LICKING-KNOX
GOODWILL INDUSTRIES, INC.

Financial Statements

December 31, 2013 and 2012

with Independent Auditors' Report

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

TABLE OF CONTENTS

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STRENGTH IN NUMBERS

INDEPENDENT AUDITORS' REPORT

Board of Trustees of
Licking-Knox Goodwill Industries, Inc.
Newark, Ohio

Report on the Financial Statements
We have audited the accompanying financial statements of Licking-Knox Goodwill Industries, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Licking-Knox Goodwill Industries, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
June 25, 2014

LICKING-KNOX GOODWILL INDUSTRIES, INC.
Statements of Financial Position
December 31, 2013 and 2012

Assets

		2013	2012
Current assets:			
Cash and cash equivalents	$	3,412,184	3,228,598
Marketable securities		3,992,690	3,100,348
Certificates of deposit		2,497,731	2,769,620
Accounts receivable		1,617,586	876,924
Inventory		251,969	153,855
Funds held by others		341,677	72,448
Prepaid expenses and deposits		82,571	84,599
Total current assets		12,196,408	10,286,392
Property and equipment, net		2,536,556	2,237,743
Other assets:			
Cash value of life insurance		125,076	50,703
Funds held by others - permanently restricted		41,766	41,766
Lease deposits		11,776	11,776
Total other assets		178,618	104,245
Total assets	$	14,911,582	12,628,380

Liabilities and Net Assets

		2013	2012
Current liabilities:			
Capital lease obligation, current portion	$	6,133	30,670
Accounts payable, trade		163,734	117,642
Payroll and payroll related liabilities		755,423	646,958
Deferred compensation liability, current portion		55,000	-
Accrued NISH contract commission		56,776	36,771
Unearned revenue		17,866	17,422
Other liabilities		-	61,255
Total current liabilities		1,054,932	910,718
Long-term liabilities:			
Deferred compensation liability, long term portion		68,755	62,000
Capital lease obligation, long term portion		-	61,077
Total long-term liabilities		68,755	123,077
Total liabilities		1,123,687	1,033,795
Net assets:			
Unrestricted		13,454,119	11,524,776
Unrestricted, board designated		265,793	-
Temporarily restricted		26,217	28,043
Permanently restricted		41,766	41,766
Total net assets		13,787,895	11,594,585
Total liabilities and net assets	$	14,911,582	12,628,380

See accompanying notes to the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Public support:				
Contributions - goods for resale	$ 582,540	-	-	582,540
Contributions - used car for resale	67,450	-	-	67,450
Contributions - general	29,626	22,781	-	52,407
Grants	-	-	-	-
Fundraising	-	-	-	-
	679,616	22,781	-	702,397
Program services:				
Recycling	406,459	-	-	406,459
Stores	4,669,641	-	-	4,669,641
Contracts	6,956,873	-	-	6,956,873
Vocational rehabilitation	617,749	-	-	617,749
Used car sales	98,728	-	-	98,728
Other	360,887	-	-	360,887
	13,110,337	-	-	13,110,337
Other revenues:				
Rental income	27,226	-	-	27,226
Interest and dividend income	218,011	302	-	218,313
Realized gain on marketable securities and funds held by others	57,689	-	-	57,689
Unrealized gain on marketable securities and funds held by others	550,949	3,134	-	554,083
Other income	72,600	-	-	72,600
	926,475	3,436	-	929,911
Net assets released from restrictions	28,043	(28,043)	-	-
Total support and revenues	14,744,471	(1,826)	-	14,742,645
Expenses:				
Program services:				
Recycling	146,771	-	-	146,771
Stores	4,550,776	-	-	4,550,776
Contracts	5,469,625	-	-	5,469,625
Vocational rehabilitation	551,202	-	-	551,202
Used car sales	155,877	-	-	155,877
Other	138,121	-	-	138,121
Support services:				
Management and general	1,536,963	-	-	1,536,963
Fundraising	-	-	-	-
Total expenses	12,549,335	-	-	12,549,335
Change in net assets	2,195,136	(1,826)	-	2,193,310
Net assets at beginning of year	11,524,776	28,043	41,766	11,594,585
Net assets at end of year	$ 13,719,912	26,217	41,766	13,787,895

