Budget Policy │ Policy

POLICY OWNER:	Finance Department
POLICY APPROVED BY:	Jay SchwartzCoffey, CFO Anna Ferrick, Senior Manager of Financial Planning & Analysis
POLICY CONTACT:	FP&A@water.org

Policy Contents

I. Policy Overview

Policy Statement

This policy outlines how operating budgets are developed for departments and how grant and intervention budgets impact the operating budget.

Purpose

The purpose of the Budget Policy is to, in combination with the Budget Cycle Procedure, outline the rules and processes of creating, maintaining and adjusting the organization's Annual Operating Budget and provide guidance on operating budget-related roles and responsibilities.

Applicability

This policy applies to all departments within the organization.

Governance

The **Finance Department** is the owner of this policy and is responsible for administering, reviewing, and making recommendations for updates or changes to this policy in alignment with business needs.

The Executive Team (EX), in partnership with the GOV[1], thoughtfully stewards the organization's resources by making spending decisions in a strategic and transparent manner. Overall size and structure of the organization is set by the EX and determined through a detailed annual process, which weighs strategic priorities, organizational equities and fundraising goals, both restricted and unrestricted. The final annual operating budget is presented to and approved by the Board of Directors and remains an unchanging point of comparison throughout the fiscal year. As new operational and financial information

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[1] See Appendix A

is learned throughout the year, budget changes, via a formal request process, are tracked and implemented to a separate budget version called the Revised Budget.

Violations

It is the expectation of Water.org that direct supervisors proactively manage their direct reports' compliance with this Policy. Non-compliance, from an employee or a direct supervisor, may result in progressive disciplinary actions consistent with the organization's established HR procedures.

II. Policy

1. Budget Cycle

1.1 Budget Cycle Procedure

On an annual basis, the organization goes through a strategy development and budgeting process. Details on the procedure can be found here: Budget Cycle Procedure

1.2 Budget Cycle Roles and Responsibilities

The EX, budget owners, and budget managers play key roles in the development, spend, and monitoring of the budget. More information on budget roles and responsibilities can be found here: Budget Cycle Procedure

2. Revenue, Restricted Funds and Intervention Budgets

FY25 Note: The following guidance is subject to change, as the Raise to Release org project progresses.

2.1 Intervention Based Budget

The organizational goal is to predict annual funding and activity levels to enable the development and execution of operating plans and is ultimately approved as the Annual Operating Budget. It is the responsibility of the FP&A team to put forth a budget that aligns revenue plans with all projected organizational activities. The primary organizational activity of Water.org is via partnerships, called Interventions, with various financial institutions and other partners.   There are three types of Interventions in the organizational budget:

> 1. **Committed / Funded Intervention**: Interventions, or portions thereof, funded by donors' restricted funds and committed to, through donor agreements that have already been established.[2]
>
> 2. **Committed / Unfunded Intervention**: Interventions, or portions thereof, funded by IFR[3] or other internal processes, guaranteed by the organization's reserves for the life of the intervention, typically three years.

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[2] Interventions are typically three years in length, although donors may not fund the entirety of them. When this happens, the unfunded portions are considered part of category 2 (Committed / Unfunded Interventions).

[3] Internal Funding Requests are approved spending commitments that do not have specific donor restricted funding.

3. **Planned Unsecured Interventions**: An amount built into the budget to forecast expected future interventions. They are different from Unfunded Interventions in that no agreements have been signed with implementation partners.

2.2 New Fundraising:

Potential new grants are tracked by Strategic Development through the donor pipeline.

Existing Work Priority: The pitching and deployment of donor funds prioritizes funding expenses within the approved operating budget. All donor pitches are presumed to fund existing budgeted work unless otherwise specified via the grant proposal development and approval process.

Restricted donor grants are developed by prioritizing.

The first and preferred route is to utilize interventions included in the approved operating budget.

If no budgeted interventions can meet the terms set by the donor, then an intervention from the Master Budget (also called intervention pipeline) can be swapped for expense that was included in the approved operating budget;

- In this case, the department putting the donor budget together should identify that the costs are existing (budgeted) because a budgeted intervention is being repurposed by being removed from budget and replaced by a different intervention.
- The cost of the new intervention cannot exceed the cost of the intervention it is replacing.
- FP&A will update budgeting and reporting once a grant with a swapped expense has been approved.

If an even swap is not possible, then team should utilize an intervention from the Master Budget and request an approval for budget growth.

