

# Arizona Hydrological Society Foundation Operating Procedures

Approved July 10, 2012

The Arizona Hydrological Society Foundation (the Foundation) operates under the directives of The Articles of Incorporation for the State of Arizona, the Foundation Bylaws, and the operating procedures detailed herein and approved by the Foundation Board of Directors on July 10, 2012. The Board is responsible for directing the Foundation and the Treasurer, conforming to the Articles, Bylaws, and Operating Procedures, as well as the regulations and restrictions of IRS 501(c)(3) statutes.

## **1.0 TREASURY OPERATING PROCEDURES**

### **1.1 DUTIES OF THE TREASURER**

The Treasurer acts at the direction and in support of the Board. Duties of the Treasurer are described in Section 4.6 of the Foundation Bylaws:

*The Treasurer will be the statutory agent of the Foundation and will coordinate and be responsible for all filings and requirements of the Arizona Corporation Commission and the Internal Revenue Service. The Treasurer will perform such duties and actions as may be designated by the Board, including but not limited to keeping full and accurate accounts of receipts and disbursements in treasury and financial records belonging to the Foundation; causing all money and other valuable effects to be deposited in a timely fashion in the name and to the credit of the Foundation; distributing or disbursing funds as directed by the Board, including both charitable or investment distributions; and meeting all financial obligations of the Foundation in a timely fashion. The Treasurer shall make no disbursement of funds without budget or Board authorization. The Treasurer will prepare and deliver at the first quarter Foundation Board meeting; an account of all Foundation Treasury transactions for the previous year; the financial status and condition of Foundation; and a proposed operating budget for the upcoming year, including but not limited to an estimate of the dollar amount of distributions to be made for that year. The Treasurer shall be responsible for preparing and filing such financial reports, financial statements, and state and federal tax returns as may be required by law and the Board of Directors. The Treasurer shall conduct all Foundation business and transactions in accordance with Treasury Operating Procedures, as may or may not be adopted by the Board, and all Generally Accepted Accounting Principles.*

In summary, responsibilities of the Treasurer include:

- maintain Foundation financial accounts in good order using Generally Accepted Accounting Principles;
- ensure timely payment of accounts payable and of funding commitments;
- execute and maintain Foundation investments as directed by the Board;
- track acceptance, distribution, investment, disbursement, and status of donations;
- ensure that financial transactions of the Foundation do not violate IRS 501(c)(3) statutes;
- submit annual filings to the IRS and the Arizona Department of Revenue and Corporation Commission;

- prepare a financial report for each Board meeting and as may be requested by the Board or the Foundation President;
- prepare, or have prepared, an annual financial report;
- ensure transparency and order in the Foundation financial affairs.

## **1.2 FINANCIAL TRANSACTIONS**

Any expenditure of \$ 200 or more must be approved by the Board, by a simple majority vote. Any expenditure itemized in a Board-approved annual budget or Board-approved special activity budget will be considered to have been approved. Transfers of funds between Tier I and Tier II accounts, discussed below, do not require prior Board approval, but must be detailed in the subsequent quarterly financial report.

All deposits and withdrawals from Foundation accounts shall be entered into appropriate accounting software by the Treasurer, and reported quarterly and annually. All transactions must be supported by receipts; receipts and bank statements will be archived annually, and preserved for seven years.

A simple majority vote of the Board is required for:

- approving any non-budgeted expenditure of \$200 or more;
- investment, withdrawal, or redistribution of Tier III funds;

## **1.3 501(c)(3) LIMITATIONS ON FINANCIAL ACTIVITIES OF THE FOUNDATION**

All donations, grants, awards, or other funds or property received by, any and all monies spent by, and all donations, grants, awards, or other funds or property awarded or otherwise distributed by the Foundation shall conform with IRS 501(c)(3) statutes, and with all laws and regulations of the State of Arizona and the United States governments.

## **1.4 TREASURY ORGANIZATION**

The Foundation Treasury is organized into three tiers:

### **1.4.1 Tier I – Operating Checking Account**

The Tier I account is established to provide accessible liquid operating capital for day-to-day operations of the Foundation, including, but not limited to, acceptance and disbursement of donations and/or grants, and disbursement of charitable giving. Tier I funds will typically be held in a Federal Deposit Insurance Corporation (FDIC) or National Credit Union Association (NCUA) insured checking account and maintained at a balance of less than \$10,000 when possible. Excess funds beyond those needed for short-term operations or funding commitments shall be placed into a Tier II or Tier III account.

Signatories to the Tier I checking account shall be the Board President, Vice President, and Treasurer. Online access for review of the Tier I account shall be established and maintained by the Treasurer, and will be accessible to all signatories. The President and Vice President are obligated to inform the Treasurer within three days if they write checks or otherwise disburse account funds. Board officers retiring their positions shall surrender signatory rights.

