

AMERICAN WATCHMAKERS –CLOCKMAKERS INSTITUTE
Minutes of the Board of Directors Conference Call
June 26,2007

Present

Dennis Warner, CW, President
Mark Butterworth, First Vice President
Gene Bertram, CC, Second Vice President
Matt Henning, CW, Secretary
Jack Kurdzionak, CW, Treasurer
Glenn Gardner
Ron Iverson
James Zimmerman
Jim Sadilek
Mark Baker
Wes Cutter Affiliate Chapter Director
Elbert Lewis REC Director
Paul Wadsworth, Parliamentarian

Staff

Jim Lubic; CMW, Executive Director, Education & Technical Director
Tom Pack, CPA, Finance Director

Guests

Doug Stuart, Director Elect.
Lloyd Lehn, Director Elect.

9:00 p.m. Meeting Opened by President Warner.

Dennis ran through the night's agenda briefly. He reminded the Board that they are here representing the membership and to do their best to make wise decisions. He also explained that we have invited Doug Stuart, and Lloyd Lehn to participate, but as Directors-Elect, they do not have the ability to vote on tonight's Motions.

Dennis then introduced the first Motion,

MOTION 52: Made by Perpetuation Fund Committee

Move to approve the appointment of David Christianson to the Perpetuation Fund Committee to replace Alice Carpenter.

Rationale: Alice would like to step down, and David is well qualified and willing to serve.

Roll Call Vote: Motion Passed Unanimously

Dennis then asked Tom Pack to explain what the Perpetuation Fund Committee will do on the Thursday prior to the Annual Meeting. Tom explained that AWCI staff has a list of seven management firms that they will contact, and begin the process of narrowing those down to four firms. The Perpetuation Fund Committee will then hear the presentations from those four firms and then begin the process of deciding which one AWCI will be using to manage the investment of the Perpetuation Fund.

Dennis then asked Jack Kurdzionak to introduce the Motions regarding the budget.

Jack explained that he found that during the past year, his correspondence with the other Directors gave him some idea of the issues he should try to address as Treasurer. Those are:

Concern about the deficit spending

Concern over overly optimistic revenue projections

They asked for better reporting of both the Certification revenues, and the expenses.

Concern about the timing of the financial reports provided by HQ to the Board

Concern about the level of salary expenses

Concern about the consistently inaccurate projection of revenue and expense.

He feels that the work done during the year, and culminating in the proposed Budget has addressed these concerns.

He thanked the people on the Finance Committee, including Tom Jeswald, Jack McCarty, and Glenn Gardner. He explained that they asked Tom and Jim Lubic if they felt they could work with this budget, and were told that they could.

He asked if there are any questions regarding the proposed budget.

Wes Cutter asked about the procedure we use to develop the budget. He finds that the way it works now, and in the past, when the Proposed Budget is given to the Board, he doesn't think they can really offer any input that might change the budget. He feels that it is too late at that point to make any changes.

Jack explained that the budget meeting happened later than he'd like because of scheduling problems. He also explained that the reason we are voting on it now rather than at the Annual Meeting is that the fiscal year begins on July 1st, and he would like to have the new budget go into effect then, rather than waiting until August.

Matt Henning explained that when the budget comes to us in this form, it is essentially too late for the Board to do anything about it. He feels that the Directors should have a more formalized process to develop its priorities for the coming year before the Finance Committee meets. Then the Finance Committee could take those goals and try to implement them in the budget within the practical limitations. That way if the Board decides that if something like a dues increase is something we must not do, the Finance Committee can work within that limitation.

Jack pointed out that though he never had any official input from the Board, he did have several private conversations, and feels that he had a good idea what was expected, and feels that he followed through on it.

Henning agreed that the budget does address many of the concerns he had. He feels that Jack did an excellent job; he just thinks there needs to be a more formalized process so that the Board comes to a collective and well thought out group of goals.

Jack noted that the most contentious issue appears to be the dues increase. He explained that the dues only pay about 30% of the organization's expenses. He also explained that we can't go a year without a dues increase simply because inflation causes our basic expenses to increase by an amount equal to a \$7 to \$10 dues increase. He pointed out that another large concern was the deficit, and to reduce the deficit, even with cuts, we need more income. We can't have both a reduced deficit, and no dues increase.

Lloyd Lehn commented that it appears that this budget was assembled for a given output and the member's dues were raised to match. Was there any thought given to cutting programs in order to reduce expenses and leave dues alone.