See accompanying notes to the financial statements.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Public support:				
Contributions - goods for resale	$ 514,229	-	-	514,229
Contributions - used car for resale	71,242	-	-	71,242
Contributions - general	100,038	28,043	-	128,081
Grants	26,700	-	-	26,700
Fundraising	5,613	-	-	5,613
	717,822	28,043	-	745,865
Program services:				
Recycling	434,571	-	-	434,571
Stores	4,379,070	-	-	4,379,070
Contracts	6,869,847	-	-	6,869,847
Vocational rehabilitation	594,131	-	-	594,131
Used car sales	136,519	-	-	136,519
Other	257,615	-	-	257,615
	12,671,753	-	-	12,671,753
Other revenues:				
Rental income	35,235	-	-	35,235
Interest and dividend income	171,596	-	-	171,596
Realized gain on marketable securities and funds held by others	13,501	-	-	13,501
Unrealized gain on marketable securities and funds held by others	217,153	-	-	217,153
Other income	91,296	-	-	91,296
	528,781	-	-	528,781
Net assets released from restrictions	622	(622)	-	-
Total support and revenues	13,918,978	27,421	-	13,946,399
Expenses:				
Program services:				
Recycling	173,055	-	-	173,055
Stores	4,225,583	-	-	4,225,583
Contracts	5,663,128	-	-	5,663,128
Vocational rehabilitation	494,321	-	-	494,321
Used car sales	172,554	-	-	172,554
Other	262,349	-	-	262,349
Support services:				
Management and general	1,414,120	-	-	1,414,120
Fundraising	2,813	-	-	2,813
Total expenses	12,407,923	-	-	12,407,923
Change in net assets	1,511,055	27,421	-	1,538,476
Net assets at beginning of year	10,013,721	622	41,766	10,056,109
Net assets at end of year	$ 11,524,776	28,043	41,766	11,594,585

See accompanying notes to the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.
Statement of Functional Expenses
Year Ended December 31, 2013

	Program Services						Support Services		
	Recycling	Stores	Contracts	Vocational Rehabilitation	Used Cars	Other	Management and General	Fundraising	Total
Salaries and wages	$ 65,408	2,019,666	3,445,585	389,294	28,601	50,563	821,624	-	6,820,741
Payroll taxes	7,062	225,434	385,005	42,102	3,517	6,954	82,193	-	752,267
Health insurance	692	62,670	781,811	49,841	14,821	-	99,998	-	1,009,833
Total salaries and related expenses	73,162	2,307,770	4,612,401	481,237	46,939	57,517	1,003,815	-	8,582,841
Advertising	-	70,990	-	-	-	-	21,918	-	92,908
Contract commissions	-	-	237,090	-	-	-	-	-	237,090
Cost of goods sold	-	1,073,297	-	-	58,275	-	-	-	1,131,572
Depreciation and amortization	20,152	76,073	9,659	22,346	1,330	23,424	110,682	-	263,666
General insurance	3,905	20,283	70,048	1,220	179	435	21,259	-	117,329
Interest	-	2,231	5,876	1,944	-	712	3,044	-	13,807
Fundraising	-	-	-	-	-	-	-	-	-
Membership dues - Goodwill Industries International	-	-	-	-	-	-	109,425	-	109,425
Miscellaneous	553	69,781	213	10,390	2,545	-	89,050	-	172,532
Payroll processing fee	595	13,122	28,332	3,321	303	93	5,961	-	51,727
Postage and shipping	-	86,543	1,623	-	-	-	3,484	-	91,650
Professional fees	-	-	-	500	-	1,200	38,525	-	40,225
Rent	2,700	345,708	-	-	-	418	301	-	349,127
Repairs and maintenance	7,650	45,462	10,077	2,319	13,047	11,556	35,532	-	125,643
Small equipment	40	36,781	3,922	580	-	1,961	19,201	-	62,485
Supplies	17,655	73,543	351,873	5,951	594	15,813	19,090	-	484,519
Taxes and licenses	-	5,937	470	412	-	-	-	-	6,819
Telephone	394	20,178	21,288	5,666	657	353	14,373	-	62,909
Transportation - wages and other	-	109,982	110,042	4,704	30,050	3,757	23,676	-	282,211
Trash and dumping fees	3,592	53,988	-	-	-	341	678	-	58,599
Travel	406	4,428	1,867	3,163	-	-	1,644	-	11,508
Utilities	15,967	134,679	4,844	7,449	1,958	20,541	15,305	-	200,743
Total other expenses	73,609	2,243,006	857,224	69,965	108,938	80,604	533,148	-	3,966,494
Total expenses	$ 146,771	4,550,776	5,469,625	551,202	155,877	138,121	1,536,963	-	12,549,335