### **1.4.2 Tier II – Short Term Investment Accounts**

The Tier II account is established to generate earnings while keeping assets liquid and available for operations with minimum bank charges. Tier I funds not required for operations or other funding commitments until later quarters of the year shall be maintained in accessible FDIC or NCUA insured interest bearing Tier II accounts, such as money market accounts or short-term penalty-free CDs. The treasurer or Investment Committee shall recommend Tier II options to the Board that will generate interest or other revenue while keeping the assets available for operations, for known funding commitments, or for other funding necessities that may arise. Funds may be transferred by the Treasurer between Tier I checking account and Tier II accounts as needed to take advantage of higher interest rates or to prevent deficit spending or to minimize bank charges in either account.

### **1.4.3 Tier III – Foundation Endowment**

Tier III funds represent a permanent endowment intended to provide earnings to support Foundation charitable goals. The Tier III endowment fund contains money donated to the Foundation with the understanding of the donor and with the agreement of the Foundation that the donated funds would not be disbursed, but would be invested and protected in perpetuity to provide investment earnings that may be disbursed. Honoring agreements with donors and protecting donated money is an important responsibility of the Board.

Tier III endowment funds shall be invested in prudent financial investment portfolios, or in government insured accounts, with the intention of protecting and increasing the assets of the Foundation by obtaining reasonable earnings with low to moderate risk. The Investment Committee shall recommend investment options to the Board to provide long-term asset growth to ensure the future ability of the Foundation to meet charitable goals. Endowment investments will be managed by the Board, who may retain the advice and services of a professional financial advisor. The endowment also contains reinvested earnings which include earned interest, dividends, and gains in value of investments.

### **1.4.4 Endowment Accounts**

Although all Tier III investments are combined in a single investment fund, the Foundation has established four individual accounts that comprise the greater Tier III Foundation endowment. The four individual accounts are:

- Leonard Halpenny Intern
- Herman Bouwer Intern
- Charles Avery Intern
- Non-designated account

These individual accounts reflect intern program interests of the Tucson, Phoenix, and Flagstaff AHS chapters, plus the non-designated endowment account. The Foundation encourages chapter identification and participation in Intern accounts, but the Foundation retains control and management responsibility for each individual account. The Foundation Treasurer shall track and report individual endowment accounts quarterly, as directed in Section 1.4.5 below. No further individual endowment accounts will be established without super majority vote of the Board.

### **1.4.5 Tracking Individual Accounts**

Endowment investments are maintained in a single managed investment fund; the investment fund total dollar value is reported quarterly to the Board. Using this value and donations and disbursements, the

treasurer will calculate and record quarterly values for each of the four individual endowment accounts so that a record of donations and financial conditions for each individual account may be maintained and reported. Changes in dollar value of the accounts will occur when donations and gain in value of investments are added, and disbursements, if any, are subtracted. The treasurer will prepare a quarterly summary for individual accounts, and will provide the summary to the Board, and to the Society as outlined below.

**Beginning Quarterly Value:** The beginning dollar value and value fraction of the total investment fund, and of each individual account is carried over from the ending values of the preceding quarter.

**Ending Quarterly Value:** The ending dollar value for the full endowment fund is that value reported in writing by the investment firm or the financial advisor at the end of the quarter, and represents the sum of the beginning value, donations, change in value of investments, and disbursements from annual earnings. Ending values for each individual account will be calculated as the sum of the beginning value, donations designated to that account, a pro-rata share of change in value of investments, and disbursements. Pro-rata share for each individual endowment account will be calculated as the product of the change in dollar value of investments and the beginning value fraction for that account. Because donations to the individual endowment accounts and disbursements may not be uniformly distributed, quarterly values of the individual accounts will not change uniformly; therefore, a new ending quarterly value fraction must also be calculated.

## **1.5 DONATIONS**

Donations are encouraged and are accepted at the discretion of the Board, and in accordance with IRS 501(c)(3) statutes. Should there be a conflict between the wishes of the donor and the 501(c)(3) statutes, the Board shall report such conflict to the donor prior to accepting, spending or distributing conflicted monies, and shall work to resolve the conflict to the satisfaction of all parties. No donations will be accepted that do not comply with 501(c)(3) rules.

All donors to the Foundation will be sent a letter, in a timely fashion, indicating receipt and amount of the donation, the tax-deductible status of the donation, and indicating the gratitude of the Foundation for the support of the donor. Receipts and records of all donations and thank-you letters will be retained by the treasurer.

### **1.5.1 Unrestricted Donations**

Unrestricted donations will be deposited to the Tier I or Tier II accounts and used as directed by the Board for either operating expenses, charitable giving, or for long-term investment in the Tier III endowment.