- As part of the donor budget process, the individual creating the donor budget (typically the Regional Grants Specialist) should identify which costs are existing (included in the operating budget) and which costs are incremental which lead to budget growth. The incremental costs should also be identified as either one-time or ongoing (multi-year).
- The donor budget should aim to maximize the amount of funding that is being directed towards existing budget items.
- The incremental costs must be reviewed by FP&A and approved by the CFO before a budget or specific commitments are proposed to the donor through a concept note, proposal or other submission.
- Once budget growth is approved, the incremental costs will be added to the Revised Budget if and when the revenue has been included in the revenue pipeline.

CFO/EX approval is required for all budget growth because it may trigger an adjustment to annual fundraising goals.

2.3 Flexible Funding (Lightly restricted and pooled funds)

An alternative to pitching specific interventions is pitching intervention types such as countries, regions or themes without listing specific interventions. Called "Lightly Restricted" when specific impact targets are required and "Flexible Funding" (also called "Pooled Funds"), when they are not, these types of donations give the organization the most flexibility; the FP&A Department will apply the funds, prioritizing to apply flexible funds to indirect or personnel costs within that pool of costs, and then applying any remaining balance to programmatic costs

For example, a regional pooled fund will be applied first to personnel and overhead, and if balance remains, then to unfunded programmatic costs in that region or countries in that region.

See [Revenue Classification Protocol (RCP) Policy](#) for more information.

3. Specific Expense Rules

3.1 General Expense Rules

- Expenses are assigned to a department and a project code. Each department has one budget owner. Authority over individual projects can be delegated to other staff within the department.
- Staff members should ensure they have approval to charge a project that is overseen by others before charging.
- Generally, the department that owns the event should budget for guests to join events. When inviting guests to join an event it is incumbent upon the budget owner to be clear when/if a team would be required to pay for an expense from their budget.

3.2 Budgeting of Certain Org-Wide Costs

- Technology spending is budgeted and overseen by IT (See IT policies). Software implementation related costs are also budgeted by IT or PMO and IT is responsible for managing software implementations.
- Each employee is allowed $500 per fiscal year to spend on Learning and Development. This is budgeted to "360 - Top of the House" department.
- Contact the Legal Department for any potential legal matters at contracts@water.org. The Legal Department is our contact with all outside legal counsel except for legal matters addressed by the Human Resources Department.
  - Generally, legal expenses including attorney fees, filing fees, legal representative fees, notary fees, apostille fees, and the like for a specific project or country should be budgeted to that country's department, and otherwise organization-wide legal costs are generally budgeted to the Legal Department. Some exceptions may apply on a case-by-case basis.
- Organizational Projects are coded to department 111 Organizational Projects

3.3 Project Codes

Water.org uses Project Codes to subdivide budgets and support budget management. A single department may use one or many project codes. There are two types of Project Codes: Programmatic and Non-Programmatic.

Programmatic Project Codes

 Programmatic project codes are used to describe a body of work. The types of programmatic project codes include:

- Restricted Interventions
- Unrestricted Interventions (commonly referred to as Internally Funded Requests (IFRs)
- Thematic Pooled Project Codes: used for work or time belonging to a specific funded theme. E.g. Water + Climate or Gender

Non-Programmatic Project Codes

- Organizational Projects: Organization-wide project codes for non-programmatic projects are used to enable easier cost tracking.

The Non-programmatic codes include the following expense codes:

- FO50002 = Non-Programmatic 3rd Party Services
- FO50003 = Non-Programmatic Events
- FO50004 = Non-Programmatic Offices
- FO50005 = Non-Programmatic Teams

All non-programmatic staff time is coded to the personnel project code:

- FO50001 = Non-Programmatic Personnel

This code replaces the former "Daily Operations" codes (T30001, T30002, T23000, etc).

Budget Owners and Managers should refer to their departmental budgets to know which p-codes to use when coding, and how to inform their staff of which p-codes to use.

Example:

In the Approved Budget Submission Workbook, find the FY25 Budget Summary tab. Projects are identified here with a Project Type (below, highlighted in yellow) and the corresponding project code should be used for coding based on the Project Type.