Jack explained that this is not how the budget is developed. They looked at each budget item, particularly the revenue to find a rational expectation. In particular, they did not expect any increased income from the Perpetuation fund. They looked into other things like the HT advertising income. The intent was to first look at other ways to increase income, and only then did they look at increasing dues. He listed some of the fixed expenses, like taxes on the building which went up quite a bit last year. They looked at reducing the staff level, and did a little, but feel that if we go much more, we will risk losing the ability to physically operate. He explained that when they raised the dues, and developed the resulting revenue expectation, they accounted for an expected 10% loss of members. He noted that last year's actual got bumped up by about \$13,000 in June because of the letter Rolex brought out. The letter advised all their parts account holders had to become members by June 30 of this year, so we had an influx of about 125 members from that.

Tom thought that we actually picked up a few more than that, though not all are attributable to Rolex.

Doug Stuart pointed out that if looking at the result of the dues increases over the past years, that overall revenue has trended down as a result. He wondered why we expect this year to be different.

Jack pointed out that we still don't know how many members we lose each year due to death, retirement or other reasons having nothing to do with the dues. So he doesn't think we can attribute all loss of membership to dues increase, and there's no way to separate the two. He said dues have to go up according to inflation. He explained that in years past, we had a larger membership number, and smaller expenses, and dues actually pretty much covered expenses. Now we have a larger staff, and smaller membership numbers and are also facing a changing society, which seems to be less inclined to join organizations such as ours.

Ron Iverson asked if the Finance Committee did anything with the information the Board developed by calling the members that left last year. Jack explained that the info wasn't given to them. Dennis pointed out that in fact the Board did not do the calling that was requested of them, so asking the question isn't particularly fair.

Many Directors voiced their experience that those members they talk to in their local areas mostly say that another dues increase will drive them out.

Ron asked, 'What's the goal for the organization?' 'Are we intending to narrow the types of members and looking for a more professional group?' 'How does that correlate with the often-stated goal of wanting to widen our appeal?'

Mark Butterworth observed that in his experience with these budget meetings, there has never been any intent to narrow the appeal of the organization. No one wishes to drive anyone out. He also believes that we cannot run an organization based on people who are out to get a free ride. Some people spend far more on other hobbies, and others won't spend a penny.

Glenn Gardner expressed his opinion that we need to raise dues at least as much as inflation no matter what. He also feels that this is the most realistic budget that he has seen in a very long time. He pointed out that things are starting to happen that we have been waiting for a long time. They are finally coming together, he added.

Jim Sadilek asked how we could ramp up the CW program by a power of 10 and still reduce the expense attributable to the program.

Jim Lubic explained that part of last years expense was Vince Schrader's salary, which was included in that line item. He also explained steps that have been taken to reduce the cost of administering the exam. The reductions come from reducing the amount of travel to each exam, by reducing the labor that Manuel Yazijian must do for each test.

Dennis then called for the Motion.

Motion 53: Made by Finance Committee

Move that the Board accept and implement the Budget for the fiscal year 2007-2008 as proposed.

Rationale: Since the last annual meeting, Board members have asked that this new budget address several issues of concern for them. Amongst these issues are:

1. Deficit spending.
2. Overly optimistic revenue projections.
3. Frequency of financial reports from the administration to the Board.
4. Certification expenses vs. certification revenues.
5. Level of salary expenses.
6. Inadequate correlation between projected and actual expenses.

Your Finance Committee, consisting of the Treasurer, Board member Glenn Gardner, AWCI members Tom Jeswald (a VP of a major bank) and Jack McCarty (a CPA and business owner) has unanimously approved, along with the approval of President Warner and Vice president Butterworth, the proposed budget.

This budget includes:

1. An anticipated deficit of \$28K, a reduction in one year of 87% from last year's actual deficit. This far exceeds the initial expectations of the committee.
2. The revenue projections in almost every category are based upon the actual revenues received by the Institute for the past 50 weeks ending on June 15, 2007. The projected certification and education revenues are based upon an analysis of our anticipated activities in these areas in light of the Rolex's decision to require every private spare part account to be a certified AWCI member in order to maintain that spare part account.
3. The finance director has been furnishing, and will continue to furnish financial reports to the Board on a bimonthly basis rather than quarterly. In addition, the finance director has agreed to communicate with the treasurer every two weeks regarding any change in the Institute's finances. Please note this arrangement is informal and not part of the budget.
4. The development costs of the CW exam are now behind us and in light of the Rolex decision, we will be administering a substantial number of CW exams. The revenue projections for certification are based upon a conservative estimate (20% of the potential pool of Rolex accounts) of those who will be required to take the exam. The budget allows \$40K for the implementation of the CC exam.
5. The salary expense budget has significant reductions from the past fiscal year. There will be no salary increase for any employee. All employees are now contributing to their health insurance benefits. Staff levels have been reduced will be further reduced when this budget is accepted.
6. In every expense and revenue projection, the committee based its recommendations upon the actual 50-week experience ending June 15, 2007.
7. Regular dues will be set at \$125 per year and advertising rates in HT will be 10% higher. Raising dues is always controversial, but our increased fixed costs mandate an increase. The actual cost of operating the Institute is well over \$300 per member per year. Membership dues, even with the new schedule, cover only about 30% of our actual costs per member.
8. Each Institute member, employee, officer, director, affiliate chapter, and advertiser is affected by this budget. The members are asked to pay more dues. The employees will have no salary increase and their insurance costs are going higher. Employee workloads will increase. Officers and directors will receive no travel compensation. Affiliate chapter travel compensation has been reduced. Advertisers will pay higher rates to support the HT magazine.

