

As Adopted by the CNF Board in 3 June 2015

## **Operations Manual of the Caucasus Nature Fund**



## **Explanatory Note**

This Operations Manual attempts to condense various provisions of the CNF's charter, by-laws, board decisions and operating practices, and the provisions of certain of its grant agreements, into a practical handbook of operations intended to be useful to employees and board members, donors and potential donors, and the CNF's partner countries and grantees interested in its mode of operations. The manual covers all matters relating to the CNF's non-grant making operations, from organization and board matters to financial management. The information on investments and investing should be read in conjunction with the CNF's Investment Policy.

CNF also maintains a separate Grants Manual that covers the provisions from the CNF's charter and by-laws on the grant-making activities. CNF does not currently summarize the provisions of the application documentation or the Framework Agreements governing operations in its partner countries, which are available on the web site.

The Operations Manual is subject to modification at any time by the CNF Board.

# **CNF OPERATIONS MANUAL**

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## 1. CNF'S PURPOSE

- The CNF provides grants to support essential management costs of Priority Protected Areas ("PPA") in Armenia, Azerbaijan and Georgia, which are considered the three core countries of the Caucasus Ecoregion (Articles § 2; Bylaws § 15(1)-(2))
- It also provides grants to support PPAs in neighboring countries possible but only under certain conditions (Bylaws § 15(3))
- Grants may not be awarded to support any activities in any PPA located in a territory whose legal ownership or physical control is subject of dispute between any of three core countries, unless Ministries responsible for protected areas in each such country states in writing that it has no objection to such grants (Bylaws § 8(4))
- The CNF provides financial aid to government and non-governmental organizations for specific types of activities (Bylaws § 16(1) and (2)); it itself does not engage in management activities (Bylaws § 16(1) sent. 1)
- It has a non-profit character (Articles § 3)
- No substantial part of activities of CNF can be used for propaganda or otherwise attempting to influence legislation. The CNF will not participate in, or intervene in, any political campaign on behalf of or in opposition to any candidate for public office (Bylaws § 8(7))
- CNF has established and is the sole member of CNF Program Office, a not-for-profit entity in the Republic of Georgia (CNF PO), whose purposes mirror CNF's, but with an additional purpose to support the work of CNF. CNF PO's main function in practice is to employ CNF's staff and rent CNF's office in Georgia to support the implementation of CNF's program. CNF will develop a condensed set of procedures relating to the operations of CNF PO.

## 2. ORGANIZATION

### 2.1 Board of Directors

#### 2.1.1 Composition (Articles § 7)

- The Board is comprised of at least three members and no more than nine (Articles § 7(1))
- BMZ and WWF each dispatch one member (Articles § 7(3))
- The Board can appoint further members with qualified majority if they meet certain criteria (Articles § 7(4)). No more than half of the Board members may consist of representatives of government or semi-governmental organizations (Bylaws § 3(3))
- A Chairman, Vice Chairman and Treasurer shall be elected (Articles § 7(6))
- For their terms, resignation, and dismissal—see Articles § 7(3) and (5)); see also dismissal by CNF’s supervisory authority (*Stiftungsaufsichtsbehörde*) pursuant to Hessian Foundations Act § 15(1)
- Changes in the Board must immediately be notified to the *Stiftungsaufsichtsbehörde* (Hessian Foundations Act § 7 no. 1)

#### 2.1.2 Core board tasks (Articles § 8(2))

##### (a) Management

The Board is responsible for:

- Administration of CNFs’ endowment capital
- Grants of free funds
- The appointment and supervision of the Executive Director (ED)
- Planning and reporting (under Articles § 10)

##### (b) Representation

- The CNF is represented by any two of the members of the Board of Directors. One of these members must be the Chairman or the Vice-Chairman or the Treasurer. Board members authorized to represent the foundation are free to authorize one Board member to represent the foundation alone or to issue a power of attorney to the Executive Director or to other persons to represent the foundation alone (Articles § 8(3))
- A power of attorney has been granted to the ED to make all transactions necessary/useful for the regular business operations of CNF, including representing CNF in dealings with government officials. This includes entering into grant agreements, acquisitions and disposals of shares in an enterprise or other securities, and entering into

rent and lease contracts. The ED may issue sub-powers to the same extent. Excluded from this power of attorney are: representing the CNF in courts and before arbitral tribunals; buying, selling or encumbering real property; entering into guarantees or assuming liabilities of third parties; borrowing money.

