dollars to Water.org over three years. The grant agreement includes the following impact targets:

- Year 1: 500,000 people
- Year 2: 500,000 people
- Year 3: 500,000 people

This gift is considered unrestricted because the impact targets are estimates based on Water.org organizational metrics.