See accompanying notes to the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.
Statement of Functional Expenses (Continued)
Year Ended December 31, 2012

	Program Services						Support Services		
	Recycling	Stores	Contracts	Vocational Rehabilitation	Used Cars	Other	Management and General	Fundraising	Total
Salaries and wages	$ 86,202	1,915,936	3,559,498	352,581	38,776	129,372	741,528	-	6,823,893
Payroll taxes	10,265	224,761	420,137	40,856	4,400	15,301	86,269	-	801,989
Health insurance	1,259	56,160	808,987	40,745	12,588	-	105,395	-	1,025,134
Total salaries and related expenses	97,726	2,196,857	4,788,622	434,182	55,764	144,673	933,192	-	8,651,016
Advertising	-	52,285	-	-	100	-	25,199	-	77,584
Contract commissions	-	-	230,881	-	-	-	-	-	230,881
Cost of goods sold	-	869,048	-	-	62,025	-	-	-	931,073
Depreciation and amortization	26,081	79,431	11,002	22,347	1,330	15,035	112,180	-	267,406
General insurance	2,916	13,054	51,202	3,499	3,503	234	13,189	-	87,597
Interest	-	3,934	10,130	3,449	-	1,254	5,234	-	24,001
Fundraising	-	-	-	-	-	-	-	2,813	2,813
Membership dues - Goodwill Industries International	-	-	-	-	-	-	108,702	-	108,702
Miscellaneous	553	76,102	743	5,169	3,072	-	63,406	-	149,045
Payroll processing fee	558	12,306	26,570	3,114	284	87	5,591	-	48,510
Postage and shipping	41	79,840	1,574	91	-	-	3,100	-	84,646
Professional fees	-	-	-	-	100	1,000	38,749	-	39,849
Rent	3,600	386,088	-	-	-	-	50	-	389,738
Repairs and maintenance	2,846	78,302	5,433	1,529	15,860	7,878	34,533	-	146,381
Small equipment	-	9,484	1,210	99	-	39,429	2,037	-	52,259
Supplies	14,900	72,495	387,344	3,047	490	31,323	18,439	-	528,038
Taxes and licenses	-	5,218	310	420	-	-	-	-	5,948
Telephone	437	19,432	17,092	6,078	1,036	358	14,347	-	58,780
Transportation - wages and other	-	83,246	123,732	4,538	27,022	2,585	18,413	-	259,536
Trash and dumping fees	6,676	50,225	-	-	-	350	2,645	-	59,896
Travel	226	3,455	2,302	184	-	-	1,983	-	8,150
Utilities	16,495	134,781	4,981	6,575	1,968	18,143	13,131	-	196,074
Total other expenses	75,329	2,028,726	874,506	60,139	116,790	117,676	480,928	2,813	3,756,907
Total expenses	$ 173,055	4,225,583	5,663,128	494,321	172,554	262,349	1,414,120	2,813	12,407,923