The power gives the ED external authority to sign grants and make investments for the CNF. It is not intended, however, that the ED engage in these activities outside of the framework contemplated by the by-laws and board decisions. Accordingly, internal authorities may and do differ from external authority. For example, the ED's authority on grant agreements and investments is as follows:

- The ED will enter into grant agreements on behalf of the CNF only for amounts that are within CNF's annual grants budget and if the board the Board has previously approved the related grantee.
- The ED will not authorize investments for CNF except as follows:
  - (i) in accordance with instructions from CNF's Investment Committee,
  - (ii) for any portion of CNF's assets not managed by a discretionary manager and within the overall limits set by the Investment Committee, the ED may invest in (x) term deposits and CDs of approved banks and (y) "plain vanilla" bonds with an investment grade rating (provided that the ED shall consult with CNF's Investment Advisor prior to any such bond purchase).

(c) Responsibilities

- Board members are collectively responsible for management. Board members should work together collegially and keep each other informed of all important actions and occurrences relating to the Foundation (Bylaws § 4(1))
- The Board may not delegate its decision-making powers with respect to any matters for which Articles or Bylaws require either a decision by a qualified majority or collective action (Bylaws § 4(2)).
- If a matter assigned to an individual Board member is of special importance (in particular involving unusual risks), it should be presented to the full Board which shall decide (Bylaws § 4(3)). If a Board member has serious concerns about a matter assigned to another Board member, he should inform the Board and discuss with other Board members (Bylaws § 4(4))

2.1.3 Board resolutions

(a) Convening meetings (Articles § 9(2))

- Meetings shall be convened by the Chairman or the Vice-Chairman (Articles § 9(2); Bylaws § 5(2))
- At least once a year a physical meeting must take place (Articles § 9(2); Bylaws § 7(1))—but if quorum exists, participation in meetings

may also be facilitated by electronic means or by telephone (Articles § 9(6))

- Meetings must take place if a member requests a meeting (Articles § 9(2))
- Meetings shall be held at headquarters in Frankfurt am Main or at such other location as determined by the Board (Bylaws § 7(1))
- Meetings shall be convened at least two weeks in advance (Articles § 9(2))
- The agenda should be sent at least one week prior to the meeting (Articles § 9(2)), if possible also with proposals and requests (Bylaws § 7(3))
- The Board may use advisers or experts to prepare resolutions (Articles § 9(8))
- Each Board member can demand to expand the agenda (Bylaws § 7(1))
- The Chairman decides upon the order of agenda points (Bylaws § 7(2))
- The ED participates in board meetings in a non-voting capacity as determined appropriate by the Board and performs the task of Secretary of the Board (Bylaws § 5(6))
- The Chairman may invite people to advise (Bylaws § 7(2))

(b) Quorum for physical board meetings

- 50% of members present (Articles § 9(1))
- Absent Board members must be immediately notified of decisions (Bylaws § 7(4))

(c) Specified Majorities

- Simple majority of members present (Articles § 9(1))
- Qualified majority of three quarters of all existing members is called for (Articles § 9(3))

(d) Minutes (Articles § 9(5))

- The Chairman keeps minutes (Bylaws § 7(5))
- The minutes are to be signed by the chairman and the minute taker
- They are to be sent immediately to Board members
- Board members may object to minutes (Articles § 9(5)) within four weeks after circulation (Bylaws § 7(5)). If necessary, the circulated minutes will be corrected (Bylaws § 7(5)). The final minutes should be approved in writing or at the next meeting by all participating Board members (Articles § 9(5)).

