1. It is the policy of the National Model Railroad Association that all financial transactions be reflected in and based on an annual budget. The budget shall be prepared by the Treasurer/Chief Financial Officer (CFO), reviewed and agreed by the Budget & Finance Committee, and approved by the Board of Directors (BOD) at the winter meeting near the beginning of each fiscal year. The fiscal year shall coincide with the calendar year.

2. It shall be the policy of the NMRA to set fees and charges, which are a condition of membership in the Association. These fees and charges shall be approved by the Board of Directors.

3. The Treasurer/CFO of the NMRA or his designee will reimburse members for expenditures made for, or pay vendors for, such items as are authorized in the annual budget and are approved by a Department Manager, an Officer, the CFO, or the Chief Administrative Officer (CAO).

4. All financial procedures shall be set out in the “Operations Manual”.

5. There are certain assets or “Funds” of the NMRA that are designated for specific limited usage by the BOD. The BOD will make decisions as to purposes and the means of supporting each Fund. None of the Funds are supported by member dues. The CFO will make annual or semi-annual reports to the BOD on the status of each Fund.

    <u>Life Service Obligation Fund (LSOF)</u>: The Life Service Obligation Fund principal and any income designated by the BOD for the LSOF shall be used only for payment of life account dues and subscriptions. The LSOF is made up of the original payments made by members for Life memberships plus additional income streams designated by the BOD less the annual withdrawals to provide Life Member services. A summary of changes in the LSOF balance for the previous year shall be prepared annually and presented to the Board of Directors at the winter meeting. (Note: The LSOF and the NMRA Investment portfolio are separate entities. Income from the Investments is, by current BOD policy, added to the LSOF balance each year.)

    <u>Heart of America Fund</u>: The Heart of America Fund underwrites the initial cost of NMRA fund raising projects. It was established with permanent donations from the Mid-Continent Region, the Turkey Creek Division of MCoR, the Gateway Division of MCoR, and the NMRA. Its

capitalization is $50,000. Funds are used to purchase items and the initial sales are then returned to the fund to restore it. Semi-annual reports are sent to each of the contributing organizations.

<u>Diamond Club Fund</u>: The Diamond Club Fund provides the member benefit of online electronic access to the NMRA's large collection of drawings, photographs, and other images. The images will be scanned and be available online for purchase. The funding and support of the Diamond Club shall only be by specific member donations and the sale of images.

<u>Howell Day Museum Fund</u>: The Howell Day Museum (HDM) Fund contains assets specifically designated for the HDM, including donations, sales of HDM merchandise, fundraising efforts, HDM investments, and bequests. All costs associated with HDM are paid by the fund.

<u>Dean Freytag Industrial Model Contest Award Fund</u>: Memorial donations of $800 established this Fund in Dean Freytag's honor. The Fund will purchase a contest award each year that is awarded to the best industrial model in the annual contest as determined by the Contest Manager. The award will be discontinued when the fund is depleted.

6. It is the policy of the NMRA to establish the annual budget with at least three-percent (3%) retained earnings, i.e. budgeted expenses shall not exceed 97% of budgeted revenues unless otherwise specifically directed by the Board of Directors.

1.TRAVEL EXPENSE: It shall be the policy of the NMRA to reimburse the associated travel expenses of employees and volunteer workers traveling on necessary and authorized business on behalf of the NMRA.

It shall be the intent of this policy to compensate reasonable costs in excess of normal daily expenses. Travel authorization shall be by an action of the Board of Directors; by the President in the case of Department Manager; or by the Department Manager when travel funds are contained within their current approved NMRA budget.

The CFO will define the rates for travel, lodging, and per diem for meals.

2. Directors or properly appointed proxies of the Directors shall be reimbursed the cost of their travel for attending regularly scheduled meetings in accordance with the following guidelines:

They shall be reimbursed for their actual travel expenses up to the amount of the round trip Air Coach fare (one stop) from their home to the site of the meetings upon their request and submission of travel receipts and proof of their attendance at the meeting, and a review of their expenses by the CFO or CAO.