See accompanying notes to the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Change in net assets	$	2,193,310	1,538,476
Changes to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		263,666	267,406
Net realized gain on marketable securities and funds held by others		(57,689)	(13,501)
Net unrealized gain on marketable securities and funds held by others		(554,083)	(217,153)
Gain on termination of lease		(56,753)	-
Loss on disposal of asset		9,038	2,219
Increase in cash value of life insurance		(74,373)	(3,403)
Effects of changes in operating assets and liabilities:			
Accounts receivable		(740,662)	355,503
Inventory		(98,114)	(54,783)
Prepaid expenses and deposits		2,028	2,941
Accounts payable, trade		46,092	27,369
Payroll and payroll related liabilities		108,465	26,941
Deferred compensation liability		61,755	-
Accrued NISH contract commission		20,005	(16,661)
Unearned revenue		444	17,422
Other liabilities		(61,255)	61,255
Net cash provided by operating activities		1,061,874	1,994,031
Cash flows from investing activities:			
Net purchases of marketable securities and funds held by others		(549,799)	(372,223)
Purchases of certificates of deposit		(20,775)	(300,000)
Redemption of certificates of deposit		292,664	779,938
Purchases of property and equipment		(571,517)	(75,480)
Net cash (used in) provided by investing activities		(849,427)	32,235
Cash flows from financing activities:			
Payments on capital lease obligations		(28,861)	(29,844)
Net increase in cash and cash equivalents		183,586	1,996,422
Cash and cash equivalents, beginning of year		3,228,598	1,232,176
Cash and cash equivalents, end of year	$	3,412,184	3,228,598
Supplemental disclosures:			
Interest paid	$	13,807	24,001

See accompanying notes to the financial statements.

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of the Licking-Knox Goodwill Industries, Inc. (the Organization) are set forth to facilitate the understanding of data presented in the financial statements.

Organization and operations

Licking-Knox Goodwill Industries, Inc. (the Organization), a nonprofit entity, was incorporated for the purpose of employing persons with disabilities, selling contributed goods and providing janitorial services in central Ohio.

Program descriptions

Below is a summary of the principal programs administered by the Organization.

Recycling

The recycling program offers an easy and responsible way to recycle used computer equipment. The program also includes recycling donated goods that are not able to be re-sold in stores.

Stores

Retail stores and donation centers give people access to quality, affordable clothing and household goods, while at the same time providing another avenue of training and employment opportunities. Revenue generated by the retail division is directed into the Organization's job training and employment programs.

Contracts

Janitorial, lawn care, and general maintenance contracts provide a broad range of business services customized to customer requirements while providing training and employment opportunities to employees with special needs. Services provided are basic janitorial services, general facility maintenance, commercial lawn care, restoration, floor/carpet care for all types of surfaces and periodic window cleaning.

Vocational Rehabilitation

Provides a series of programs used to assist individual's transitions into the work force. Programs offered includes career interest and assessment workshops, community based assessment, job coaching, job development, job try-out, life skills training, occupational skills training, work adjustment, and youth works.

Used Car Sales

The Organization accepts donations of vehicles and boats and re-sells them at their used car lot or sells the materials for scrap.

Basis of accounting

The financial statements for the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of presentation
Under generally accepted accounting principles of the United States of America, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, defined as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. When a restriction is met in the same reporting period, the support is recorded as unrestricted in the statement of activities. The Organization had temporarily restricted net assets of $26,217 and $28,043 as of December 31, 2013 and 2012, respectively.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purpose. The Organization had permanently restricted net assets of $41,766 as of December 31, 2013 and 2012.

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

Functional expenses
The Organization allocates certain of its expenses on a functional basis among its various programs and support services. Expenses are charged to each category based on direct expenditures incurred or allocated on a full-time employee basis.

