

**AMERICAN WATCHMAKERS –
CLOCKMAKERS INSTITUTE**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**For the Years Ended
June 30, 2006 and June 30, 2005**

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**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, 2006 and June 30, 2005, 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, 2006 and June 30, 2005, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained in the following schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rudler & Associates, Inc.

Fort Wright, Kentucky
November 6, 2006

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and June 30, 2005

ASSETS	June 30, 2006	June 30, 2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,853	\$ 0
Accounts receivable	21,754	22,799
Accounts receivable-Elm Trust	63,701	59,812
Accounts receivable-JIDA	417	6,463
Interest receivable	21,261	16,426
Investments	6,554,593	7,163,325
Inventories	99,679	108,499
	<u>6,783,258</u>	<u>7,377,324</u>
LAND, BUILDING AND EQUIPMENT		
Land	238,739	238,739
Building	1,173,920	1,128,193
Equipment	572,508	548,160
	<u>1,985,167</u>	<u>1,915,092</u>
Accumulated depreciation	<u>(850,975)</u>	<u>(793,768)</u>
	<u>,134,192</u>	<u>,121,324</u>
OTHER ASSETS		
Deferred financing costs (net)	29,769	31,731
Copyright	5,000	5,000
Deposit - BWC	99	99
	<u>34,868</u>	<u>36,830</u>
Total Assets	<u>\$ 7,952,318</u>	<u>\$ 8,535,478</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	June 30, 2006	June 30, 2005
CURRENT LIABILITIES		
Current portion - long-term debt	\$ 35,000	\$ 25,000
Line of credit	104,000	31,000
Accounts payable	15,302	10,054
Bank overdrafts	0	25,059
Total Current Liabilities	154,302	91,113
LONG TERM LIABILITIES	730,000	515,000
Total Liabilities	884,302	606,113
NET ASSETS		
Unrestricted		
Operating	(31,984)	829,365
Board Designated	7,100,000	7,100,000
Total Net Assets	7,068,016	7,929,365
Total Liabilities and Net Assets	\$ 7,952,318	\$ 8,535,478

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2006 and June 30, 2005

	June 30, 2006	June 30, 2005
	<u> </u>	<u> </u>
REVENUES		
Operating revenues	\$ 586,037	\$ 525,285
Investment income	370,652	408,441
Total Revenues	<u> </u>	<u> </u>
Operating Expenses	<u>1,141,818</u>	<u>941,334</u>
Income (Loss) from Operations	<u>(185,129)</u>	<u>(7,608)</u>
Other Income (Expense)		
Unrealized Gain (Loss) on Investments	(568,861)	65,091
Gain (Loss) on Sale of Investments	0	92,514
Depreciation	(57,207)	(75,101)
Amortization	(1,962)	(1,963)
Interest expense	<u>(48,190)</u>	<u>(22,554)</u>
Total Other Income (Expense)	<u>(676,220)</u>	<u>57,987</u>
Change in Net Assets	<u>\$ (861,349)</u>	<u>\$ 50,379</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, 2006 and June 30, 2005

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Net Assets - Unrestricted - Beginning of Year	\$ 7,929,365	\$ 7,878,986
Change in Net Assets	<u>(861,349)</u>	<u>50,379</u>
Net Assets - Unrestricted - End of Year	<u>\$ 7,068,016</u>	<u>\$ 7,929,365</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, 2006 and June 30, 2005

	June 30, 2006	June 30, 2005
Cash Flows From Operating Activities		
Change in net assets	\$ (861,349)	\$ 50,379
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	59,169	77,064
(Gain) loss on sale of investments	0	(65,091)
Unrealized (gain) loss on investments	568,861	(92,514)
(Increase) decrease in accounts receivable	(1,633)	72,273
(Increase) decrease in inventories	8,820	(10,051)
Increase (decrease) in accounts payable	5,248	(31,576)
Increase (decrease) in bank overdrafts	(25,059)	3,849
 Total adjustments	 615,406	 (46,046)
 Net Cash Provided (Used) by Operating Activities	 (245,943)	 4,333
 Cash Flows From Investing Activities		
Capital expenditures	(70,075)	(27,202)
Purchase of investments	(2,174,798)	(1,022,580)
Proceeds from sale of investments	2,214,669	1,034,449
 Net Cash Provided (Used) by Investing Activities	 (30,204)	 (15,333)
 Cash Flows From Financing Activities		
Proceeds from long-term debt	942,000	371,000
Repayment of long-term debt	(644,000)	(360,000)
 Net Cash Provided (Used) by Financing Activities	 298,000	 11,000
 Net Decrease in Cash and Cash Equivalents	 21,853	 0
 Cash and Cash Equivalents at Beginning of Year	 0	 0
 Cash and Cash Equivalents at End of Year	 \$ 21,853	 \$ 0

The accompanying notes are an integral part of these statements.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and June 30, 2005

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.

