

**AMERICAN WATCHMAKERS –
CLOCKMAKERS INSTITUTE**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**For the Years Ended
June 30, 2011 and June 30, 2010**

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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, 2011 and June 30, 2010, 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, 2011 and June 30, 2010, 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 on pages 12 through 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rudler, PSC
Fort Wright, Kentucky
March 15, 2012

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and June 30, 2010

ASSETS

	<u>June 30,</u> 2011	<u>June 30,</u> 2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 54,938	\$ 131,635
Accounts receivable	23,269	12,174
Interest receivable	27,301	29,411
Investments	6,408,479	5,861,933
Inventories	<u>54,839</u>	<u>70,098</u>
 Total Current Assets	 <u>6,568,826</u>	 <u>6,105,251</u>
 LAND, BUILDING AND EQUIPMENT		
Land	238,739	238,739
Building	1,173,920	1,173,920
Equipment	<u>647,497</u>	<u>603,704</u>
	2,060,156	2,016,363
Accumulated depreciation	<u>(1,074,687)</u>	<u>(1,030,694)</u>
 Total Land, Building and Equipment	 <u>985,469</u>	 <u>985,669</u>
 OTHER ASSETS		
Deferred financing costs (net)	19,955	21,918
Copyright	5,000	5,000
Deposit - BWC	<u>99</u>	<u>99</u>
 Total Other Assets	 <u>25,054</u>	 <u>27,017</u>
 Total Assets	 <u>\$ 7,579,349</u>	 <u>\$ 7,117,937</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
CURRENT LIABILITIES		
Current portion - long-term debt	\$ 40,000	\$ 40,000
Line of credit	120,000	140,000
Accounts payable	3,220	9,757
Accounts Payable - ELM Trust	<u>3,432</u>	<u>3,432</u>
Total Current Liabilities	166,652	193,189
LONG TERM LIABILITIES	<u>540,000</u>	<u>580,000</u>
Total Liabilities	<u>706,652</u>	<u>773,189</u>
NET ASSETS		
Unrestricted		
Operating	(227,303)	(755,252)
Board Designated	<u>7,100,000</u>	<u>7,100,000</u>
Total Net Assets	<u>6,872,697</u>	<u>6,344,748</u>
Total Liabilities and Net Assets	<u><u>\$ 7,579,349</u></u>	<u><u>\$ 7,117,937</u></u>

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2011 and June 30, 2010

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
REVENUES		
Operating revenues	\$ 925,962	\$ 946,600
Total Revenues	<u>925,962</u>	<u>946,600</u>
 Operating Expenses	 <u>1,101,842</u>	 <u>1,066,020</u>
 Income (Loss) from Operations	 <u>(175,880)</u>	 <u>(119,420)</u>
 Other Income (Expense)		
Unrealized Gain (Loss) on Investments	707,857	407,828
Gain (Loss) on Sale of Investments	<u>(4,028)</u>	<u>(73,371)</u>
 Total Other Income (Expense)	 <u>703,829</u>	 <u>334,457</u>
 Change in Net Assets	 <u>\$ 527,949</u>	 <u>\$ 215,037</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, 2011 and June 30, 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Net Assets - Unrestricted - Beginning of Year	\$ 6,344,748	\$ 6,129,711
Change in Net Assets	<u>527,949</u>	<u>215,037</u>
Net Assets - Unrestricted - End of Year	<u>\$ 6,872,697</u>	<u>\$ 6,344,748</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, 2011 and June 30, 2010

