

**AMERICAN WATCHMAKERS –
CLOCKMAKERS INSTITUTE**

FINANCIAL STATEMENTS

**For the Years Ended
June 30, 2002 and June 30, 2001**

TABLE OF CONTENTS

	<u>PAGE NO.</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Net Assets	4
Statements of Cash Flows	5 - 6
Notes to Financial Statements	7 - 9
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION	11
SUPPLEMENTARY INFORMATION	
Schedules of Revenues	12
Schedules of Operating Expenses	13



**RUDLER &
ASSOCIATES, INC.**

Certified Public Accountants

A Professional Service Corporation
Founded in 1969

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
American Watchmakers – Clockmakers Institute
Harrison, Ohio

We have audited the accompanying statements of financial position of American Watchmakers - Clockmakers Institute (a nonprofit organization) as of June 30, 2002 and June 30, 2001, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Watchmakers - Clockmakers Institute as of June 30, 2002 and June 30, 2001, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rudler & Associates, Inc.

Fort Wright, Kentucky
January 8, 2003

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF FINANCIAL POSITION
June 30, 2002 and June 30, 2001

ASSETS	June 30, 2002	June 30, 2001
	<u> </u>	<u> </u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 140,797	\$ 60,131
Accounts receivable	24,452	25,969
Accounts receivable-Elm Trust	69,001	51,844
Interest Receivable	30,863	31,572
Investments	7,322,368	7,234,461
Inventories	<u>81,740</u>	<u>104,106</u>
 Total Current Assets	 <u>7,669,221</u>	 <u>7,508,083</u>
 LAND, BUILDING AND EQUIPMENT		
Land	238,739	238,739
Building	1,126,404	1,126,404
Equipment	<u>500,848</u>	<u>469,598</u>
	1,865,991	1,834,741
Accumulated depreciation	<u>(584,010)</u>	<u>(501,242)</u>
 Total Land, Building and Equipment	 <u>1,281,981</u>	 <u>1,333,499</u>
 OTHER ASSETS		
Deferred financing costs (net)	37,621	0
Copyright	5,000	5,000
Deposit - BWC	<u>100</u>	<u>100</u>
 Total Other Assets	 <u>42,721</u>	 <u>5,100</u>
 Total Assets	 <u>\$ 8,993,923</u>	 <u>\$ 8,846,682</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	June 30, 2002	June 30, 2001
CURRENT LIABILITIES		
Current portion - long-term debt	\$ 20,000	\$ 56,005
Accounts payable	30,383	2,902
Accrued pension contribution	18,861	20,657
Line of credit - Fifth Third	<u>0</u>	<u>112,605</u>
Total Current Liabilities	69,244	192,169
LONG TERM LIABILITIES	<u>580,000</u>	<u>378,248</u>
Total Liabilities	<u>649,244</u>	<u>570,417</u>
NET ASSETS		
Unrestricted		
Operating	1,244,679	1,176,265
Board Designated	<u>7,100,000</u>	<u>7,100,000</u>
Total Net Assets	<u>8,344,679</u>	<u>8,276,265</u>
Total Liabilities and Net Assets	<u>\$ 8,993,923</u>	<u>\$ 8,846,682</u>

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2002 and June 30, 2001

	June 30, 2002	June 30, 2001
REVENUES		
Operating revenues	\$ 501,710	\$ 602,798
Investment income	426,017	472,016
Total Revenues	<u>927,727</u>	<u>1,074,814</u>
 Operating Expenses	 <u>851,043</u>	 <u>982,269</u>
 Income from Operations	 <u>76,684</u>	 <u>92,545</u>
 Other Income (Expense)		
Unrealized Gain (Loss) on Investments	92,388	371,532
Loss on sale of equipment	0	(3,629)
Depreciation	(82,768)	(96,093)
Amortization	(1,636)	0
Interest expense	(16,254)	(36,403)
Total Other Income (Expense)	 <u>(8,270)</u>	 <u>235,407</u>
 Change in Net Assets	 <u>\$ 68,414</u>	 <u>\$ 327,952</u>

The accompanying notes are an integral part of these statements.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF NET ASSETS
For the Years Ended June 30, 2002 and June 30, 2001

	<u>June 30,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>
Net Assets - Unrestricted - Beginning of Year	\$ 8,276,265	\$ 7,948,313
Change in Net Assets	<u>68,414</u>	<u>327,952</u>
Net Assets - Unrestricted - End of Year	<u>\$ 8,344,679</u>	<u>\$ 8,276,265</u>