(e) Board members can be represented on the basis of a written power of attorney (Articles § 7(7))

- (f) Adoption of resolutions in mixed proceedings (Articles § 9(6)) occurs by vote at physical board meeting plus vote by absent member electronically or by telephone
- (g) Adoption of resolutions outside physical board meeting (Articles § 9(6)) is possible by a round-robin procedure in writing, electronically or by telephone if all Board members agree and participate; resolutions so adopted must be laid down in writing and be included in minutes of next physical board meeting

2.1.4 Non-delegable matters (Bylaws § 4(2)) requiring a resolution with qualified majority include:

- (a) Pursuant to Articles (§ 9(4))
  - Applications to amend the Articles, dissolution or merger of CNF with another foundation (see also Articles § 12(1)). These applications require prior consent of the tax authority (Articles § 12(2)) *Stiftungsaufsichtsbehörde* to decide upon application (see also Hessian Foundations Act § 9(1)).
  - Amendments to Bylaws
  - Spending of up to 10% of endowment capital according to Articles § 4(4)
  - Appointment/dismissal of Board member (for good cause see Articles § 7(5))
  - Establishment of annual financial statement (annual accounts with overview status of endowment’s assets and report on the fulfillment of the CNF’s purpose) (required by Articles § 10(2) and German Commercial Code) and annual disposition of funds
  - Other matters requiring qualified majority under Bylaws
- (b) Pursuant to Bylaws
  - Change of CNF’s purposes (Bylaws § 6(1))—if the change affects the purpose as stated in the articles, it would require an amendment of the Articles with the consequences described above 2.1.4(a)
  - Grants to neighboring countries of the three core countries (Bylaws § 6(1))
  - Change of the definition of “essential PA management costs” (Bylaws § 6(1), § 16)
  - Adoption or revision of investment policy for the endowment capital (Bylaws § 6(1)); hiring and termination of investment advisor or investment manager (Bylaws § 6(1), § 13(1), § 14(2))
  - Adoption of organizational plan to allocate responsibilities for conducting the CNF’s business (Bylaws § 3(1))

2.1.5 Non-delegable matters (Bylaws § 6(2)) requiring board resolution with simple majority (Bylaws § 6(2)) include:

- Hiring, compensating and supervising ED
- Principles and decisions relating to spending the CNF's available financial resources
- Creating/revising Operations Manual
- Establishing/closing CNF's offices in countries of Caucasus Ecoregion (Bylaws § 1(2) and 6(2))
- Real estate transactions (buy/sell/lease/encumber) not provided for in budget
- Issuing guarantees/assuming third party liabilities
- Acquiring/selling shares
- Settling disputes and resolving conflicts of interests
- Annual budget, to be adopted by end of March
- Establishment of annual financial statements
- Appointment of auditor
- Matters of fundamental or extraordinary significance or extraordinary risk
- Matters where Bylaws contemplate collective, non-delegable Board decision
- Matters for which responsibility not assigned to a particular Board member

2.1.6 Decisions on matters assigned to particular Board member

- Should only be made in his presence except in exceptional cases (Bylaws § 7(4))

2.1.7 Other tasks/competences

- The Board *may*, by qualified majority (and not subject to delegation), adopt an organizational plan to allocate responsibilities for conducting the CNF's business (Bylaws § 3(1)).
- The Board *may* adopt an Operations Manual for regulating administrative procedures of the CNF. It *should* be adopted once an ED and supporting staff have been hired (Bylaws § 3(2)).
- The Board must hire an internationally recognized investment advisor in a transparent and competitive public tender process, subject to the consent of a qualified majority (Bylaws § 13(1)).

2.1.8 Internal organization

- The Chairman coordinates activities (Bylaws § 5(2)); otherwise the duty falls to the Vice-Chairman
- The Treasurer is responsible for reporting to the Board about the management of the endowment (Bylaws § 5(5))

## **2.2 Committees (Articles § 9(8); Bylaws § 7(6))**

- The Board may establish Committees
- Each Committee of the Board shall be presided over by a member of the Board who reports to the Chairman of the Board
- The Board may delegate particular tasks to perform instead of the Board if it consists either of Board members only or of at least one Board member and one other person, e.g. ED or outside experts
- Persons not being Board members have no voting right in decision-making committees
- The Board may request that the Finance Committee propose an investment policy, review and recommend potential outside investment advisors and asset managers to hire, and oversee performance of outside asset managers, and to implement investment decisions taken by the Board (Bylaws § 12(5))
- The Board may establish a Scientific and Technical Committee that includes Board members and outside experts, and then request that the Committee:
  - Review the technical, scientific and administrative aspects of grant proposals, and recommend whether the Board should adopt or reject such proposals, or require them to be modified; and
  - Advise the Board on other scientific, technical or administrative matters (Bylaws § 18(2))

