

July 2023

## Undesignated Revenue Accounting Treatment | Guidelines

### Undesignated revenue definition

Undesignated revenue is defined as highly flexible revenue having no restrictions on its usage in terms of specific partners/interventions to be funded, thematic programming, or country/regional populations targeted. However, it falls short of being classified as unrestricted revenue due to conditions in the donor agreement specifying that the funds be spent within a certain period and/or the right of return for any unused funds. Given the conditionality, this revenue is classified as 'restricted' revenue per International Financial Reporting Standards (IFRS).

While restricted, this type of revenue is highly desirable for the organization as it is left to the organization's discretion regarding how the funds are utilized.

### Accounting treatment

Each undesignated grant is assigned a unique grant code in accordance with Water.org's naming conventions to enable tracking of expenses. This revenue is *not* allocated to specific interventions.

At the end of March and end of September each year, the Finance team will review the total amount of undesignated grant funds received in the last six months both at an aggregated level and disaggregated by specific grants. Journal entries will then be passed by the accounting team to expense off these undesignated grants, charging employee expenses previously allocated to unrestricted revenue to the undesignated grants.

The undesignated grants should be charged in the following order:

- Time restricted grants specifying that the funds be spent by a particular date. Grants with the earliest end-date should be charged first
- Grants with the right of return

If an undesignated grant requires the funds to be fully expended in less than 6 months, Strategic Development will alert Finance of this during the grant agreement review process. The accounting team will then pass journal entries reallocating previous unrestricted expenses to the undesignated grant in the immediately following month.

### Impact treatment

When reporting impact to the donors, impact will be estimated at \$5 per person for each undesignated grant. This matches how Water.org estimates the impact for unrestricted revenue. Given that the undesignated grants are similar to unrestricted grants in that they are not designated for a particular purpose, they should be treated the same when estimating impact for donors.