CHAPTER II – BUSINESS MANAGEMENT

A. FINANCE

Section 1 - ACBL Investment Policy Statement

1.1 PURPOSE

1.1.1 The purpose of this investment policy statement is to communicate to the ACBL Board of Directors, the investment manager, and other interested parties a clear understanding of the investment goals and objectives of the investment assets (the "Portfolio"). This statement outlines the responsibilities and guidelines for the investment manager and establishes the review and control procedures to be used in evaluating investment manager performance. A separate working capital reserve shall be set by management and held in a segregated cash account.

1.2 OBJECTIVES

1.2.1 The preservation of capital

1.2.2 Competitive Investment yields greater than those produced by 100% insured CDs.

1.2.3 Minimal investment risk

1.3 PORTFOLIO STANDARDS

1.3.1 **Assets Classes.** The ACBL Board of Directors will determine which asset classes are to be used in the Portfolio. The following asset classes are approved:

1.3.1.1 Stocks
1.3.1.2 Fixed Income Securities
1.1.1.3. Cash Equivalents

1.3.2 **Rate of Return.** Total Portfolio performance will be measure against a balanced market index.

1.3.2.1 The Portfolio is to be balanced, composed of equity, fixed income, and cash equivalent securities and is intended to be more aggressive than fixed income oriented portfolios and less aggressive than equity oriented portfolios. The term "aggressive" relates to such investment vehicles, diversification among

economic and industry sectors and individual securities, expected long-term rates of return and reduced volatility. The investment objectives are stated below:

1.3.3 **Risk.** Market risk will be defined for each of the asset classes in the Portfolio.

1.3.3.1 STOCKS. Risk for the entire equity portion of the Portfolio will be defined in terms of beta, using the S&P 500 as the appropriate market index and a one-year time frame. The investment manager may alter beta within the range of 0.85-1.25 as changes in the financial markets are anticipated. Adjustments in beta can be achieved through modification of the mix of equities held in the Portfolio.

1.3.3.2 FIXED INCOME. Risk for fixed income portion of the Portfolio will be defined in terms of standard deviation, using the Merrill Lynch 1-5 Year Gov't/Corp. Index as the appropriate market index and a one-year time frame. The standard deviation of the fixed income portion of the Portfolio should not exceed 1.25 times the standard deviation of the Merrill Lynch 1-5 Year Gov't/Corp. Index.

1.3.3.3 An investment in master limited partnerships and/or preferred stock in an amount up to 10% of our investment portfolio shall be considered "fixed income" investments.

1.3.4 **Asset Allocation.** The ACBL Board of Directors will determine the allocation of each of the approved assets classes in the Portfolio within certain broad ranges. The Investment Manager has complete discretion to determine the allocation of each asset class within these broad parameters.

1.3.4.1 Stocks – Up to 25 percent of the Fund's assets may be invested in core equity (generally large cap, high quality) securities.

a. Small Capitalization issues – Up to 5% of the Portfolio's assets may be invested in small capitalization

issues (defined as $2.5 billion market capitalization or lower).

b. International Equities – Up to 5% of the Portfolio's assets may be invested in international equity issues.

1.3.4.2 Fixed Income – At least 75 percent of the Portfolio's assets should be invested in fixed income securities, with no more than 10% invested in master limited partnerships and/or preferred stocks.

1.3.5 **Miscellaneous.** Other standards guiding management of the Portfolio by the investment manager are as follows:

1.3.5.1 Private placements or other investments without active trading markets will not be made

1.3.5.2 There are no restrictions relating to dividends or earnings of the stocks held in the Portfolio.

1.3.5.3 Securities turnover is warranted by the need to alter strategy as prospects for the financial markets change. Since transaction costs represent a reduction of assets, and also reflect again the performance of the Portfolio, turnover will be maintained at the lowest level consistent with implementation of strategy.

1.3.5.4 There are no requirements for, or restrictions against, realization of net investment gains or losses during any calendar year.

1.3.5.5 There are to be no short sales, trading on margin, lending of securities, or purchase or sale of options other than covered calls.

1.3.5.6 Corporate High Yield Bonds, Non-Investment Grade Bonds (i.e., less than BBB quality) are not permitted at time of purchase.

