

**AMERICAN WATCHMAKERS –  
CLOCKMAKERS INSTITUTE**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

For the Years Ended  
June 30, 2007 and June 30, 2006

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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, 2007 and June 30, 2006, 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, 2007 and June 30, 2006, 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.

Fort Wright, Kentucky  
April 1, 2008

**AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2007 and June 30, 2006

ASSETS

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 26,540	\$ 25,702
Accounts receivable	27,690	21,754
Accounts receivable-Elm Trust	68,009	63,701
Accounts receivable-JIDA	3,492	417
Interest receivable	21,591	21,261
Investments	6,415,940	6,554,593
Inventories	82,002	99,679
	<u>6,645,264</u>	<u>6,787,107</u>
<b>LAND, BUILDING AND EQUIPMENT</b>		
Land	238,739	238,739
Building	1,173,920	1,173,920
Equipment	614,073	572,508
	<u>2,026,732</u>	<u>1,985,167</u>
Accumulated depreciation	(911,097)	(850,975)
	<u>1,115,635</u>	<u>1,134,192</u>
<b>OTHER ASSETS</b>		
Deferred financing costs (net)	27,807	29,769
Copyright	5,000	5,000
Deposit - BWC	99	99
	<u>32,906</u>	<u>34,868</u>
<b>Total Assets</b>	<u><u>\$ 7,793,805</u></u>	<u><u>\$ 7,956,167</u></u>

The accompanying notes are an integral part of these statements.

## LIABILITIES AND NET ASSETS

	June 30, 2007	June 30, 2006
<b>CURRENT LIABILITIES</b>		
Current portion - long-term debt	\$ 35,000	\$ 35,000
Line of credit	220,000	104,000
Accounts payable	14,888	15,302
Bank overdrafts - checking	40,473	3,849
	<u>310,361</u>	<u>158,151</u>
<b>LONG TERM LIABILITIES</b>	<u>695,000</u>	<u>730,000</u>
<b>Total Liabilities</b>	<u>1,005,361</u>	<u>888,151</u>
<b>NET ASSETS</b>		
Unrestricted		
Operating	(311,556)	(31,984)
Board Designated	7,100,000	7,100,000
	<u>6,788,444</u>	<u>7,068,016</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 7,793,805</u>	<u>\$ 7,956,167</u>

**AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE**  
**STATEMENTS OF ACTIVITIES**

For the Years Ended June 30, 2007 and June 30, 2006

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
<b>REVENUES</b>		
Operating revenues	\$ 644,008	\$ 586,037
Investment income	348,930	370,652
Total Revenues	<u>992,938</u>	<u>956,689</u>
 Operating Expenses	 <u>1,120,088</u>	 <u>1,141,818</u>
Income (Loss) from Operations	<u>(127,150)</u>	<u>(185,129)</u>
 Other Income (Expense)		
Unrealized Gain (Loss) on Investments	(50,043)	(568,861)
Gain (Loss) on Sale of Investments	25,875	0
Depreciation	(60,122)	(57,207)
Amortization	(1,963)	(1,962)
Interest expense	<u>(66,169)</u>	<u>(48,190)</u>
Total Other Income (Expense)	<u>(152,422)</u>	<u>(676,220)</u>
Change in Net Assets	<u>\$ (279,572)</u>	<u>\$ (861,349)</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, 2007 and June 30, 2006

	June 30, 2007	June 30, 2006
Net Assets - Unrestricted - Beginning of Year	\$ 7,068,016	\$ 7,929,365
Change in Net Assets	<u>(279,572)</u>	<u>(861,349)</u>
Net Assets - Unrestricted - End of Year	<u>\$ 6,788,444</u>	<u>\$ 7,068,016</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, 2007 and June 30, 2006

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (279,572)	\$ (861,349)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	62,085	59,169
(Gain) loss on sale of investments	(25,875)	0
Unrealized (gain) loss on investments	50,043	568,861
(Increase) decrease in accounts receivable	(13,649)	(1,633)
(Increase) decrease in inventories	17,677	8,820
Increase (decrease) in accounts payable	(414)	5,248
Increase (decrease) in bank overdrafts	36,624	(21,210)
	<u>126,491</u>	<u>619,255</u>
Net Cash Provided (Used) by Operating Activities	<u>(153,081)</u>	<u>(242,094)</u>
Cash Flows From Investing Activities		
Capital expenditures	(41,565)	(70,075)
Purchase of investments	(1,979,647)	(2,174,798)
Proceeds from sale of investments	2,094,131	2,214,669
	<u>72,919</u>	<u>(30,204)</u>
Net Cash Provided (Used) by Investing Activities	<u>72,919</u>	<u>(30,204)</u>
Cash Flows From Financing Activities		
Net proceeds from line of credit	116,000	942,000
Repayment of long-term debt	(35,000)	(644,000)
	<u>81,000</u>	<u>298,000</u>
Net Cash Provided (Used) by Financing Activities	<u>81,000</u>	<u>298,000</u>
Net Decrease in Cash and Cash Equivalents	838	25,702
Cash and Cash Equivalents at Beginning of Year	<u>25,702</u>	<u>0</u>
Cash and Cash Equivalents at End of Year	<u>\$ 26,540</u>	<u>\$ 25,702</u>

The accompanying notes are an integral part of these statements.



**AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007 and June 30, 2006

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.

**Accounts Receivable**

Accounts receivable are stated at the amount expected to be collected from balances outstanding at the year-end. The American Watchmakers - Clockmakers Institute uses the direct write off method for uncollectible accounts because bad debts are insignificant. No accounts were written off as uncollectible in years ended June 30, 2007 and June 30, 2006.

**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.

**AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
June 30, 2007 and June 30, 2006

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.

**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, 2007 and June 30, 2006:

	June 30, 2007	June 30, 2006
Note payable – Fifth Third Bank, secured by building, payable in monthly installments of \$2,075 for 2007 and \$2,077 for 2006 plus interest at a variable rate of 5.52% at June 30, 2007 and 5.55% at June 30, 2006. The variable rate cannot exceed 10%.	\$ 490,000	\$ 515,000
Note payable – Fifth Third Bank, secured by building, payable in monthly installments of \$831 for 2007 and \$1,111 for 2006 plus interest at a variable rate of 5.52% at June 30, 2007 and 5.55% at June 30, 2006. The variable rate cannot exceed 10%.	240,000	250,000
Less: current maturities	35,000	35,000
	\$ 695,000	\$ 730,000

**AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
June 30, 2007 and June 30, 2006

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

June 30, 2008	\$35,000
June 30, 2009	\$35,000
June 30, 2010	\$40,000
June 30, 2011	\$40,000
June 30, 2012	\$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, 2007:

	<u>Cost</u>	<u>Fair Value</u>
Alliance Capital Reserves	\$ 104,990	\$ 104,990
Corporate Bonds	76,935	82,612
Government National Mortgage Association	<u>6,284,058</u>	<u>6,228,338</u>
<b>Total Investments</b>	<b><u>\$ 6,465,983</u></b>	<b><u>\$ 6,415,940</u></b>

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>
<b>Total</b>	<b><u>\$ 7,118,763</u></b>	<b><u>\$ 6,554,593</u></b>

**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 \$24,340 for the fiscal year ended June 30, 2007 and \$21,306 for the fiscal year ended June 30, 2006.

**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 \$220,000 at June 30, 2007 and \$104,000 at June 30, 2006.

**AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
June 30, 2007 and June 30, 2006

6. CASH FLOW INFORMATION

The following is a summary of supplemental cash flow information as of June 30, 2007 and June 30, 2006:

	<u>June 30,</u> <u>2007</u>	<u>June 30,</u> <u>2006</u>
Cash paid during the year for:		
Interest	\$ 66,169	\$ 48,190
Income taxes	\$ 0	\$ 0

**SUPPLEMENTARY INFORMATION**

**AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF REVENUES**  
For the Years Ended June 30, 2007 and June 30, 2006

REVENUE	June 30, 2007	June 30, 2006
Active Members Dues	\$ 284,583	\$ 237,915
Affiliate Chapter Dues	2,625	2,175
Industry Advisory Board	24,025	16,576
Research and Educational Council	1,225	1,225
Seminars	21,704	29,875
Watch and Clock Certification	16,322	34,488
Horological Times Magazine/Publications	210,270	183,760
Video Programs	6,984	14,762
Membership Materials	10,088	8,972
Miscellaneous Income	20,334	21,263
Tuition	45,848	35,026
<b>Total Revenue</b>	<b>\$ 644,008</b>	<b>\$ 586,037</b>

See Independent Auditors' Report

**AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE**  
**SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF OPERATING EXPENSES**  
For the Years Ended June 30, 2007 and June 30, 2006

OPERATING EXPENSES	June 30, 2007	June 30, 2006
Salaries	\$ 429,585	\$ 436,527
Payroll Taxes	35,788	37,581
Real Estate Tax	18,318	3,296
Utilities	17,219	14,825
Telephone	13,902	17,789
Horological Times Magazine/Publications	134,734	122,965
Stationery and Office Supplies	24,014	30,554
Administrative Travel	36,179	41,472
Board and Executive Meetings	35,269	40,315
Membership Materials	10,013	13,190
Freight, Express and Postage	27,928	24,753
Royalties	51,617	45,125
Seminars	52,483	64,275
Legal and Professional Services	41,187	41,260
Advertising	27,210	1,071
Bank Service Charges	11,539	13,434
Insurance	10,231	9,108
Employee Benefits	39,056	42,400
Repairs and Maintenance	15,218	25,641
Audio Visual Programs	8,325	7,509
Security	2,873	2,873
Retirement Plan	24,340	21,306
Miscellaneous Expense	4,957	6,127
Technician and Certification	48,103	78,422
<b>Total Operating Expenses</b>	<b>\$ 1,120,088</b>	<b>\$ 1,141,818</b>

See Independent Auditors' Report