Budget Summary
999 Sample Department

Select Project Type --->	Projects Total	Event Annual Team Gathering	Team Team Travel	3rd Party Services Consultant	3rd Party Services Marketing Systems	Office Office and Occupancy
EXPENSES						
Fixed Expenses:						
1. Personnel Expenses	$0	$0	$0	$0	$0	$0
3. Occupancy Expenses	$45,000	$5,000	$5,000	$0	$0	$35,000
4. Office Expenses	$12,000	$0	$0	$0	$0	$12,000
Subtotal Fixed Expenses	**$57,000**	**$5,000**	**$5,000**	**$0**	**$0**	**$47,000**
Flexible Expenses:						
2. Contract Services	$40,500	$7,500	$0	$24,000	$9,000	$0
5. Travel Expenses	$30,000	$20,000	$10,000	$0	$0	$0
7. Corporate Expenses	$7,500	$5,000	$0	$0	$2,500	$0
Subtotal Flexible Expenses	**$78,000**	**$32,500**	**$10,000**	**$24,000**	**$11,500**	**$0**
Program Specific Expenses:						
6.1. Partner Payments	$0	$0	$0	$0	$0	$0
6.2. Program Related Contractors	$0	$0	$0	$0	$0	$0
Subtotal Program Specific Expenses	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
999 Sample Department Direct Expenses	**$135,000**	**$37,500**	**$15,000**	**$24,000**	**$11,500**	**$47,000**

≡ FY25 Budget Summary +

3.4 Accruals

An accrual means recording an expense that was incurred in one accounting period (e.g. current fiscal year) but not paid until a future accounting period (e.g., next fiscal year).

For an expense to be incurred the work must be substantially completed. "Substantially complete" means the work has delivered the intended impact or met key metrics, even if some project components are still outstanding. Finance reviews supporting backup provided to determine whether an accrual is necessary in the accounting period.

Request and justification for accruals must be submitted to the Controller by September 30th for review.

4. Staffing Budgets and Position Control

Staff budgets are built on a person-by-person basis, based on the position's level, location and other information provided by Human Resources and the hiring department.

Position Control provides each budgeted position a control number to ensure that organizational staff positions, associated fringe benefits and total headcount are budgeted appropriately and that changes are accurately monitored.

While salary and benefits information is confidential, budget managers should understand the positions within their budget so they can work with the relevant leaders on staffing and hiring plans as relevant.

All occupied staff positions and positions vacant due to turnover are budgeted at their full annual cost based on current salaries. New positions are budgeted on an average cost basis. A vacancy rate and turnover factor are applied across all positions. These elements are incorporated into the Position Control tool.

When a vacant position is posted for hire, the forecast is updated to reflect the expected compensation level based on competitive market data and the corresponding salary grade. HR, FP&A and Budget Owners communicate regularly to ensure that recruiting changes are consistently reflected across all departments' systems.

4.1 Annual Raises

An annual amount for raises is approved by EX and built into the budget for the following fiscal year. Department heads, working with Human Resources, are expected to keep salary increases within that allocated amount for their department. The budget for raises is entirely allocated during the budget process. No funds remain in this budget outside of the annual salary review process.

4.2 Promotions Budget

An annual amount for promotions, once approved, is built into the budget for the following fiscal year. Human Resources must keep the total amount for promotions within the approved amount and promotions can be denied if financial circumstances warrant. Promotions are increases in level of responsibility with a corresponding increase in salary resulting from a staff member moving to a higher salary grade.

4.3 Repurposing Positions, Vacancies and Vacancy Savings

Vacant positions create savings against the budget during the time the position is vacant. The organization analyzes regular turnover and vacancies in order to project an expected savings each year. These savings are provided back to the organization and are allocated during the budget process. Therefore the ability to redeploy savings from vacant positions is limited.

Salary savings from a temporary position vacancy may be used for an equal or lesser value one-time expense to fulfil the tasks of the vacant position but may not be repurposed for unrelated expenses.

A vacant position may be converted into a different role or split roles at the discretion of the Budget Owner with approval from HR and the relevant EX member.

Budget Owner works with HR Operations to review staffing needs, how proposed position fits into structure, and to determine appropriate grade and salary level. FP&A is then notified of personnel change requests with associated salaries, to perform full personnel cost calculations; full costs may include

benefits, travel, licenses, training and equipment as well as any other costs specific to each unique position. FP&A informs Budget Owner of budgetary implications, which may require an adjustment in the staffing proposal to meet budget-neutral standards. Budget Owner obtains EX approval on personnel changes and confirms approval to FP&A so Position Control can be updated, and to HR so recruiting plans can be established.

A non-personnel expense budget may be converted into a new position, and vice versa, at the discretion of the budget owner with approval from HR, FP&A and the relevant EX member. FP&A will analyze the request for budget neutrality, and full costs, including all benefits, travel, licenses, training and equipment will be taken into account.

4.4 Adding Headcount

Organization-wide headcount is determined with EX during the annual operating budget creation. Requests for unbudgeted additional headcount must be submitted to EX for review.