1.3.5.7 None of the portfolio may be invested in securities except as authorized by these Guidelines

1.4 PORTFOLIO EVAULATION

1.4.1 The appropriate market indices to be used to evaluate each asset category's performance are as follows:

a. Equities The S&P 500 Index

b. The Russell 2000 Index
c. The MSCI EAFE Index
d. Fixed Income Merrill Lynch 1-5 Year Gov't/Corp. Index
e. Cash Equivalents Three Month U.S. Treasury Bills

1.5 PERIODIC REVIEW

1.5.1 Standards established for the Portfolio reflect our mutual agreement as of the date of the guidelines. Guidelines will be reviewed at least annually, and more frequently as required. The investment manager will promptly advise the ACBL Board of Directors at any time these guidelines no longer seem appropriate. A compelling reason would be significant change in the evaluation by the investment manager of the expected real return or risk over the longer term for the assets that comprise the ACBL Board of Directors' preferred investment universe. Upon mutual agreement, the standards for the portfolio will be changed to assure the latitude necessary for exercise of special skills of the investment manager in active management.

1.5.2 The asset allocation applied under this policy shall be determined by the ACBL Finance Committee and reviewed at each Summer NABC.

Section 2 – Competitive Bidding Policy

2.1 A competitive bidding policy is designed for use when a project warrants the time expended by both the vendor and the purchaser. Typically, these are large dollar purchases. For the purposes of this policy, we will use a minimum amount of $50,000 when implementing the competitive bidding policy.

2.2 When the ACBL is interested in purchasing a product or service and the cost of that product warrants a competitive bid, the following will be followed.

2.2.1 Determine detailed specifications and criteria in the form of a written Request for Proposal (RFP) that will be established for the product or service.

2.2.2 Ensure the market consists of an adequate number of sellers to warrant the procedure. A minimum of three sellers is the acceptable number of suppliers to query. If there are not enough sellers in the market, the operating bidding policy will be in effect.

2.2.3 Verify the validity of the seller's ability to supply the known quality and specifications of the desired product or service.

2.2.4 Allow sufficient time for the seller to gather the necessary information to adequately respond to the Request for Proposal. Adequately define the due date for receiving responses.

2.2.5 If possible, require a sample of the product being purchased from each bidder for comparative purposes.

2.2.6 Request a written response when clarification is needed from a bidder on some element of the proposal.

2.2.7 Bids will be extensively reviewed and compared to specifications and to each other as to cost and quality. A cost/benefit analysis will be provided to the CEO comparing the proposals by cost and by the important elements of the specifications. Important deficiencies of the proposal must be prominently mentioned. The report will make a recommendation to the CEO.

2.2.8 Give reasons for the selection that was made, as well as reasons why the other top bidders were not selected.

2.2.9 In those situations where sufficient expertise is not available within Management to properly evaluate the product or service, Management will seek out that expertise from other sources including members of the Board of Directors, ACBL members and/or independent consultants.

2.2.10 Management at all times retains the right to refuse any and/or all bids.

2.3 Exceptions to the ACBL competitive bidding policy require prior approval by the ACBL Board or ACBL Executive Committee and subsequent notification to the Audit Committee. Appropriate exceptions include, but are not limited to:

2.3.1 Expenditures of up to $100,000;

2.3.2 Renewals or extensions of existing agreements which increase the total purchase price to over $50,000 when the seller or consultant's performance justifies such renewal or extension.

2.4 Excluded from the competitive bidding policy are:

2.4.1 Purchases of utilities, such as water, sewage, etc., where competitive sources are not available.

2.4.2 Purchases of proprietary maintenance contracts, i.e., where alternate authorized sources are not available.

2.4.3 Purchases of maintenance contracts where use of alternate sources is inconsistent with the best interest of the League.

2.4.4 Purchases involving major repairs due to the urgency of repair.

2.4.5 Purchases involving a documented sole source of supply, either where Purchasing has exhausted the search for additional suppliers or where comparable products available from multiple sources are found not to meet the requirements of the League.

Section 3 – Management Functions

3.1 The following items previously passed as Board policy will become operations to be performed by management.

3.1.1 Management will send masterpoint notifications as frequently as financially advisable.

3.1.2 Management may add to the Mini-McKenney, or any recognition program, at any time. They will report to the Board any such changes at its next regular meeting.

3.1.3 Management will set the exchange rate applicable to the annual dues of Canadian members.

3.1.4 Management will develop and maintain a package of benefits to offer to the Patron Member program.

3.1.5 Management is authorized to offer reduced price memberships and commissions/rebates to teachers.

3.1.6 Management is authorized to offer bonuses to clubs or teachers for recruiting/retaining members.

3.1.7 Management may create and sell scrip for the convenience of the players and tournament organizers in necessary and appropriate quantities and denominations.