3. At the discretion of the NMRA President, and upon <u>direct</u> invitation, the Department Managers, the *NMRA Magazine* Editor, and the Chairs of specific committees, individually or as a group, may be invited to attend such regularly scheduled Board of Directors Meetings. If so requested, they shall be reimbursed in the same manner as outlined herein.

4. Subject to funding in the approved annual Budget, the NMRA will reimburse one-half of the hotel room cost incurred by a person who is required or invited to attend a meeting which is required by the NMRA Regulations or authorized by the NMRA President. This reimbursement will be for a standard room at the rate set by the NMRA at the place where such meeting is held while attending the meeting or in the alternative, one-half of the actual cost of the room at another location, whichever is less. Reimbursement will be for the nights necessary to attend the meeting as determined by the Chief Financial Officer.

5. The CFO/Treasurer will arrange a wire transfer or other satisfactory method of airfare reimbursement in US dollars for Directors and invited guests traveling from outside the USA and Canada (Section 2 above). If the amount received via the wire transfer differs from the amount claimed, the Director or invited guest will advise the CFO/Treasurer and reach settlement at the meeting.

6. The BOD will pre-approve any International or extraordinary travel that may be of direct benefit to the NMRA after consultation with the CFO.

7. The CFO and Lead Director will approve any exceptions to this policy.

STATEMENT OF PURPOSE: This policy creates a framework that will provide growth and stability consistent with the current needs of the Association, while maintaining the purchasing power of NMRA investments for the future. The duties and responsibilities of the Investment Committee are defined and investment objectives, goals, and guidelines have been established to manage the funds for the exclusive benefit of the Association.

!. <u>RESPONSIBILITIES OF PARTIES</u>

A.Responsibilities of the Investment Committee

1. Select an appropriate investment firm to oversee NMRA investments and provide perspective on NMRA investments.
2. Monitor the NMRA investments' compliance with all laws, rules, and regulations.
3. Determine risk tolerance objectives for the investments consistent with Investment Committee-defined obligations and constraints.
4. Determine an asset allocation policy.
5. Specify asset-share ranges by major asset class.
6. Define a portfolio rebalancing strategy to effect compliance with asset-share ranges.
7. Set reporting frequency and format for reports on investment activity.
8. Select any necessary administrative, custodial, consulting, legal counsel, and service providers as required to prudently monitor, evaluate, safe-keep, and transfer securities.
9. Recognize their role as policy makers and advisors on strategic investment matters, and the CFO's role as tactical executor of those policies in selecting specific investments for the Fund.

B. Responsibilities of the CFO/Treasurer

1. The CFO/Treasurer is expected to adhere to the goals, objectives, and guidelines set forth by the Investment Committee.
2. The CFO/Treasurer shall have discretionary authority to make and execute investment transactions.
3. The CFO/Treasurer shall report all transactional activity on a semiannual basis (winter and summer BOD meeting reports) to the Investment Committee.
4. The CFO/Treasurer or his/her designee shall vote all proxies on investments held by the NMRA unless otherwise directed by the Investment Committee and annually summarize those activities to the Investment Committee.
5. The CFO/Treasurer shall act as a responsible fiduciary in all matters relating to NMRA investments.

II. INVESTMENT OBJECTIVES

The following objectives are listed in order of priority:

A. Long-Term Growth of Capital - Asset growth, exclusive of contributions and withdrawals, should be consistent with relevant market indices.
B. Preservation of Purchasing Power - Asset growth, exclusive of contributions and withdrawals, should exceed the rate of inflation.
C. Total Return - At a minimum, the investment should achieve on an annualized basis, over a rolling three-year period, a return of six percent (6%) of the fiscal year end value of the fund.

III. INVESTMENT GUIDELINES

The Investment Committee recognizes that risk, volatility, and the possibility of loss in purchasing power, are present to some degree in all types of investment vehicles. While high levels of investment risk are to be avoided, the assumption of risk is warranted and encouraged in order to allow the CFO/Treasurer the opportunity to achieve satisfactory long-term results consistent with objectives and character of the investments.