The accompanying notes are an integral part of these statements.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2002 and June 30, 2001

	<u>June 30,</u> <u>2002</u>	<u>June 30,</u> <u>2001</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 68,414	\$ 327,952
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	84,404	96,093
(Gain) loss on disposal of property	0	3,629
(Increase) decrease in accounts receivable	(15,640)	6,831
(Increase) decrease in inventories	22,366	(32,479)
(Increase) decrease in other assets	(39,257)	0
Increase (decrease) in accrued pension contribution	(1,796)	6,656
Increase (decrease) in accounts payable	<u>27,481</u>	<u>(1,118)</u>
 Total adjustments	 <u>77,558</u>	 <u>79,612</u>
 Net Cash Provided by Operating Activities	 <u>145,972</u>	 <u>407,564</u>
 Cash Flows From Investing Activities		
Proceeds from disposal of property	0	5,554
Capital expenditures	(31,250)	(27,544)
(Increase) decrease in investments	<u>(87,198)</u>	<u>(310,393)</u>
 Net Cash Used by Investing Activities	 <u>(118,448)</u>	 <u>(332,383)</u>

The accompanying notes are an integral part of these statements.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2002 and June 30, 2001

	June 30, 2002	June 30, 2001
Cash Flows From Financing Activities		
Proceeds from long-term debt	600,000	0
Proceeds from line of credit - Fifth Third	0	107,605
Payments on line of credit - Fifth Third	(112,605)	0
Payments on line of credit - Key Bank	0	(81,629)
Repayment of long-term debt	(434,253)	(50,739)
Net Cash Provided (Used) by Financing Activities	<u>53,142</u>	<u>(24,763)</u>
Net Increase in Cash and Cash Equivalents	80,666	50,418
Cash and Cash Equivalents at Beginning of Year	<u>60,131</u>	<u>9,713</u>
Cash and Cash Equivalents at End of Year	<u>\$ 140,797</u>	<u>\$ 60,131</u>
Cash Paid During the Year for:		
Interest	\$ 16,254	\$ 36,403
Income taxes	\$ 0	\$ 0

The accompanying notes are an integral part of these statements.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS
June 30, 2002 and June 30, 2001

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of American Watchmakers – Clockmakers Institute is presented to assist in understanding the Institute's financial statements. The financial statements and notes are representations of the Institute's management, which is responsible for their integrity and objectivity. The accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Organization

American Watchmakers - Clockmakers Institute operates as a not-for-profit organization, exempt from taxation under Internal Revenue Code Section 501 (c)(6). The Institute is a trade organization for professionals in watchmaking, watch repair, clockmaking, and clock repair.

Basis of Accounting

The financial statements are prepared using the accrual method of accounting.

Cash and Cash Equivalents

The Institute considers cash and cash equivalents to include cash on hand, cash in banks, and other cash investments purchased with maturities of 90 days or less. The balances, at times, may exceed federally insured amounts.

Inventories

Inventories consist of published books and periodicals valued at cost on a first in/first out basis.

Financial Statement Presentation

The Institute has adopted the Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Institute is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As required by this statement, the Institute classified its financial statements to present the classes of net assets required. In addition, the Institute is required to present a statement of cash flows.

The Institute administers the following classes of net assets:

Unrestricted

Unrestricted handles the day to day operations of the Institute, including all administrative expenses in accordance with provisions of the Institute's constitution. Annual dues are designated for use by this class of net assets.

This also includes the proceeds from the sale of the Packard Watch Collection. Interest received off of the investment principal is to be used for the benefit of the membership. The Institute's Board of Directors has set the corpus of this Board Restricted Fund at \$7,100,000.

Revenue Recognition

Membership dues are recognized as income when billed. The payment of dues varies based on annual membership.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2002 and June 30, 2001

Land, Building and Equipment

Expenditures greater than \$500 for land, building and equipment are capitalized at cost when acquired. Depreciation is provided using the straight-line method and the following estimated useful lives:

Buildings	40 Years
Furniture and Equipment	3 - 10 Years

Advertising

Advertising costs are charged to operations when incurred.