9. The proposed budget is a comprehensive package of revenue increases combined with expense reductions, all of which are required to make this fiscal year a success.

The committee is bringing this budget to the Board at this time for one reason. That is, if it is accepted, it can be implemented by the administration on July 1 and be in effect for a full twelve months, rather than lose precious time by waiting many weeks for the annual meeting while the Institute operates without new spending guidelines. Although the timing of this budget consideration is a change from recent practice, it is not a new procedure. Before the annual meeting was moved to August, the budget was considered and passed at the annual meeting in early June with a July 1 implementation date.

Roll Call Vote: Motion carried 10 votes to 1

Voting Yes:

Cutter
Kurdzionak
Henning
Iverson
Gardner
Butterworth
Lewis
Bertram
Baker
Zimmerman

Voting No:

Sadilek

President Warner asked for the next Motion.

Motion 54: Made by Mark Butterworth, second by Matt Henning

Move that the Finance Director be authorized to borrow, using the Perpetuation Fund as collateral, up to an additional \$100,000 from the Fifth Third Bank to extend our line of credit with that bank to a total of not more than \$300,000.

Rationale: The Institute does not have sufficient liquidity to fund its operations at this time. Cash flow during the year is uneven. Income at any given time may not be sufficient to meet all of the obligations of the Institute at that time. The extension of the line of credit by \$100,000 will allow the Institute to meet its fiscal obligations during those periods.

Discussion: Jack explained that we are currently cash poor, and that this was recommended by Jack McCarty. This puts money in the bank to cushion our income which does not come in a steady stream. He said that if we do operate at the projected deficit, that money would then have to be transferred to the building loan.

Jim Sadilek asked if this is the first time we used the Perpetuation Fund as collateral.

Tom Pack explained that the original building loan used the fund as collateral. Lloyd asked how much debt we currently carry.

Pack answered that we currently have \$730,000 on the building, and an additional \$200,000 on a revolving line of credit.

Roll Call Vote: Motion Passed unanimously

Warner asked for the next motion

Motion 55: Made by Finance Committee

Regular dues will be \$125 per year effective Oct. 1, 2007. All other dues that are related to regular dues will be commensurately adjusted on that date. This dues schedule will be placed in the Policy Manual under 3.2006.01

Rationale: This action is needed to enter the increase in the Policy Manual.

Roll Call Vote: Motion Passed unanimously.

Dennis asked if there was any further business.

Mark Baker asked if we were going to do anything about reappointing the ELM Trust since the term ends on June 30th. Dennis explained that he needs to do a little more work with that and wants to put it off for the time being.

Elbert asked if we had gotten a response from all of the REC schools this year (dues). Jim Lubic explained that we did not get anything from Johnstown PA, and Mark Baker explained that they have discontinued [the school](#).

Lloyd Lehn asked if there's any reason why we don't use the Yahoo groups polling service to handle the voting. He explained that it would allow people to vote and see how others vote, and also allow folks to change their vote up to the final minute.

Dennis explained that we are limited by Ohio state law.

Matt Henning pointed out that as we take the votes, it's hard enough to get everyone together. He wants all directors to enter their votes to both the awciboard@awci address, and the awciboard@yahoo.com address, and not by sending the votes to him personally. He further explained that he doesn't know if it's legally required or by tradition, but when a vote is made by an individual, it cannot be changed.

Mark Butterworth explained the history. He explained why when a voice vote is called, the order is changed each time. The reason is that Directors used to watch what others did before entering their vote. The Directors are supposed to be thinking and acting individually, without regard to what everyone else is doing.

Jack thanked the Board for their support of the Finance Committee, and for approving the Budget.

Dennis Warner adjourned the meeting at 10:09 pm

Respectfully submitted,

Matt Henning, Secretary