4.5 Variances

In order to effectuate hiring, variances in hiring salaries of up to 10% from budgeted amount are permissible, at the discretion of HR.

5. Budget Changes

Once approved by the Board, the Annual Operating Budget remains unchanged throughout the fiscal year. Adjustments to spending plans are tracked so the FP&A can maintain financial forecasts and leadership can understand budget impacts of changing financial circumstances.

5.1 Forecast

Changes in expected spending are tracked via the organizational forecast. Departments should review their year-to-date actual costs against both the operating budget and against grants and grant balances. Based on timing of activities and payments, a departmental forecast should be submitted quarterly to the FP&A department for upload and tracking within Adaptive our budget software. If items of material value are identified mid-quarter, please contact FP&A@water.org to determine if a mid-quarter forecast change is preferred in certain instances.

5.2 Revised Budget

Approved spending plan changes are tracked via the revised budget. Revised Budget items are either budget neutral changes requested by Budget Owners/Managers that do not require approval, or bottom-line spending plan changes originating from changing financial or operational circumstances. CFO/EX approval is required for all budget growth because it may trigger an adjustment to annual fundraising goals.

Budget changes may be one-time or ongoing. One-time budget changes revert at the end of the fiscal year, while ongoing changes continue into the future.

All budget changes must be submitted to FP&A@water.org so they can be reviewed, approved if necessary and tracked in future financial reporting.

5.2a Cost Neutral Budget Changes

- Shifting expenses between lines, cost categories and departments
- Swapping same cost interventions (see section 2.2 New Fundraising)

5.2b Bottom-Line Changing Budget Changes

- Budget growth related to new fundraising (see section 2.2 New Fundraising)
- Internal funding request (IFR)
- Budget carryovers

5.3 Budget Carryovers

Budgets are intended to be spent within the fiscal year. Generally, unspent budgets do not carry over to the following fiscal year nor are future budgets penalized for over or underspending in prior fiscal year.

Under certain circumstances, such as when a one-time budget has funds remaining or a planned grant funded activity must be delayed, a carry-over request may be made to transfer the unspent budget item into the following fiscal year.

A carry-over is a request process at the end of the fiscal year that requires a budget owner to request and justify that an expected current year budgeted expense will not be incurred until the future year in which the cost was not budgeted. An approved carry-over would allow the expense to be included in the future year's revised budget and would not require the budget owner to find other savings in their future year budget to accommodate it within their approved bottom line budget.

Carryover requests should consider the following items:

- Can an offsetting budget reduction be made elsewhere to partially or completely offset the request?
- Will this change in activity plans affect the completion of other work plans and impact goals?
- If funded by a restricted grant, how does the activity delay impact the overall timeline of the deliverable, and other activities on the grant? Will the delay in activity require a grant no-cost extension?
- Are there any other associated costs, like personnel, that will also be late, causing unbudgeted items to push into the next fiscal year?

Carry-over requests should be requested as soon as they are known, but no later than September 30th. The request must consist of details including the project, the grant, activity description and the reason for the delay. Requests will be reviewed and approved/denied by FP&A and CFO. Requests that are approved will be integrated into the future year's Revised Budget as budget growth and may require commensurate adjustments in fundraising targets for that fiscal year. Requests that are denied will require bottom-line budget decision by the budget owner.

III. Approval and Responsibility

1. Roles

Executive Team (EX)
The Executive (EX) team plays a pivotal role in ensuring the ongoing financial sustainability of Water.org. Their responsibilities encompass setting the overall financial direction, aligning strategic priorities with spending plans, monitoring the macro financial landscape, and resolving competing priorities within the organization.

One of the primary functions of the EX team is to make macro-level budget decisions, such as setting or adjusting the overall size of the organization. While they typically do not delve into specific spending

decisions, the team allocates funds and oversees the decisions regarding these allocations to ensure alignment with organizational objectives.

Budget Owners
As leaders in the organization, each budget owner is tasked with monitoring and making financial allocation decisions for expenses within their respective functional area. This involves analyzing spending variances, reallocating budgets between teams, and holding their teams accountable for budget conformance.

Throughout the budget process, Budget owners prioritize growth, cuts, or changes. They may also review budgets from other areas of the organization through cross-functional reviews. Understanding their budgets' key components and aligning them with the organization's strategic priorities is essential for each Budget owner.

