NAWCC Treasurer's Report / Finance Committee Report 2010 Annual Meeting

The period from June 2009 to June 2010 has been a time of serious upheaval in the financial markets, but has, for the most part, seen a recovery of the investment assets of the NAWCC.

The investment policy for the NAWCC as currently in place was created in 2005 and 2006 through a series of Finance Committee and Board of Directors discussions. The current policy stresses diversification and preservation of capital. It would be classified as a "conservative" strategy by most investors.

Largely due to the collapse of the financial markets in late 2008, the NAWCC non-cash-equivalent investments became concentrated into two major vehicles, SLM Corporation (Student Loans/Sallie Mae) and Household Finance Corporation. While these two investments showed a substantial paper loss in 2008, The HFC investments have essentially fully recovered at this time. Our holdings in SLM are notes which mature in January 2014 and will be payable at face value at that time. They currently trade at 78% and pay 2.25% minimum on the face value. While these represent some risk, we believe they are reasonably safe with the near term maturity. SLM student loans cannot be defaulted in bankruptcy under current U.S. law and it is unlikely that the law will be changed retroactively.

The Finance Committee has been in consultation with our investment managers who have recommended that we modify our investment strategy to "moderately conservative" and have offered to move some of our holdings to an "actively managed" account.

Historically a moderately conservative investment strategy has actually provided better preservation of capital than a conservative strategy because it accounts better for the effects of inflation. We are currently tracking the performance of the investment manager's actively managed portfolio with the intent of moving portions of our holdings into that relationship.

Currently the NAWCC has the following investment assets (round numbers):

Cash and Cash Equivalents	$187,000
Bonds and Long Term Notes	$1,440,000
Large Cap Corporate Investments	$360,000
Small Cap Corporate Investments	0
Foreign Corporate Investments	0

A portion of our holdings are endowment funds that are donor restricted for a specific purpose. In addition the Board of Directors has designated additional funds as restricted assets. The total of these restricted assets is approximately $740,000. The value of property is not included in our investment assets. (The current book value is $6,000,000 but the Fair Market Value is much less.) The value of our collections is not tracked as a matter of policy although we do carry $9,000,000 in collections insurance.

The balance of our funds are designated as our Net Liquidity Reserve. By standing rule, when the Net Liquidity Reserve falls below $400,000 the Board of Directors is required to take action to preserve the assets of the corporation. During the preceding year, the Net Liquidity Reserves did drop below $400,000 and we were anticipating a significant operating loss of FY2010. At the December 2009 meeting of the Board of Directors, it was decided that the depletion of our reserves was largely due to a transient condition in the financial markets and that it would be prudent to hold our current investments in anticipation of a near term recovery. In addition, the Executive Director and staff agreed to reductions in time and salary as well as a stringent expense reduction program to reduce or avoid an operating loss. As a result, we finished the year with a small operating surplus of above $16,000. This achievement coupled with the expected recovery in the investments has left the association on a relatively sound financial footing.

We remain dependent on grants and donations for our continuing financial health. The association needs to find additional revenue sources and has a continuing need to closely control expenses.

The following observations are my personal thoughts and do not necessarily reflect the positions of the Finance Committee, the Board of Directors or the staff of the NAWCC.

The Executive Director and staff are responsible for management of our physical plant and other tangible assets. The Executive Director consults with the Board of Directors regarding capital investments such as the recent renovations to the School of Horology to expand our classroom space. These assets are covered in the Executive Director's report.

It is important, however, to note that the association has some exposure in this regard. In particular our HVAC systems were sized and installed improperly when the property was enlarged in the late 1990's. This error has resulted in substantial excess operating costs over the past 12 years and needs remediation. The association needs a plan for remediation of this facility. .If the current system needs to be replaced; the cost could be as much as $250,000.

Another area of exposure is student and visitor housing. Columbia has limited housing available for students in the School of Horology and for visiting scholars who may be working in the Museum and Research Center on longer term projects. This deficiency is currently impacting our program expansion and may be expected to continue to do so. These programs represent a major potential source of non-dues revenue for the association which is jeopardized by the lack of available housing.

We are developing income sources on the Internet both from advertising and direct fee based services. Those should help to combat the income losses from the declining membership. The additional Internet exposure also holds promise for a positive impact on the membership decline as well as direct revenues.

I am grateful for the hard work of the Finance Committee this past year and especially the contributions of our past Treasurer, Peter Klein. We all owe a significant debt of gratitude to the staff for their hard work to see us through this difficult year.

Respectfully submitted,

Thomas W. McIntyre, Treasurer