Cash and cash equivalents
For the purposes of reporting cash flows, cash and cash equivalents include all unrestricted demand deposits, money market funds, repurchase agreements, and highly liquid unrestricted investments with original maturities of three months or less. During 2013, cash was held in six accounts with four financial institutions and, at times, balances may exceed federally insured limits. All of the non-interest bearing cash balances were fully insured at December 31, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts.

Marketable securities
The financial statements of the Organization have been prepared in accordance with *Accounting for Certain Investments Held by Not-for-Profit Organizations*, whereby, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

Marketable securities are exposed to various risks such as interest rate, market and credit risks. Accordingly, it is at least reasonably possible that changes in the values of marketable securities will occur in the near term, which could be material.

Receivables and revenues

Certain funding is classified as exchange transactions and thus the revenues are reported as increases in unrestricted net assets. Receivables and revenue from certain government contract agreements are recognized either through expenditure in accordance with the agreement, in the month that service is provided or on a pro-rata basis over the term of the contract. Delayed amounts of accounts receivable from such agencies are considered past due; however, no interest can be charged to the agencies.

Other funding is classified as contributions. Unconditional contributions are recognized as revenue in the period the commitment or payment is first received. Conditional contributions are not recognized until the conditions are substantially met, the pledge or grant can be considered legally enforceable, or the likelihood of the condition not occurring is remote. Certain funding is accounted for as temporarily restricted contributions unless the donor stipulations are fulfilled in the same year that the funding is received; then, such contributions are recorded directly as unrestricted contributions. Contributions with restrictions that are not fulfilled in the same year remain as temporarily restricted until either the required use, passage of time restrictions or receipt of funds become due. Accordingly, such contributions are then released from restrictions. Contributions of assets other than cash are recorded at estimated fair value.

Receivables consist of unconditional promises to give and of trade accounts receivable under exchange transaction contracts with government and non-government agencies. Management provides for estimated bad debts on the allowance method. Accounts are determined to be uncollectible based on assessments by management. Management periodically reviews specific long-term accounts, and grants receivable and assesses the likelihood of collection. If collection is remote, management will write-off the receivable amount at that time.

Inventory

Inventory consists of both donated items and goods purchased for resale. Donated items include used cars, clothing, house wares and other merchandise held for resale at the various retail locations throughout Licking and Knox counties. The contribution of these items is recognized as revenue when received at an estimated fair value. The guidance to determine the estimated value also requires consideration of the value of services performed by people with disabilities and other disadvantaging conditions before it reaches its point of sale. Accordingly, a related cost of goods sold is recorded as expense to offset the contribution revenue.

Goods purchased for resale are valued at the lower of cost or net realizable value.

Property and depreciation

Property and equipment are recorded at cost, if purchased, less accumulated depreciation and amortization. Donated property and equipment are recorded at fair value at the date of donation. Depreciation and amortization is computed using the straight-line method over the following estimated useful lives:

Buildings	10 – 20 years
Leasehold improvements	3 – 10 years
Equipment	5 – 10 years
Vehicles	3 – 5 years

Major improvements or betterments are capitalized and depreciated or amortized. Maintenance and repairs, which do not improve or extend the life of the respective asset, are expensed as incurred. Upon disposal of assets, the cost and related accumulated depreciation or amortization is removed from the accounts and any gain or loss is included in the statement of activities.

Donated services

Donated services are recognized as contributions only if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

During 2013 and 2012, volunteers provided significant services that were not recognized as contributions in the financial statements since the aforementioned criteria was not met.

Income taxes and uncertain tax positions

Licking-Knox Goodwill Industries, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization's reporting returns are subject to audit by federal and state taxing authorities. The Organization's open audit periods are 2010 through 2012. No income tax provision has been included in the financial statements as the Organization has determined it does not have unrelated business income subject to taxation.

Reclassifications

Certain reclassifications have been made to the 2012 financial statement presentations in order to conform with the 2013 financial statement presentation.

Subsequent events

The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through June 25, 2014, the date which the financial statements were available to be issued.