A. Qualifying Assets: All assets selected for the portfolio must have a readily ascertainable market value, and must be readily marketable. In order to provide flexibility to invest in various types of assets, the following lists of types of assets are among those approved for investment:
    1. Equities:
        A). Common Stocks
        b). Convertible Securities including Debentures
        c). Foreign securities
        d). Real Estate Investment Trusts (REIT)
    2. Fixed Income Investments:
        A). U.S. Government and Agency bonds, notes, and bills
        b). Corporate Bonds
        c). Preferred Stocks
    3. Cash and Equivalents
        A). Commercial Paper
        b). Certificates of Deposit
        c). Repurchase Agreements
    4. Mutual Funds - Approved in advance by the Committee
    5. Money Market Funds associated with the brokerage account
    6. The following types of assets or transactions are expressly prohibited:
        A). Commodities
        b). Futures and Options
        c). Private Placements

d). Warrants
e). Securities Purchased on Margin
f). Short selling
g). Real Estate (except for bequests and donations)
h). Venture Capital

B. Asset Allocation
It shall be the policy to invest the assets in accordance with the maximum and minimum range for each asset class as stated below:

1. Target ranges, by Asset Class

Asset Class Category	Minimum-Maximum
A). Domestic Equity:	40-70%
b). International Equity:	0-15%
c). Fixed Income, Domestic:	10-45%
d). Fixed Income, International:	0%
e). Cash and equivalents:	0-50%
f). Others:	0%

The Asset Mix policy and target ranges established by the Investment Committee represent a long-term view. As such, rapid and significant market movements may cause the Fund's actual asset mix to occasionally fall outside the policy range, but it is expected that any divergence should be of a short-term nature.

C. Portfolio Rebalancing
1. Portfolio balance (relative to target ranges) will be reported semi-annually at the winter and summer BOD meetings.
2. Rebalancing may be desired when the target asset class balance and the actual asset class balance differ by more than ten percentage points of that class' target allocation. It is anticipated that rebalancing will occur no more frequently than every twelve months.
3. Rebalancing of overall asset classes will be achieved in the most cost-effective manner and be determined and managed by the CFO/Treasurer.

D. Investment Limits, by Class
1. Equity Investments

A). Diversification - Investments shall be made in companies within industries across economic sectors, as defined by Standard & Poor's.
b). Quality and Marketability - Common and convertible preferred stocks should be of good quality and listed on either the New York or NASDAQ Exchanges or major overseas exchanges or successors, where appropriate.
c). Concentration by Issuer
   1) No more than 20% of total equity portfolio assets shall be invested in the securities of any one issuing corporation at the time of purchase.
   2) No more than 25% of the market value of total equity portfolio assets should be invested in any one industry at the time of purchase.

2. Fixed Income Investments
   A). Quality - Marketable bonds must be rated A- by Standard & Poor's and A3 by Moody's or higher at the time of purchase.
   b). Concentration by Issuer
      1). No limitations are placed on investments in U.S. Government guaranteed obligations (including fully guaranteed Federal Agencies).
      2). Investments in any one issuer (excluding fully guaranteed U.S. Government securities) shall not exceed 10% of total fixed income portfolio assets based on market value at the time of purchase.
      3). Issues should be at least $100 million par value.
3. Cash and equivalents
   A). U.S. Treasury Bills - Investment unlimited as a percent of portfolio assets.
   b). Commercial Paper
      1). Quality – A1 by S&P; or P1 by Moody's
   c). Certificate of deposit
      1). Quality - The debt of the bank must be rated AA by S&P or Aa by Moody's or the CD must be entirely insured by FDIC, including principal and interest.
   d). the limitations in b) and c) above do not apply to the association's ownership of recognized money market funds

IV. CHANGES/ALTERATION

The Investment Committee will review all aspects of this policy annually and make recommendations for changes, as it deems necessary and prudent to the Board of Directors for acceptance or rejection.