## **2.3 Executive Director**

- (a) The ED is to be appointed by the Board and is subject to directives of the Board
- (b) Core responsibilities of ED (Bylaws § 8(1))
  - Prime responsibility during the first three years after CNF is established: to raise additional capital for CNF
  - Efficient and cost effective day-to-day management, including proper maintenance of CNF's financial books and records
  - Coordinating internal and external review of grant proposals, and ensuring that all grant proposals are submitted to Board in proper form
  - Administering and monitoring grants
  - Representing and promoting the CNF in dealings with government officials and the media
  - Serving as effective team leader of CNF's staff
  - Participate in Board meetings in a non-voting capacity and perform the task of a Secretary of Board (Bylaws § 5(6))
  - Otherwise assisting Board
- (c) ED Power of Attorney—see 2.1.2(b) above

- (d) Board to supervise ED

## **2.4 Duty of Confidentiality (Bylaws § 9)**

- It is the duty of the CNF Board and employees not to disclose non-public information, even after leaving the CNF (Bylaws § 9(1))
- It is their duty not to use non-public information for their own benefit or the benefit of a third party (Bylaws § 9(1))
- The CNF's documents have to be returned if requested (Bylaws § 9(2))

## **2.5 Conflict of Interest (Articles § 9(7); Bylaws § 10)**

### 2.5.1 Definition (Bylaws § 10(1))

- (a) A “conflict of interest” exists whenever a CNF Board member or officer, directly or indirectly, is in a position to approve or influence decisions or actions of the CNF from which such Board member or officer would derive an individual economic benefit, or is affiliated with someone who would derive an economic benefit. For these purposes only, “Officers“ of the CNF includes all CNF employees.
- (b) A Board member or officer is deemed to be “affiliated” with an entity if such Board member or officer:
- Serves as a member of a governing body of the entity
  - Serves as an officer or employee of the entity
  - Has a material economic relationship with the entity or
  - If the person's spouse, parent, sibling, child, or member of the immediate household, holds such a position or has such a relationship.
- (c) Service on the board of another not-for-profit entity does not constitute a conflict of interest.
- (d) A Board member or officer is deemed to be affiliated with an individual if such individual is a spouse, parent, sibling, child, or member of the immediate household of such individual or has a material economic relationship with such individual.

### 2.5.2 Proceeding

- (a) If a conflict of interest exists, immediate disclosure is necessary (Bylaws § 10(2))
- (b) The Board will decide as to the existence of a conflict of interest or an affiliation; the affected Board member will abide by the decision (Bylaws § 10(2))

- (c) If a conflict exists, the affected Board member or officer shall not participate in the decision-making or in any voting. The affected Board member may participate in any discussion regarding the Board member's exclusion.

No individual or entity with which a Board member or officer is affiliated shall receive any special consideration by the Board, and no Board member or officer shall attempt to influence other Board members or officers regarding matters before the Board in which they are interested, without first disclosing that interest to the full Board.

If any contract or grant is presented to the Board in which a Board member or officer has an interest, or is affiliated with a contract party, a committee composed of the non-interested Board members shall be formed to review, and approve or reject such contract or grant (Bylaws § 10(3)).

- (d) The Board may adopt additional policies on conflict of interest (Bylaws § 10(4))

### **3. FINANCIAL MANAGEMENT**

#### **3.1 Administration of CNF's Assets (Articles § 4 and Bylaws § 12)**

##### 3.1.1 Duties of a prudent businessman apply (Articles § 4(2))

##### 3.1.2 Endowment capital

- The endowment capital is to be preserved (Civil Code § 80(2); Hessian Foundations Act § 5, 6(1); Articles § 4(3))
- Up to 10% can be used if necessary, and replenishment is possible within six years (Articles § 4(4))
- Apart from this, only income and capital appreciation can be used, including, consistent with a steady, market-oriented development of the foundation's funding, in whole or in part, capital gains that it earns from investing the capital (Articles § 4(3), Bylaws § 12(1)a))

##### 3.1.3 Assets in general

- Unless otherwise restricted or specified by a donor, CNF assets are to be administered as:
  - Endowment Fund
  - Sinking Fund (§ 4(5) sentence 2 Articles)
  - Revolving Fund
  - Pass-Through Fund
- The entire amount of any current use gifts (*Spenden*) must be spent within two years following the donation and may not be reinvested under German Tax Law. Donors may specify a shorter period of time.
- At the present time, donations are not generally accepted at CNF PO. Exceptions can be made for a donation to qualify for overseas direct aid (ODA) status if approved by the board and reviewed with Georgian counsel.
- The Sinking Funds are to be spent within the time frame specified in the individual contracts. They are not subject to the two year rule of the *Spenden*. They are invested in accordance with the individual contracts and the investment policy of CNF.

