

**AMERICAN WATCHMAKERS –
CLOCKMAKERS INSTITUTE**

FINANCIAL STATEMENTS

For the Years Ended
June 30, 2005 and June 30, 2004

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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, 2005 and June 30, 2004, 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, 2005 and June 30, 2004, 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 are 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
June 26, 2006

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and June 30, 2004

ASSETS	June 30, 2005	June 30, 2004
CURRENT ASSETS		
Accounts receivable	\$ 22,799	\$ 16,973
Accounts receivable-Elm Trust	59,812	96,527
Accounts receivable-JIDA	6,463	38,725
Interest Receivable	16,426	25,548
Investments	7,163,325	7,017,593
Inventories	108,499	98,448
	7,377,324	7,293,814
LAND, BUILDING AND EQUIPMENT		
Land	238,739	238,739
Building	1,128,193	1,128,193
Equipment	548,160	520,958
	1,915,092	1,887,890
Accumulated depreciation	(793,768)	(718,673)
	1,121,324	1,169,217
OTHER ASSETS		
Deferred financing costs (net)	31,731	33,695
Copyright	5,000	5,000
Deposit - BWC	99	99
	36,830	38,794
	7,377,324	7,293,814
	1,121,324	1,169,217
	36,830	38,794
Total Assets	\$ 8,535,478	\$ 8,501,825

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	June 30, 2005	June 30, 2004
CURRENT LIABILITIES		
Current portion - long-term debt	\$ 25,000	\$ 20,000
Line of credit	31,000	0
Accounts payable	10,054	16,872
Accounts payable - JIDA	0	24,758
Bank overdrafts	25,059	21,209
Total Current Liabilities	91,113	82,839
LONG TERM LIABILITIES	515,000	540,000
Total Liabilities	606,113	622,839
NET ASSETS		
Unrestricted		
Operating	829,365	778,986
Board Designated	7,100,000	7,100,000
Total Net Assets	7,929,365	7,878,986
Total Liabilities and Net Assets	\$ 8,535,478	\$ 8,501,825

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2005 and June 30, 2004

	<u>June 30,</u> 2005	<u>June 30,</u> 2004
REVENUES		
Operating revenues	\$ 525,285	\$ 524,858
Investment income	408,441	382,674
Total Revenues	<u>933,726</u>	<u>907,532</u>
 Operating Expenses	 <u>941,334</u>	 <u>932,033</u>
 Income (Loss) from Operations	 <u>(7,608)</u>	 <u>(24,501)</u>
 Other Income (Expense)		
Unrealized Gain (Loss) on Investments	65,091	(127,416)
Gain (Loss) on Sale of Investments	92,514	(322,472)
Gain on Sale of Equipment	0	1,000
Depreciation	(75,101)	(90,204)
Amortization	(1,963)	(1,963)
Bad debt	0	(840)
Interest expense	<u>(22,554)</u>	<u>(15,543)</u>
 Total Other Income (Expense)	 <u>57,987</u>	 <u>(557,438)</u>
 Change in Net Assets	 <u>\$ 50,379</u>	 <u>\$ (581,939)</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, 2005 and June 30, 2004

	June 30, 2005	June 30, 2004
Net Assets - Unrestricted - Beginning of Year	\$ 7,878,986	\$ 8,460,925
Change in Net Assets	<u>50,379</u>	<u>(581,939)</u>
Net Assets - Unrestricted - End of Year	<u>\$ 7,929,365</u>	<u>\$ 7,878,986</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, 2005 and June 30, 2004

	June 30, 2005	June 30, 2004
Cash Flows From Operating Activities		
Change in net assets	\$ 50,379	\$ (581,939)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	77,064	92,166
Gain on sale of equipment	0	(1,000)
(Gain) loss on sale of investments	(65,091)	322,472
Unrealized (gain) loss on investments	(92,514)	127,416
(Increase) decrease in accounts receivable	72,273	(23,758)
(Increase) decrease in inventories	(10,051)	3,176
Increase (decrease) in accounts payable	(31,576)	27,748
Increase in bank overdrafts	3,849	21,210
Total adjustments	(46,046)	569,430
Net Cash Provided (Used) by Operating Activities	4,333	(12,509)
Cash Flows From Investing Activities		
Capital expenditures	(27,202)	(31,065)
Purchase of investments	(1,022,580)	(8,459,211)
Proceeds from sale of investments	1,034,449	8,497,553
Net Cash Provided (Used) by Investing Activities	(15,333)	7,277
Cash Flows From Financing Activities		
Proceeds from long-term debt	371,000	0
Repayment of long-term debt	(360,000)	(20,000)
Net Cash Provided (Used) by Financing Activities	11,000	(20,000)
Net Decrease in Cash and Cash Equivalents	0	(25,232)
Cash and Cash Equivalents at Beginning of Year	0	25,232
Cash and Cash Equivalents at End of Year	\$ 0	\$ 0

The accompanying notes are an integral part of these statements.