2. MARKETABLE SECURITIES:

The following is a summary of marketable securities at December 31, 2013 and 2012:

		2013		2012	
		Cost	Fair Value	Cost	Fair Value
Government securities	$	135,000	134,424	109,975	110,384
Corporate obligations		49,651	50,335	59,641	60,753
Mutual funds		2,276,457	2,920,967	2,013,718	2,304,796
Equity securities		654,247	886,964	574,781	624,415
	$	3,115,355	3,992,690	2,758,115	3,100,348

The accumulated unrealized gains were approximately $877,335 and $342,233 at December 31, 2013 and 2012, respectively.

Due to current market conditions as well as the trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility. Accordingly, it is at least reasonably possible that changes in values will occur in the near-term, which could be material.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) length of time and the extent to which the fair market value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Organization to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Based on the Organization's evaluation and its intent and ability to hold those marketable securities that had a fair value below cost as of each year ended for a reasonable period of time sufficient for a forecasted recovery of fair value, the Organization did not consider those marketable securities to be other-than-temporarily impaired at December 31, 2013 and 2012.

3. CERTIFICATES OF DEPOSIT:

The Organization has certificates of deposit with initial maturities greater than three months. These investments are readily convertible to cash, but may be subject to a penalty upon conversion. The certificates bear interest at rates ranging from 1.00% to 3.64%. Certificates of deposit are valued at amortized cost plus accrued interest.

4. INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION:

The Organization's foundation is held by the Licking County Foundation (the "Foundation"). During 2013, the Organization made board designated contributions to the Foundation of $237,690. The fair value of the funds held by the Foundation at December 31, 2013 and 2012, was $383,443 and $114,214, respectively of which, $41,766 is considered permanently restricted. Funds invested at the Foundation consist of marketable securities in mutual funds and are reported at fair value on the statements of financial position. Realized and unrealized gains and losses are included in the statements of activities. Unrealized gains were $30,258 and $6,404 for the years ended December 31, 2013 and 2012, respectively.

4. INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION (CONTINUED):

The fair value of substantially all securities is determined by the Foundation's independent investment manager. The fair value was confirmed by the Foundation based on units of the master investment pool applicable to the Organization's pro-rata portion and represented to be on quoted active market prices; however, funds held by a community foundation under the arrangement described above are all considered to be within Level 2 of the fair value hierarchy.

5. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following at December 31:

		2013	2012
Land	$	658,026	497,426
Buildings		3,269,849	2,980,325
Equipment		864,781	825,904
Vehicles		348,990	332,370
Leasehold improvements		234,416	212,520
		5,376,062	4,848,545
Less: accumulated depreciation and amortization		(2,839,506)	(2,610,802)
Total property and equipment, net	$	2,536,556	2,237,743

6. DEFERRED COMPENSATION:

The Organization entered into a deferred compensation contract with a key employee effective August 1996. The Organization agreed to give the employee or the employee's heirs, upon retirement at reaching the age of 65, $10,000 per year for a period of ten years. Should the employee's employment terminate before retirement, for any reason (except for death or disability), the Organization agrees to pay the employee $2,000 per year for every year the employee was employed under this agreement. The agreement also provides disability and/or death benefits. A life insurance policy was issued on the life of the employee with the deferred compensation agreement and the Organization is the owner and beneficiary of the policy. The employee retired during 2013. At December 31, 2013, the present value of the future payments was $78,755 assuming a discount rate of 5%. The cash value of the life insurance policy at December 31, 2013 was $125,076.

The Organization entered into an additional employment and compensation agreement with a key employee effective January 2011 and expiring December 31, 2013. In addition to paying the employee an annual salary for services performed during the three years, the Organization agreed to give the employee or the employee's heirs, upon expiration of the agreement, a bonus of $45,000. In the event of termination of the agreement, disability, or death of the employee prior to December 31, 2013, the Organization is required to pay a portion of the annual bonus on a per month basis earned ratably over the three year period. At December 31, 2013, the employee earned the full value of the bonus which will be paid in 2014.