#### **3.2 Investment of Capital**

##### 3.2.1 Generally accepted principles:

- Endowment capital to be preserved (see above)
- Safe investment (diversification and avoidance of speculation)
- Proper and efficient administration

- Investments to yield returns

### 3.2.2 Requirements of organizational documents

- The CNF shall, through a transparent and competitive tender process and with the approval of a qualified majority of the Board, engage an internationally recognized investment advisor to advise and assist the Foundation in connection with its investments and the further engagement of investment managers (Bylaws § 13(1)).
- Investment objectives are to preserve capital and to earn a net total annual return of 5% over the long term (Bylaws § 14(1)).
- Investment policy to be adopted by Board to follow diversification (asset class--stocks, bonds, real estate etc., country or geographical region, currency, industry or company) (Bylaws § 14(3))
- The investment advisor and investment managers must ensure risk control (Bylaws § 14(2))
- The calculation of the amount of investment return that can be spent each year is to be based on the average total annual rate of return earned over the last three years, unless otherwise determined by a qualified majority of the Board in consultation with the investment advisor (Bylaws § 13(2)).

### 3.2.3 Investment policy

The Board has adopted an investment policy which contains more detailed guidance on investments. Among other things it clarifies that the investment return objective of 5% as stated in the by-laws should be interpreted as 4% after inflation.

## **3.3 Budgeting**

- The ED will prepare an annual budget for submission to the Board. The budget will include a grants budget and budget for administrative expenses, as well as a budget for expected income. The grants budget will take account of earmarking and the hierarchy described below under 4.1(d).
- The Board, together with the ED and with input from the investment manager, is responsible for ensuring budget sustainability, taking into account the rates of return on the CNF's assets, global economic conditions, current and predicted rates of inflation, the CNF's committed and expected grants, and donations committed to the CNF. Bylaws § 8(2)
- The annual budget (financial plan) is to be adopted by Board by the end of March with a simple majority (Articles § 10(1); Bylaws § 6(2)(b)). Until the adoption of the new budget, the ED may authorize spending for administrative expenses on the basis of the amounts approved in the previous year's budget. Grant spending may proceed on the basis of approved grants. Within any limits described

in sections 3.4 the ED may re-allocate between budget items. In addition, the ED has overall authority to exceed the annual administrative budget by not more than 5%.

### **3.4 Administrative Expenses**

Euro amounts in this Section will be adjusted from time to time as necessary taking into account inflation or deflation and the size of CNF's operations. All provisions governing procedures for acquiring goods and services are subject to any more strict procedures agreed to by the CNF in any grant agreement with a CNF donor. Spending limitations apply to expenses incurred for CNF's own administration and operations (including CNF PO), and not to expenses grants and other grant related expenses. Where indicated in Section 3.4.2, certain procedures apply to grant related expenses incurred directly by CNF.

#### 3.4.1 Total administrative costs

- Principles of thrifty management should govern administrative costs (Articles § 10(1)). The same applies to other non-grant expenses.
- CNF's administrative costs may not exceed 15% of its total annual budget (grants plus administrative expenses), commencing at latest in the fourth year after it has been legally established (Bylaws § 8(5)). CNF reports on this ratio in its annual report. The basis up on which it is calculated is set forth Annex 1 and is kept available on CNF's website.
- The ED is entitled to re-allocate cost items among budgeted non-grant expenses, subject to the specific limitations set forth below. Overall, the ED will not, without prior approval of the Board, permit spending for non-grant expenses in excess of the budget plus a contingency of 5%.
- The ED requests authority annually from the Board to re-allocate costs among budgeted grants.