	June 30, 2011	June 30, 2010
	<u> </u>	<u> </u>
Cash Flows From Operating Activities		
Change in net assets	\$ 527,949	\$ 215,037
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	45,956	44,363
(Gain) loss on sale of investments	4,028	73,371
Unrealized (gain) loss on investments	(707,857)	(407,828)
(Increase) decrease in accounts receivable	(8,985)	3,250
(Increase) decrease in inventories	15,259	(4,737)
Increase (decrease) in accounts payable	(6,537)	21
	<u> </u>	<u> </u>
Total adjustments	(658,136)	(291,560)
	<u> </u>	<u> </u>
Net Cash Provided (Used) by Operating Activities	(130,187)	(76,523)
	<u> </u>	<u> </u>
Cash Flows From Investing Activities		
Capital expenditures	(43,793)	(5,112)
Purchase of investments	(4,745,386)	(3,149,231)
Proceeds from sale of investments	4,902,669	3,408,395
	<u> </u>	<u> </u>
Net Cash Provided (Used) by Investing Activities	113,490	254,052
	<u> </u>	<u> </u>
Cash Flows From Financing Activities		
Net proceeds (payments) from line of credit	(20,000)	(20,000)
Repayment of long-term debt	(40,000)	(40,000)
	<u> </u>	<u> </u>
Net Cash Provided (Used) by Financing Activities	(60,000)	(60,000)
	<u> </u>	<u> </u>
Net Increase (Decrease) in Cash and Cash Equivalents	(76,697)	117,529
Cash and Cash Equivalents at Beginning of Year	131,635	14,106
	<u> </u>	<u> </u>
Cash and Cash Equivalents at End of Year	\$ 54,938	\$ 131,635
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these statements.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and June 30, 2010

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

The Organization believes it is no longer subject to income tax examinations for the fiscal years prior to June 30, 2008. There are currently no audits for any tax periods in progress.

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. Money Market accounts in investments are not included in cash and cash equivalents. The balances, at times, may exceed federally insured amounts.

Accounts Receivable

Accounts receivable are stated at the amount expected to be collected from balances outstanding at the year-end. The Institute uses the direct write off method for uncollectible accounts as bad debts are insignificant. Accounts written off as uncollectible amounted to \$0 in years ended June 30, 2011 and June 30, 2010.

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 presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, 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 Net Assets

Unrestricted net assets handle 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.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011 and June 30, 2010

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 Designated Fund at \$7,100,000.

Revenue Recognition

Membership dues are recognized as income when billed. The payments vary 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, 2011 and June 30, 2010:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Note payable – Bank of New York, secured by a GNMA bond, payable in monthly installments of \$2,499 for 2011 and \$2,499 for 2010 plus interest at a variable rate of .45% at June 30, 2011 and .8% at June 30, 2010. The variable rate cannot exceed 10%.	\$ 380,000	\$ 410,000
Note payable – Bank of New York, secured by a GNMA bond, payable in monthly installments of \$833 for 2011 and \$833 for 2010 plus interest at a variable rate of .45% at June 30, 2011 and .8% at June 30, 2010. The variable rate cannot exceed 10%.	200,000	210,000
Less: current maturities	<u>40,000</u>	<u>40,000</u>
	<u>\$ 540,000</u>	<u>\$ 580,000</u>

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
 June 30, 2011 and June 30, 2010

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

June 30, 2012	\$40,000
June 30, 2013	\$45,000
June 30, 2014	\$45,000
June 30, 2015	\$45,000
June 30, 2016	\$45,000

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, 2011:

	<u>Cost</u>	<u>Fair Value</u>
Municipal/Treasury Funds	\$ 244,203	\$ 244,203
Taxable Bonds	2,569,813	2,603,510
Equity Securities	<u>3,353,429</u>	<u>3,560,766</u>
 Total Investments	 <u>\$ 6,167,445</u>	 <u>\$ 6,408,479</u>

Investments are stated at fair value and are summarized as follows as of June 30, 2010:

	<u>Cost</u>	<u>Fair Value</u>
Municipal/Treasury Funds	\$ 257,711	\$ 257,711
Taxable Bonds	2,710,142	2,790,401
Equity Securities	<u>3,272,885</u>	<u>2,813,821</u>
 Total	 <u>\$ 6,240,738</u>	 <u>\$ 5,861,933</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 \$16,696 for the fiscal year ended June 30, 2011 and \$19,597 for the fiscal year ended June 30, 2010.