### **1.5.2 Restricted to Intern Accounts**

Donations restricted by the donor for any of the three Intern programs will be tracked by the treasurer and applied only to the programs and uses specified by the donor. Those restricted donations may be used to immediately fund that specific internship, or may be deposited to an individual permanent endowment account that represents the restriction, depending on the needs of the Foundation, decisions of the Board, and wishes of the donor.

### **1.5.3 Donations Restricted to the Endowment**

Donations restricted to the Foundation endowment will be deposited to the non-designated endowment account, and will not be used for any operational or charitable purpose.

## **1.6 DISTRIBUTION OF ENDOWMENT EARNINGS**

Tier III Foundation endowment funds are classified as follows:

Endowed Principal: the sum total of the endowment account; the full amount of the investment account that generates earnings.

Endowed Restricted Principal: that original portion of the full endowment account that was donated or designated by the Board as being “restricted in perpetuity” for generation of investment earnings.

Endowment Earnings: that portion of the full endowed principal, beyond the restricted principal, which was earned as interest, dividends, or increase in value of investments. Earnings are calculated simply as the total dollar value of the Foundation endowment minus the restricted principal on any given date. The treasurer shall track and report the Endowed Principal, Restricted Principal, and Endowment Earnings, for the full endowment fund and for each individual endowment account on an annual basis.

In years of favorable financial conditions, Endowment Earnings may increase and investments may increase in value. In years of unfavorable financial conditions, earnings may decrease and investments may decrease in value. Using the example of other larger Foundations, and based on an expected average annual return of investment in the range of 5% to 10%, the Arizona Hydrological Society Foundation adopts the following policy for annual disbursement from earnings from all endowment investments:

A) a sum equal to four percent of the full Endowed Principal, drawn from Endowment Earnings, may be disbursed annually to support charitable goals;

B) one percent or less of the full Endowed principal, drawn from Endowment Earnings, may be disbursed annually, if needed, to pay expenses of the Foundation.

Disbursement of Endowment Earnings is by majority vote of the Board, and shall not exceed five percent annually of Endowed Principal.

## **1.7 BUDGETS AND REPORTING**

### **1.7.1 Annual Budget**

The Treasurer shall submit an annual budget for review two weeks prior to the first Board meeting of each year. The budget shall project anticipated revenue and expenses for the coming year, including expected operating costs, projected funding commitments, and contingencies. The budget shall be amended as necessary and approved by a two-thirds majority vote of the Board at the first quarter meeting.

### **1.7.2 Accounting and Reporting**

Foundation accounting will be maintained by the Treasurer using appropriate accounting software and Best Accounting Practices. The Treasurer shall prepare and distribute a quarterly financial report to all

Directors prior to all quarterly meetings. The quarterly report will include at least: current Tier I, -II, and -III account balances; the quarterly dollar value and ending value fraction of each Tier III individual account; a summary of treasury activity, and reconciliation with the budget.

A year-end Foundation Financial Report shall be prepared and distributed to all Directors, and made available to the public, no later than the end of January of the following calendar year. The annual financial report shall include the three tiers of the treasury, summary of investment activity including annual gain or loss on investments, itemized charitable activity, donations received, recognition of donors for that year, and any other financial activities of the Foundation. The annual financial report shall include:

1. an itemized listing of all Tier I activity and beginning and ending balances;
2. a summary of Tier II total investment, total earnings, and beginning and ending balances;
3. a summary of Tier III endowment fund investment, total earnings or loss, and beginning and ending balances;
4. the Principal, Restricted Principal, and Earnings of the Tier III endowment fund
5. the year-end dollar value and value fraction of each Tier III individual account;
6. a reconciliation with the annual budget;
7. where appropriate, visual charts or graphs illustrating assets, annual revenue, and annual expenses in major categories;
8. a listing of all donations, grants, awards, or funding received by the Foundation in that year;
9. recognition of all donors without a specific listing of each donation amount;
10. itemized listing of all grants, donations, awards, or other charitable funding made by the Foundation in that year;
11. an annual tracking of all restricted funds received, spent, or invested;
12. the annual percentage of expenditures used for charitable purposes.

### **1.7.3 Special Activity Budget**

The Board may approve a special activity budget by a two-thirds majority vote. Such budgets may be funded on a case-by-case basis at any time during the year after review of the proposed activities, budget, and timeline. Approved funding for a special activity will be coordinated between the Special Activity Chairman (see Operating Procedures Section 2.x) and the Foundation Treasurer. Only a Director may disperse funding for a special activity; no signatory authority over Foundation funds is permitted by a non-Director.

## **2.0 FUNDRAISING PROCEDURES**

To be completed at a later date.