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and June 30, 2004

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.

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, 2005 and June 30, 2004

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, 2005 and June 30, 2004:

	June 30, 2005	June 30, 2004
Note payable – Fifth Third Bank, secured by building, payable in monthly installments of \$2,081 for 2005 and \$1,667 for 2004 plus interest at a variable rate of 3.54% at June 30, 2005 and 1.50% at June 30, 2004. The variable rate cannot exceed 10%.	\$ 540,000	\$ 560,000
Less: current maturities	25,000	20,000
	\$ 515,000	\$ 540,000

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

June 30, 2006	\$25,000
June 30, 2007	\$25,000
June 30, 2008	\$25,000
June 30, 2009	\$25,000
June 30, 2010	\$30,000

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
NOTES TO FINANCIAL STATEMENTS (CONT'D)
June 30, 2005 and June 30, 2004

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, 2005	Market June 30, 2004
Alliance Capital Reserves	\$ 1,258,249	\$ 34,424
Corporate Bonds	92,281	65,718
Government National Mortgage Association	5,812,795	6,917,451
 Total	 \$ 7,163,325	 \$ 7,017,593

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 \$19,507 and \$22,201 for the fiscal years ended June 30, 2005 and June 30, 2004, 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, 2005 and June 30, 2004, the balance for the Fifth Third line of credit was \$31,000 and \$0 respectively.

6. CASH FLOW INFORMATION

The following is a summary of supplemental cash flow information as of June 30, 2005 and June 30, 2004:

	June 30, 2005	June 30, 2004
Cash paid during the year for:		
Interest	\$ 22,554	\$ 15,543
Income taxes	\$ 0	\$ 0

SUPPLEMENTARY INFORMATION

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
SUPPLEMENTARY INFORMATION
SCHEDULES OF REVENUES

For the Years Ended June 30, 2005 and June 30, 2004

REVENUE	June 30, 2005	June 30, 2004
Active Members Dues	\$ 244,742	\$ 254,878
Affiliate Chapter Dues	2,500	2,400
Industry Advisory Board	1,238	1,500
Research and Educational Council	700	1,000
Seminars	29,894	40,822
Watch and Clock Certification	4,613	60
Horological Times Magazine/Publications	189,455	174,185
Video Programs	9,989	18,060
Membership Materials	7,151	10,142
Miscellaneous Income	25,053	12,616
Tuition	9,950	9,195
Total Revenue	\$ 525,285	\$ 524,858

See Auditors' Report

AMERICAN WATCHMAKERS - CLOCKMAKERS INSTITUTE
SUPPLEMENTARY INFORMATION
SCHEDULES OF OPERATING EXPENSES
For the Years Ended June 30, 2005 and June 30, 2004

OPERATING EXPENSES	June 30, 2005	June 30, 2004
Salaries	370,529	391,612
Payroll Taxes	29,753	31,572
Real Estate Tax	3,950	4,464
Utilities	10,851	13,466
Telephone	7,704	11,723
Horological Times Magazine/Publications	125,751	134,941
Stationery and Office Supplies	31,644	23,644
Administrative Travel	23,602	23,268
Board and Executive Meetings	34,374	25,244
Membership Materials	15,645	13,018
Freight, Express and Postage	24,250	27,126
Royalties	33,222	40,745
Seminars	40,645	38,163
Legal and Professional Services	34,331	39,051
Advertising	708	987
Bank Service Charges	8,749	6,102
Insurance	8,412	9,380
Employee Benefits	41,307	38,121
Repairs and Maintenance	11,985	13,267
Audio Visual Programs	12,169	2,595
Security	2,887	2,730
Retirement Plan	19,507	22,201
Miscellaneous Expense	1,309	2,950
Staff Training	48,050	15,663
	<u>941,334</u>	<u>932,033</u>
Total Operating Expenses	<u>\$ 941,334</u>	<u>\$ 932,033</u>

See Auditors' Report