#### 3.4.2 Expenditures for equipment and supplies and related services.

- Expenditures for equipment and supplies may be contracted for by the ED or his delegates within the limit of the greater of the annual budget for equipment and supplies plus a contingency of the lesser of 10% of such budget and EUR 10,000.
- Expenditures for administrative support services (e.g., IT services or utilities) may be contracted for by the ED or his delegate within the limit of the greater of the annual budget for administrative support services plus a contingency of the lesser of 10% of such budget and Euro 10,000.
- The ED is to seek two or more offers for all expenditures for equipment and supplies and related services in excess of EUR 3,000,

and three or more offers for all such expenditures in excess of EUR 6,000. If possible, the offers shall be in writing and a record of such offers shall be kept (*also applies to CNF direct grants*).

### 3.4.3 Travel & CNF Car

- By the ED:
  - ED may engage expenses for his travel in accordance with his contract and German law and will be reimbursed for hotel and ancillary expenses on a per diem expenses in accordance with German law tax limits.
  - ED will seek to schedule his travel efficiently and prudently and will notify and seek approval of the Board if his travel expenses exceed budgeted amount by more than 10%.
  
- By Europe-based Employees
  - To be approved by the ED
  - Reimbursement for train and airplane travel in coach (second) class as well as for hired cars
  - Reimbursement for reasonable hotel costs and for ancillary expenses on a per diem basis in accordance with German law tax limits.
  
- By the Program Director and the Caucasus-based staff.
  - Program Director may engage expenses for travel within the Caucasus. Travel outside the Caucasus requires ED approval.
  - Other Caucasus offices employees may engage expenses for travel with the approval of the Program Director or the ED.
  - Reimbursement will be for train and airplane travel in coach (second) class as well as for hired cars
  - Reimbursement for hotel costs and for ancillary expenses on a per diem basis within the tax limits set by Georgian law for Georgia-based employees.
  - Reimbursement for reasonable hotel costs and for ancillary expenses on a per diem basis in accordance with German law tax limits for Armenian national coordinator who is employed on a consultant basis.
  
- CNF maintains a car in Georgia for the use of its staff. Rules in relation to the use of the car are set forth in Annex 3.

### 3.4.4 Consulting services

- The ED is authorized to engage consultants.
- To the extent practicable, the ED will seek to identify annual consulting needs in advance and include budget for same as part of annual budget.

- The ED will not spend in excess of greater of (i) EUR 20,000 and (ii) the amount set forth in the annual budget for consultants plus EUR 20,000 without prior Board approval.
- If the amount to be paid in fees for the services in question in any given year exceeds EUR 6,000, the ED will develop terms of reference for such services and seek to ensure that the consultant operates within those terms of reference (*also applies to CNF direct grants*).
- For services where a competitive market exists (e.g., homepage development, legal services other than those offered on a pro bono basis, accounting and similar services), to the extent practicable if the amount to be paid in fees for the services exceeds EUR 12,000 in any given year, the ED will seek at least two offers for such services and if the amount to be paid in fees for the services exceeds EUR 20,000 in any given year, the ED will seek at least three offers for such services (*also applies to CNF direct grants*).
- If consulting fees paid to any single consultant in any given year are expected to exceed EUR 20,000, the terms of reference for such services and proposed method of seeking offers shall be submitted to the Board prior to engagement of such consultant.
- The ED is authorized to reimburse the reasonable out-of pocket expenditures of consultants.

#### 3.4.5 Hiring of employees

The ED may hire employees consistent with the budget plus a contingency of 15%. The Board must approve the budget for any proposed new hire. If the total annual remuneration of an individual employee exceeds EUR 37,500, the terms of the agreement and the qualifications of the individual shall be submitted to the Board prior to signing.

## **4. ACCOUNTING**

**The fiscal year is the calendar year (Bylaws § 1(3))**

### **4.2 Fiscal Year; Maintenance and Content of Books**

Proper books shall be maintained as necessary to properly record and account for:

- (a) CNF assets, including:
  - Endowment capital, sinking funds and other contributions classified appropriately as unrestricted or dedicated to a particular country;
  - Current use donations; and
  - Any tangible assets (equipment, etc.) owned by the CNF
- (b) CNF liabilities, including a schedule of committed grants showing in reasonable detail the scheduled date of disbursement
- (c) CNF revenues, including income on investments and gift commitments to cover operating expenses; and
- (d) CNF expenditures for grants under the following earmarking of funds hierarchy:
  - (1) Current Use Donations
  - (2) Sinking Funds (Country Specific) (Articles § 4(5))
  - (3) Sinking Fund (Unrestricted) (Articles § 4(5))
  - (4) Endowment Earnings (Country Specific)
  - (5) Endowment Earnings (Unrestricted)
  - (6) Up to 10% of endowment (Articles § 4 (4))

On appropriate occasions (i.e. existence of other upcoming known uses for sinking fund monies) or legal requirements, funds from source (4) or (5) can be used ahead of funds from sources (1)--(3).