3.1.8 Management is authorized to develop materials needed to implement bridge programs as part of school curriculums.

3.1.9 Management is authorized to negotiate and administer the creation of sponsored trophies.

3.1.10 Copies of the annual audited financial statements shall be available to ACBL members for a reasonable fee to be determined by management.

3.1.11 Management is authorized to establish the price of all ACBL products and services with the exception of sanction fees, membership fees, life master service fees, and tournament director fees.

3.1.12 Management is to publish the Bridge Bulletin and be responsible for its editorial content. The number of pages per issue, student supplements, NABC inserts, novice sections and any and all other decisions will be made by the editor and the CEO.

3.1.13 Management will set reasonable and competitive prices for the Bridge Bulletin commercial advertising.

3.1.14 Management is authorized to determine and implement reasonable late fees for reports from units and clubs.

3.1.15 Management shall establish the table fee for tournament supplies annually.

3.1.16 Management may waive or decrease sanction fees for 199er Regionals.

3.1.17 Management will establish annually the charges for printing tournament programs.

3.1.18 The ACBL Instant Matchpoint Game will award prizes to be determined by management.

3.1.19 The per diem fee for Tournament Directors charged to tournaments is determined by IRS guidelines.

3.1.21 The Board of Directors retains, without exception, the complete rights of oversight and review of these matters.

3.2 Management is allowed to maintain a checking account balance in excess of $100,000.

3.3 Space at NABCs and advertising in ACBL publications have value and working agreements with other entities, providing for remuneration, shall be made accordingly.

3.4 Management is authorized to establish the price of all ACBL products and services with the exception of ACBL mailing lists and Bridge Bulletin tournament advertising rates.

3.5 Management is authorized to collect fees for ACBL services to affiliated organizations.

3.6 The ACBL shall purchase D & O Insurance.

Section 4 –-Accounting

4.1 Management will determine accounting policies, procedures and processes for budgeting and financial management purposes.

4.2 The presentation format will consist of the following four (4) categories consistent with audited financial statement presentation.

4.2.1 Membership – Will consist of the Bridge Bulletin, masterpoint recording and customer service. Customer service is defined as contact with existing members.

4.2.2 Club activities will consist of club point games and Special Event games.

4.2.3 Tournament activities will consist of Regional games, Sectional games and NABC's.

4.2.4 Other activities will include marketing .

Section 5 – Budget

5.1 The following liquidity measurement is adopted as a long-term guideline for budgetary decisions:

5.1.1 The total of current assets plus investments, to the extent they are marketable, less liabilities, not including accrued post retirement health care, will be sufficient to satisfy four months of general, tournament directors and Bridge Bulletin expenses, and not decrease below the amount necessary for three months of such expenses.

5.1.2 Under no circumstances should the above requirement cover less than three months expenses.

5.2 For Marketing and Education expenditures, the ACBL CEO has authority to direct funding authorized in the annual budget from existing Marketing and Education programs to new or other existing programs. This would not include funding in those areas specifically mandated by the Board of Directors regulations.

5.3 The budget for a calendar year will be finalized no later than February 15, approved by the Finance Committee, and then presented to the full Board for ratification at the Spring Board meeting.

Section 6 – Financial Statements and Audit

6.1 The Audit Committee shall cause there to be an audit of all funds, properties, accounts, and liabilities of the ACBL. Said annual audit report shall be provided to the Board of Directors and the Board of Governors and be made available to the membership for its consideration at the annual membership meeting. Upon the request of any member of the ACBL, for a reasonable fee, the Chief Financial Officer shall furnish said member with a copy of said audited financial statement. A summary of the audited financial statement shall be published in the Bridge Bulletin and posted on the ACBL website.

6.2 Upon request, management will provide the Finance Committee with a detailed analysis of selected items that appear in the financial statements. Such items will be reviewed by the Finance Committee.

6.3 The Chief Financial Officer shall provide both the Board of Directors and the Board of Governors with a complete financial report of the ACBL.

6.4 The annual audited ACBL financial statement shall be published on the ACBL website no later than one week after the conclusion of the Spring NABC.

Section 7 - Foreign Funds

7.1 The Canadian exchange rate for Membership Renewals, Club Sanction Fees, Tournament entry Fees and other Canadian Fund receipts will be reviewed and changed quarterly if warranted and posted on the ACBL website.