Budget Managers

Budget managers are those responsible for developing spending plans and making spending decisions within an individual cost center. In the budgeting process, it is their responsibility to propose budget and staff allocation plans. When budgets are finalized and distributed, budget managers oversee spending decisions and are responsible for conformance with their budget. Budget managers also have the authority to reallocate funds between areas of their budget. It is the role of the Finance department to support budget managers with the development of budgets, timely financial reporting and to provide customer support on financial management.

[Current Budget Owners and Managers](#)

2.   Budget Authority

2.1 Bottom line budget authority

Budget owners are ultimately responsible for meeting the functional expectations of their departments within the resources provided in the annual budget. To achieve those ends, they have the discretion to move resources between approved budget lines under their purview within certain parameters. Budget managers may re-allocate funds between personnel and non-personnel line items and EX members may allocate personnel costs within their departments as long as the overall department budget conforms to its bottom line determined by EX. This means that staff positions may be created, split, combined or dissolved as needed, as long as total budgeted costs do not increase and HR has approved the change in headcount. EX Members have similar discretion to reallocate funds between departments.

A reallocation of funds between budget lines can be undertaken with the following considerations:
1. the impact on stakeholders outside the department;
2. the review process that took place when those funds were first allocated, including any expense categories that are under careful review (i.e. intervention or organizational projects; and
3. adherence to the proper stewardship of donor funded items.

2.2 Support and stakeholders

Budgetary resources intended to provide support to other departments may not be reallocated without input from relevant stakeholders and possibly EX review if they impact a broad group across the organization.

Examples of such resources include:

1. Resources that affect support provided, such as changing the level of benefits for staff or tools relied upon across the organization; Resources that alter the expected balance of support, such as moving Insights resources from one region to another;
2. Resources that affect a strategic decision already made, such as changing capital contributions towards related organizations; and
3. Resources that have existing policies regarding budgeting and approval, such as technology.

IV. Additional Resources

Contact for Support

 For questions, contact the FP&A Department at FP&A@water.org

Related Policies and Procedures

 Budget Cycle Procedure

Revenue Classification Protocol (RCP) Policy

Schedule of Budget Owners and Managers

V. Appendices

Appendix A | Definitions of Terms and Codes

- **Restriction**: Terms of an award are designated by the donor, including whether the award can be applied flexibly (unrestricted) or if it must be applied to specific costs or initiatives (restricted). The Development or Accounting/FP&A team will interpret the intended use of the award according to the donor's terms and build the award into the budget in the appropriate manner. Water.org uses these codes: Unrestricted 01(UNR), Restricted 02 (RES)
- **Grant/Fund**: "G" code identifies some type of restriction, "F" Code no restriction i.e. grass roots
- **Cost Centers/Department**: e.g. Department 140 Finance, Department 302 India Programs
- **Account Code/GL Account Structure**: e.g. 5620 Partner Payments, 5310 Office Supplies
- **Organizational Project**: Organizational projects are a type of project housed in the Organizational Projects department budget. These budgets may incur expenses within the Organizational Project department or may be distributed. These budgets may be distributed on a one-time or ongoing basis. **EX:** The Water.org leadership team comprised of CEO, President & COO, Chief of Staff, CFO, CGIO, CIO, CRO, and Global HR Director
- **Budget Owner:** The person with primary responsibility over one or more cost centers as defined by a Department Code.
- **Budget Manager:** any person with direct or delegated authority over a cost center, including authority at the project or intervention level.
- **Baseline Budget:** Inflation adjusted total annual cost of the organization at its current size.
- **GOV:** The family of companies' governance body made up of the Water.org CEO (Gary White), Water.org President (Vedika Bhandarkar), the Water Equity President (Paul O'Connell) and the WaterConnect President (John Moyer)
- **Grant**: A grant is an agreement to give resources. At Water.org, grants generally fall into one of two categories:

- o Donor Grants: Grants given to Water.org by funders as a form of revenue to the organization. Donor grants may or may not have conditions, called restrictions or deliverables attached to them.
  - o Partner Grants: Grants given by Water.org to partner organizations, such as MFIs or other financial institutions or other partners to support programmatic goals.
- **Intervention:** Per the Water.org glossary: A defined scope of work or targeted policy/practice change via our direct (L1), collective (L2), and systems change (L3) work.

  Interventions have specific boundaries (which could be scope of work, time, or targeted policy/practice change) that allow us to organize and track our work and impact."

- **Internal Funding Request (IFR):** An IFR is a legacy term for an budget allocation made for specific Intervention or other programmatic activities using unrestricted funds.
- **HR Operations**: Also called HR Business Partner