- (e) CNF expenditures, including for salaries, travel, rent, consulting fees and other administrative expenses and similar operating items.

### **4.3 Accounting Function**

For as long as the CNF does not employ an internal accountant for such purposes, it shall outsource its bookkeeping to an external service provider. CNF (i) provides its external bookkeepers with appropriate documentation of all revenues and expenditures appropriately coded for recording by the bookkeepers in the proper category, and (ii) maintains copies of all such documentation. Examples include travel expenses, expenses for supplies and utilities and the like.

CNF engages a payroll accountant in France, Germany and Georgia to provide payroll accounting services. The Armenian national coordinator is engaged under a consulting contract and CNF pays the consulting fee directly.

## **5. BANKING AND BANK ACCOUNTS**

### **5.1 Endowment/Investment Account(s)**

CNF maintains separate accounts for its endowment, sinking fund and reserve assets that are invested on a medium- to long-term basis. As an internal operating procedure, at least two signatures are required for the transfer of any of such assets to CNF's current accounts for paying its own administrative and operating expenses and grant expenses.

At its main custodial institution in Germany where most of its investment assets are held, the two signature requirement is also embedded in the signature arrangements with the bank. The signature of any two of the Chairman, the Vice Chairman, the Treasurer and the ED is required to transfer funds from these investment accounts to current accounts.

CNF also has a relatively small portion of its investment assets invested in Caucasus banks for the sake of convenience and because of the relatively high returns offered on savings by the Georgian banking system. For transfers from these Caucasus investment accounts, two signatures are also required as an internal CNF matter. Due to the numerous administrative formalities (notarized, apostilized resolutions and physical appearance at the bank) are required in conjunction with addition or changing of signatories, CNF has determined that it is acceptable for it to rely on its internal procedures to ensure that the two signatory policy is respected. As a legal matter vis-à-vis the bank, the ED (or the Program Director) may authorize any transaction on his own.

In practice, CNF implements its two signature policy at its Caucasus banks through internet banking. One employee sets up the transfer electronically and a second employee—either the ED or (if the ED is unavailable) the Program Director—approves it.

### **5.2. Current Accounts**

CNF uses its current accounts to pay for grant expenses and operating and administrative expenses within limits (including those set forth in this Operating Manual) approved by the Board. CNF maintains current accounts in Germany, France, Georgia and Armenia. CNF PO also maintains a current account in Georgia to pay its own operating expenses (which are part of the overall CNF budget).

In general, as a matter of internal operation, transfers from the current accounts in the Caucasus require two electronic signatures (as described above). In the German account from which CNF's main European operating expenses are paid, the two signature philosophy is reflected in our procedures with our bookkeepers who also provide payment services. CNF provides a payment request with the appropriate documentation signed by the ED or his

delegate. Our bookkeepers then effect the payment of the indicated amount(s).

Exceptions to the two signature requirement exist for corporate credit card transactions. The ED authorizes employees to have a corporate card where necessary. Corporate cards are to be used exclusively for business purposes. Current accounts on which credit cards are issued have relatively modest balances (usually no more than EUR 25,000 except for the operating account in Germany on which only the ED's card is issued). In addition, the card issuer sets transaction limits that apply to the cards.

The Paris office also maintains a petty cash box with no more than EUR 500 to be used for administrative expenses less than EUR 100. Related invoices are maintained and petty cash is reconciled on regular basis.

As with the investment accounts, there is a difference between the internal procedures at CNF and the legal situation as between the banks and CNF. At the German bank holding our operating funds, for example, it would take two signature of the ED or board members to transfer the funds from our investment account outside the bank. At our other banks, as a legal matter the ED can act alone.