5. LINES OF CREDIT

The Institute has a \$300,000 line of credit at Fifth Third Bank with interest at prime rate, secured by equipment. The balance for the Fifth Third line of credit was \$120,000 at June 30, 2011 and \$140,000 at June 30, 2010.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011 and June 30, 2010

6. CASH FLOW INFORMATION

The following is a summary of supplemental cash flow information as of June 30, 2011 and June 30, 2010:

	June 30, 2011	June 30, 2010
Cash paid during the year for:		
Interest	\$ 28,452	\$ 37,858
Income taxes	\$ 0	\$ 0

7. SUBSEQUENT EVENTS

The Institute has evaluated all subsequent events through March 15, 2012, the date the financial statements were available to be issued. In August, 2011 the Institute refinanced their bond sinking funds and line of credit to Merchants Bank and Trust Company in the form of a \$580,000 note payable and a \$250,000 revolving line of credit.

8. FAIR VALUE MEASUREMENT

The Fair Value Measurement and Disclosure Topic of the Financial Accounting Standards Board Accounting Standard Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Accounting Standards Codification are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
- Level 2 Inputs to the valuation methodology include:
Quoted prices for similar assets or liabilities in active markets;
Quoted prices for identical or similar assets or liabilities in inactive markets;
Inputs other than quoted prices that are observable for the asset or liability;
Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2011 and June 30, 2010

FAIR VALUE MEASUREMENT (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2011.

Common stocks, money market funds, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other Organizations, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2011 and June 30, 2010.

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
June 30, 2011		
Municipal/Treasury Funds	\$ 244,203	\$ 244,203
Taxable Bonds	2,603,510	2,603,510
Equity Securities	<u>3,560,766</u>	<u>3,560,766</u>
Total assets at fair value	<u>\$6,408,479</u>	<u>\$6,408,479</u>
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
June 30, 2010		
Municipal/Treasury Funds	\$ 257,711	\$ 257,711
Taxable Bonds	2,790,401	2,790,401
Equity Securities	<u>2,813,821</u>	<u>2,813,821</u>
Total assets at fair value	<u>\$5,861,933</u>	<u>\$5,861,933</u>

SUPPLEMENTARY INFORMATION

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
SUPPLEMENTARY INFORMATION
SCHEDULES OF REVENUES

For the Years Ended June 30, 2011 and June 30, 2010

REVENUE	June 30, 2011	June 30, 2010
Dues		
Active Members Dues	\$ 237,656	\$ 257,387
Industry Advisory Board	26,400	27,650
Affiliate Chapter Dues	3,500	3,425
Research and Educational Council	1,750	1,555
Dues - Subtotal	<u>269,306</u>	<u>290,017</u>
Education		
Bench Courses	10,500	19,695
Academy	85,771	82,048
Education - Subtotal	<u>96,271</u>	<u>101,743</u>
Watch and Clock Certification	<u>157,425</u>	<u>151,191</u>
Horological Times		
Display	71,066	65,304
Classified	21,924	10,917
Horological Times - Subtotal	<u>92,990</u>	<u>76,221</u>
Merchandise		
Books	35,919	39,168
Tape/DVD/CD Sales	3,654	4,036
Tape Rentals	5	135
Membership Access.	1,395	1,156
Merchandise - Subtotal	<u>40,973</u>	<u>44,495</u>
Other		
Annual Meeting Revenue	33,098	37,985
Donation - Estate	0	10,000
Freight Charges	4,069	4,680
Trade Fair Booth Sponsorship	0	7,487
IAB Grant Revenue	49,174	31,574
Miscellaneous	2,403	7,072
Other- Subtotal	<u>88,744</u>	<u>98,798</u>
Investment Income	<u>180,253</u>	<u>184,135</u>
Total Revenue	<u>\$ 925,962</u>	<u>\$ 946,600</u>