Reclassifications

Certain reclassifications of prior years figures were made in order to be comparative with the current year.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. LONG TERM LIABILITIES

The following is a summary of long term debt as of June 30, 2002 and June 30, 2001:

	June 30, 2002	June 30, 2001
Note payable – PNC Bank, secured by Investments, payable in monthly installments of \$7,598.95, including interest at 8.62%	\$ 0	\$ 434,253
Note payable – Fifth Third Bank, secured by building, payable in monthly installments of \$2,222.22, plus interest at a variable rate of 2.2%. The variable rate cannot exceed 10%.	600,000	0
Less: current maturities	20,000	56,005
	\$ 580,000	\$ 378,248

Estimated current maturities for the next five years are as follows:

June 30, 2003	\$20,000
June 30, 2004	\$20,000
June 30, 2005	\$20,000
June 30, 2006	\$25,000
June 30, 2007	\$25,000

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2002 and June 30, 2001

3. INVESTMENTS

Investments are stated at fair value and are summarized as follows. Due to the marketability of the investments all are considered current assets. Proceeds from all sales are immediately reinvested.

	Market June 30, 2002	Market June 30, 2001
United States Treasury Money Market	\$ 930,384	\$ 1,500,202
Government National Mortgage Association	6,422,847	5,765,831
 Total	 \$ 7,353,231	 \$ 7,266,033

4. RETIREMENT PLAN

The Institute has a qualified noncontributory profit sharing plan covering substantially all full-time employees. The plan provides for contributions by the Institute in such amounts as the Board of Trustees may annually determine. The Institute's contributions charged to expense were \$18,861 and \$20,657 for the fiscal years ended June 30, 2002 and June 30, 2001, respectively.

5. LINES OF CREDIT

The Institute has a \$200,000 line of credit at Fifth Third Bank with interest at prime rate, secured by equipment. As of June 30, 2002 and June 30, 2001, the balance for the Fifth Third line of credit was \$0 and \$112,605, respectively.

SUPPLEMENTARY INFORMATION



**RUDLER &
ASSOCIATES, INC.**
Certified Public Accountants

A Professional Service Corporation
Founded in 1969

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors
American Watchmakers - Clockmakers Institute
Harrison, Ohio

Our report on our audits of the basic financial statements of American Watchmakers – Clockmakers Institute for the years ended June 30, 2002 and June 30, 2001 appears on page 1. Those audits were conducted for the purpose of forming an opinion on such financial statements taken as a whole. The following Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2002 and June 30, 2001 taken as a whole.

Rudler & Associates, Inc.

Fort Wright, Kentucky
January 8, 2003

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
SUPPLEMENTARY INFORMATION
SCHEDULES OF REVENUES
For the Years Ended June 30, 2002 and June 30, 2001

REVENUE	June 30, 2002	June 30, 2001
Active Members Dues	\$ 259,700	\$ 337,989
Affiliate Chapter Dues	3,640	3,795
Industry Advisory Board	3,785	4,000
Research and Educational Council	1,080	800
Seminars	12,050	14,850
Watch and Clock Certification	3,320	2,930
Horological Times Magazine/Publications	183,387	190,345
Video Programs	17,801	22,418
Membership Materials	7,022	7,278
Miscellaneous Income	3,915	4,394
Tuition	<u>6,010</u>	<u>13,999</u>
 Total Revenue	 <u>\$ 501,710</u>	 <u>\$ 602,798</u>

See Auditors' Report on Supplementary Information

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
SUPPLEMENTARY INFORMATION
SCHEDULES OF OPERATING EXPENSES
For the Years Ended June 30, 2002 and June 30, 2001

	June 30, 2002	June 30, 2001
OPERATING EXPENSES		
Salaries	\$ 328,574	\$ 366,652
Payroll Taxes	27,101	29,919
Real Estate Tax	4,217	5,573
Utilities	13,985	14,568
Telephone	11,086	17,848
Horological Times Magazine/Publications	140,789	156,398
Stationery and Office Supplies	26,345	24,585
Administrative Travel	16,203	8,458
Board and Executive Meetings	29,780	58,950
Membership Materials	16,753	15,244
Freight, Express and Postage	28,908	31,557
Royalties	35,252	24,491
Seminars	19,672	34,187
Legal and Professional Services	46,827	58,407
Advertising	17,744	12,506
Bank Service Charges	4,486	10,411
Insurance	9,206	7,407
Employee Benefits	18,737	20,659
Repairs and Maintenance	10,888	18,652
Audio Visual Programs	4,946	14,165
Security	2,710	3,107
Retirement Plan	18,861	20,657
Miscellaneous Expense	5,224	3,840
Staff Training	12,749	24,028
 Total Operating Expenses	 \$ 851,043	 \$ 982,269

See Auditors' Report on Supplementary Information