### 5.3 Signatories register

CNF maintains an up to date list of signature authorities at its various banks with is attached to this Operations Manual. (not available online)

## **6. FINANCIAL STATEMENTS AND REPORTING**

### **6.1 Annual Financial Statements and Board's Annual Report**

- The ED is to assist the Board in preparing the annual financial statement (annual accounts with an overview of CNF's assets (*Jahresabrechnung*) with an asset statement and separated depiction of the reserves and a report on the fulfillment of the CNF's purpose (*Bericht über die Erfüllung des Stiftungszwecks*) (Hessian Foundations Act § 7 no. 2; Articles § 10(2)). The accounts shall be drawn up pursuant to the regulations set forth in the third volume of the German Commercial Code (*Handelsgesetzbuch*) for large corporations (§ 267(3) HGB), including explanatory notes (*Anhang*) except that no management report (*Lagebericht*) (§ 289 HGB) shall be required (Bylaws § 6(2)(c)). As such the accounts will include a balance sheet and an income statement and related notes.
- The Board is to approve the disposition of funds annually by resolution at a meeting following approval of the audit, with qualified majority (Articles § 9(4)).
- Financial Statements should accordingly be approved at a physical meeting of the Board by a Qualified Majority (Articles § 9(4)) to permit reporting as described below under "Reporting", by a resolution along the following lines:  
*Resolved, that the financial statements of the CNF for the year XXXX and the accompanying Bericht ueber die Erfuellung des Stiftungszwecks are hereby approved and the Executive Director is hereby directed to submit such documents to the foundation authority no later than September 30. The Board hereby approves the disposition of funds for the year XXXX reflected in the financial statements.*

### **6.2 Audit**

- (a) An external audit is to be undertaken by internationally recognized independent accountant (Articles § 10(3)). The audit is to cover:
  - Audit of the annual accounts;
  - Continuing sustainability of the CNF's assets (Hessian Foundations Act § 12(3));
  - Conformity of CNF expenditures with the Articles (Hessian Foundations Act § 12(3)); and
- (b) External audits of the CNF's own offices and operations will be paid by the CNF as an administrative expense. Copies of the external auditors' report will be sent to appropriate German Government authorities, to donors to the CNF, and to the governments of the three core countries (Bylaws § 8(6)).
- (c) CNF maintains a detailed set of procedures in relation to the preparation of its annual report and financial statements and for the support of its auditors in

connection with the annual audit in its "CNF Procedures File--Financial Statement & Audit."

### **6.3 Reporting**

- On completion of the audit, the audited annual accounts and the report on the fulfillment of the CNF's purpose will be provided to the *Stiftungsaufsichtsbehörde* (Articles § 10(4)) within the applicable statutory time limit from time to time in force (Articles § 10(4)) (note: Hessian Foundations Act § 7 no. 2: requires submission by end September)
- The audited accounts (but not the auditors' report, unless agreed by the auditor) and the report on the fulfillment of CNF's purpose will also be made available on the CNF's homepage
- Tax filings are to be made with tax authority in accordance with the schedule set by the tax authority

## **7. DETAILED ADMINISTRATIVE PROCEDURES**

CNF maintains more detailed procedures in a number of administrative areas. Separate protocols are developed in relation to a number of areas that are kept up to date in a digital file. The following is a partial list. Certain others are developed from time to time by the CNF staff and approved by the ED. These more detailed procedures are deemed not to be an official part of this Operations Manual and their inclusion here is for completeness. Additions, amendments or deletions to them are not subject to Board approval.

### **7.1 Human Resources**

CNF respects the employment laws of the country in which it operates. It signs employment contracts with each of its employees which are maintained in the central office. There are HR procedures relating to confidentiality, holidays, working hours and the like. CNF generally advertises for vacant positions on the basis of terms of reference which form the basic job description for the employee who is ultimately hired.

### **7.2 Information Technology and Privacy**

CNF provides computers and related IT equipment to its employees and maintains general policies on computer use. Mobile telephones are provided to employees who travel frequently as part of their job.

CNF is attentive to its obligations under privacy laws and holds any personal or private data in its possession on its employees and donors in strict confidence.

### **7.3 Communications**

CNF maintains a web site, blogs and a Facebook page as well as procedures and policies on how to keep them up to date. CNF's trademark is registered in the EU and other jurisdictions, and CNF maintains policies on trademark use. CNF's policy is to publish photographic and other copyrighted material only with the written permission of the owner.

### **7.4 Donor Reporting**

CNF reports regularly to certain of its donors as required under its grant agreements and maintains a log of its reporting obligations and the required timing for its reports.