See Independent Auditors' Report

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
SUPPLEMENTARY INFORMATION
SCHEDULES OF OPERATING EXPENSES
For the Years Ended June 30, 2011 and June 30, 2010

OPERATING EXPENSES	June 30, 2011	June 30, 2010
Professional Fees		
Accounting	\$ 17,500	\$ 19,206
Legal	8,663	9,758
Strategic Plan Consulting	1,250	1,750
Computer Consulting	20,000	0
Investment Management	30,942	30,393
Professional - Subtotal	78,355	61,107
Building		
Real Estate Taxes	24,292	24,053
Interest Expense	28,452	37,858
Security Monitoring	3,679	3,210
Landscaping Maintenance	5,043	8,405
Waste Removal	936	859
Building Maintenance / Repair	2,530	23,869
Building - Subtotal	64,932	98,254
Utilities		
Local Telephone	5,703	4,322
Long Distance Telephone	3,636	2,936
Water / Sewer	1,678	1,879
Gas / Electric	24,633	26,122
Utilities - Subtotal	35,650	35,259

See Independent Auditors' Report

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
SUPPLEMENTARY INFORMATION
SCHEDULES OF OPERATING EXPENSES
For the Years Ended June 30, 2011 and June 30, 2010

	June 30, 2011	June 30, 2010
Office Expenses		
Office Supplies / Services	14,115	15,930
In-House Copying	822	993
Outside Printing	3,348	1,652
Postage	9,735	7,332
Shipping / Overnight Fees	9,571	10,656
Internet / Email Access	1,060	1,120
Website Hosting	7,264	1,504
Software	5,116	5,471
Insurance - Non Employee	10,356	9,703
Awards/ Gifts	672	458
Bank Fees	2,825	2,416
Credit Card Processing	13,036	12,262
Merchandise for Resale	195	217
Office Expense - Subtotal	<u>78,115</u>	<u>69,714</u>
Travel		
Staff Travel	9,730	6,926
Board Travel	14,053	12,590
Committee Travel	0	1,432
Affiliate Chapter / REC Travel	2,700	2,400
Travel - Subtotal	<u>26,483</u>	<u>23,348</u>
Horological Times		
Publishing	97,065	94,153
Copyright Fees	805	0
Editing / Layout	13,510	5,670
Writer's Fees	12,903	10,400
Horological Times - Subtotal	<u>124,283</u>	<u>110,223</u>

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AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
SUPPLEMENTARY INFORMATION
SCHEDULES OF OPERATING EXPENSES
For the Years Ended June 30, 2011 and June 30, 2010

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
Other Items		
Publicity	4,095	2,214
Trade Fair Booth Expenses	12,253	9,235
Annual Meeting Expense	68,989	35,247
Depreciation	43,993	42,400
Amortization	1,963	1,963
Membership Materials	12,892	9,414
Book Publishing	19,082	11,551
Book Royalty	4,094	3,962
Staff Training	553	1,464
Audio / Visual	5,047	2,127
Other Items - Subtotal	<u>172,961</u>	<u>119,577</u>
Education		
Classroom Supplies	993	2,956
Bench course Instructor Travel	3,194	5,484
Bench Course Instructor Fees	0	125
Education - Subtotal	<u>4,187</u>	<u>8,565</u>
Certification		
Certified Watchmaker	72,170	72,173
Certified Clockmaker	0	425
Certification - Subtotal	<u>72,170</u>	<u>72,598</u>
Salaries and Benefits		
Salaries	346,464	351,556
Payroll Taxes	28,457	28,756
Pension	16,696	19,597
Health Insurance	51,777	66,142
Life Insurance	1,312	1,324
Salaries and Benefits - Subtotal	<u>444,706</u>	<u>467,375</u>
Total Operating Expenses	<u><u>\$ 1,101,842</u></u>	<u><u>\$ 1,066,020</u></u>

See Independent Auditors' Report