Deferred Financing Costs

The Institute has capitalized the financing costs of the bonds and amortizing the cost over twenty years.

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 from 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.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2006 and June 30, 2005

Revenue Recognition

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

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 year's 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, 2006 and June 30, 2005:

	June 30, 2006	June 30, 2005
Note payable – Fifth Third Bank, secured by building, payable in monthly installments of \$2,077 for 2006 and \$2,081 for 2005 plus interest at a variable rate of 5.55% at June 30, 2006 and 3.54% at June 30, 2005. The variable rate cannot exceed 10%.	\$ 515,000	\$ 540,000
Note payable – Fifth Third Bank, secured by building, payable in monthly installments of \$1,111 for 2006 plus interest at a variable rate of 5.55% at June 30, 2006. The variable rate cannot exceed 10%.	250,000	0
Less: current maturities	35,000	25,000
	\$ 730,000	\$ 515,000

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2006 and June 30, 2005

Estimated current maturities for the next five years are as follows

June 30, 2007	\$35,000
June 30, 2008	\$35,000
June 30, 2009	\$35,000
June 30, 2010	\$40,000
June 30, 2011	\$40,000

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.

Investments are stated at fair value and are summarized as follows as of June 30, 2006:

	<u>Cost</u>	<u>Fair Value</u>
Alliance Capital Reserves	\$ 225,618	\$ 225,618
Corporate Bonds	87,590	87,076
Government National Mortgage Association	<u>6,805,555</u>	<u>6,241,899</u>
 Total Investments	 <u>\$ 7,118,763</u>	 <u>\$ 6,554,593</u>

Investments are stated at fair value and are summarized as follows as of June 30, 2005:

	<u>Cost</u>	<u>Fair Value</u>
Alliance Capital Reserves	\$ 1,258,249	\$ 1,258,249
Corporate Bonds	87,590	92,281
Government National Mortgage Association	<u>5,752,650</u>	<u>5,812,795</u>
 Total	 <u>\$ 7,098,489</u>	 <u>\$ 7,163,325</u>

4. RETIREMENT PLAN

The Institute has a SEP IRA 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 \$21,306 and \$19,507 for the fiscal years ended June 30, 2006 and June 30, 2005, 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, 2006 and June 30, 2005, the balance for the Fifth Third line of credit was \$104,000 and \$31,000 respectively.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2006 and June 30, 2005

6. CASH FLOW INFORMATION

The following is a summary of supplemental cash flow information as of June 30, 2006 and June 30, 2005:

	June 30, 2006	June 30, 2005
Cash paid during the year for:		
Interest	\$ 48,190	\$ 22,554
Income taxes	\$ 0	\$ 0

SUPPLEMENTARY INFORMATION

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
SUPPLEMENTARY INFORMATION
SCHEDULES OF REVENUES

For the Years Ended June 30, 2006 and June 30, 2005

REVENUE	June 30, 2006	June 30, 2005
Active Members Dues	\$ 237,915	\$ 244,743
Affiliate Chapter Dues	2,175	2,500
Industry Advisory Board	16,576	1,238
Research and Educational Council	1,225	700
Seminars	29,875	29,895
Watch and Clock Certification	34,488	4,613
Horological Times Magazine/Publications	183,760	189,454
Video Programs	14,762	9,989
Membership Materials	8,972	7,151
Miscellaneous Income	21,263	25,052
Tuition	35,026	9,950
 Total Revenue	 \$ 586,037	 \$ 525,285

See Independent Auditors' Report

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
SUPPLEMENTARY INFORMATION
SCHEDULES OF OPERATING EXPENSES
For the Years Ended June 30, 2006 and June 30, 2005

OPERATING EXPENSES	June 30, 2006	June 30, 2005
Salaries	\$ 436,527	\$ 370,529
Payroll Taxes	37,581	29,753
Real Estate Tax	3,296	3,950
Utilities	14,825	10,851
Telephone	17,789	7,704
Horological Times Magazine/Publications	122,965	125,751
Stationery and Office Supplies	30,554	34,598
Administrative Travel	41,472	35,444
Board and Executive Meetings	40,315	34,374
Membership Materials	13,190	15,645
Freight, Express and Postage	24,753	24,250
Royalties	45,125	33,222
Seminars	64,275	40,645
Legal and Professional Services	41,260	34,331
Advertising	1,071	708
Bank Service Charges	13,434	8,749
Insurance	9,108	8,412
Employee Benefits	42,400	41,307
Repairs and Maintenance	25,641	11,985
Audio Visual Programs	7,509	12,169
Security	2,873	2,887
Retirement Plan	21,306	19,507
Miscellaneous Expense	6,127	1,309
Technician and Certification	78,422	32,139
Staff Training	86,322	1,115
Total Operating Expenses	<u>\$,228,140</u>	<u>\$ 941,334</u>

See Independent Auditors' Report