6. DEFERRED COMPENSATION (CONTINUED):

The total deferred compensation liability under both agreements was $123,755 and $62,000 as of December 31, 2013 and 2012, respectively, and is included in the deferred compensation liability classification on the statements of financial position. Total expense for the deferred compensation agreements was $61,755 and $17,000 for the years ended December 31, 2013 and 2012.

7. CAPITAL LEASES:

In May 2010, the Organization entered into a capital lease for a copier with an original maturity of April 2015. The capital lease was recorded at $55,212, which is the lower of the present value of the minimum lease payments or the fair value of the asset. Monthly payments of $1,351, including interest at a rate of approximately 16%, will be made for a period of 60 months. The copier was placed in service in May 2010 and is amortized over its estimated useful life of five years.

In May 2010, the Organization entered into a capital lease for office equipment with an original maturity of April 2015. The capital lease was recorded at $79,912, which is the lower of the present value of the minimum lease payments or the fair value of the assets. Monthly payments of $2,314, including interest at a rate of approximately 24%, will be made for a period of 60 months. The office equipment was placed in service in May 2010 and is amortized over its estimated useful life of five years. During 2011, office equipment, with a value of $1,957, was added to this agreement, with minimal impact to the monthly payments.

In March 2009, the Organization entered into a capital lease for a postage meter, which expires in November 2014. The capital lease was recorded at $26,414, which is the lower of the present value of the minimum lease payments or the fair value of the asset. Monthly payments of $761, including interest at a rate of approximately 27%, will be made for a period of 69 months. The postage meter was placed in service in March 2009 and is amortized over its estimated useful life of five years.

Following is a summary of property held under capital leases and included in property and equipment as of December 31:

		2013	2012
Equipment	$	163,495	163,495
Less: accumulated amortization		(122,209)	(89,990)
	$	41,286	73,505

During 2013, the Organization negotiated the termination of the copier and office equipment capital leases, noted above. Upon termination, the Organization recorded a gain on termination of lease of $56,753 which is included in other income on the statement of activities. The Organization entered into operating leases for copiers and a digital printing press effective January 2014, see Note 8.

Future minimum lease payments under these capital leases as of December 31, 2013 through maturity are as follows:

2014	$	8,371
Less: amount representing interest		(2,238)
Capital lease obligations	$	6,133

8. OPERATING LEASES:

The Organization has various leases for buildings that are classified as operating leases. Terms of the lease agreements include monthly rental rates varying between $2,400 and $4,500, with lease expirations through August 2015. Rental expense for the years ended December 31, 2013 and 2012 was $349,127 and $389,738, respectively.

In September 2013, the Organization entered into operating leases for copiers and a digital printing press with payments beginning in January 2014. Terms of the lease agreements include monthly rental rates of $1,865 for the copiers and $1,945 for the digital printing press, with lease expiration in December 2018.

The future minimum lease payments are:

Year		Amount
2014	$	341,254
2015		300,439
2016		197,587
2017		149,871
2018		131,782
Thereafter		33,257
	$	1,154,190

9. ENDOWMENT FUNDS:

The Organization's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which takes effect in Ohio in June 2009, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1)

The duration and preservation of the fund, (2) the purposes of the Organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the investment policies of the Organization.

9. ENDOWMENT FUNDS (CONTINUED):

The endowment net assets composition by type of fund as of December 31, 2013 and 2012 was as follows:

2013		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$	72,448	3,436	41,766	117,650
Board designated		265,793	-	-	265,793
Total	$	338,241	3,436	41,766	383,443

2012		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$	72,448	-	41,766	114,214
Board designated		-	-	-	-
Total	$	72,448	-	41,766	114,214

The changes in endowment net assets for the years ended December 31, 2013 and 2012 was as follows:

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 01, 2012	$	19,550	-	41,766	61,316
Investment income:					
Investment income, net		1,926	-	-	1,926
Net appreciation		6,979	-	-	6,979
Total investment income		8,905	-	-	8,905
Cash received from pledges or contributions		43,993	-	-	43,993
Endowment net assets, December 31, 2012	$	72,448	-	41,766	114,214
Investment income:					
Investment income, net		2,463	302	-	2,765
Net appreciation		25,640	3,134	-	28,774
Total investment income		28,103	3,436	-	31,539
Cash received from pledges or contributions		237,690	-	-	237,690
Endowment net assets, December 31, 2013	$	338,241	3,436	41,766	383,443

9. ENDOWMENT FUNDS (CONTINUED):

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires to be retained permanently. Such deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Deficiencies of this nature are reported as part of unrestricted net assets.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to accumulate a pool of assets sufficient to build capital for future use while providing a predictable level of funding to meet current needs. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified periods(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in manner that is intended to produce results while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation within both equity and fixed income securities, so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class or investment category.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year no more four percent of the Designated Preservation Balance’s average balance, plus any earnings thereof, over the preceding twelve months. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at a rate that exceeds annual distributions. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Endowment disbursements will be used as scholarships for training, employment, and supportive services to employees of the Organization.

10. FAIR VALUE MEASUREMENTS:

Assets and liabilities measured at fair value on a recurring basis

Available-for-sale equity and debt securities have been valued using a market approach. Level 1 inputs are active exchange traded. Level 2 inputs for government securities and corporate bonds are traded in active markets and valued using prices obtained from the custodian, which uses third party data service providers. Life insurance is based on the cash surrender value of each policy where the Company is the beneficiary. With the adoption of ASU 2011-04, there were no changes in valuation technique and related inputs resulting from the adoption of the new requirements. Fair values of assets and liabilities measured at December 31, are as follows:

10. FAIR VALUE MEASUREMENTS (CONTINUED):

		Fair Value Measurements at Reporting Date Using		
Description	12/31/13	(Level 1)	(Level 2)	(Level 3)
Assets:				
Marketable securities:				
Government securities	$ 134,424	-	134,424	-
Corporate bonds	50,335	-	50,335	-
Mutual funds:				
Equity growth	1,148,945	1,148,945	-	-
Equity value	389,025	389,025	-	-
Equity international	210,196	210,196	-	-
Equity blend	870,460	870,460	-	-
Equity consumer staples	12,659	12,659	-	-
Equity institutional	49,819	49,819	-	-
Fixed income bond	54,711	54,711	-	-
Fixed income blend	133,687	133,687	-	-
Other	51,465	51,465	-	-
Total mutual funds	2,920,967	2,920,967	-	-
Common stock:				
Consumer goods	67,312	67,312	-	-
Financial	143,222	143,222	-	-
Healthcare	115,807	115,807	-	-
Industrial	117,124	117,124	-	-
Information technology	149,309	149,309	-	-
Materials	116,262	116,262	-	-
Services	91,458	91,458	-	-
Telecommunication services	39,029	39,029	-	-
Utilities	47,441	47,441	-	-
Total common stock	886,964	886,964	-	-
Total marketable securities	3,992,690	3,807,931	184,759	-
Interest in assets held by community foundation	383,443	-	383,443	-
Cash value of life insurance	125,076	-	125,076	-

10. FAIR VALUE MEASUREMENTS (CONTINUED):

			Fair Value Measurements at Reporting Date Using	
Description	12/31/12	(Level 1)	(Level 2)	(Level 3)
Assets:				
Marketable securities:				
Government securities	$ 110,384	-	110,384	-
Corporate bonds	60,752	-	60,752	-
Mutual funds:				
Equity growth	894,471	894,471	-	-
Equity value	194,999	194,999	-	-
Equity international	157,673	157,673	-	-
Equity blend	805,562	805,562	-	-
Equity consumer staples	8,791	8,791	-	-
Equity institutional	39,515	39,515	-	-
Fixed income bond	78,777	78,777	-	-
Fixed income blend	28,268	28,268	-	-
Other	66,755	66,755	-	-
Total mutual funds	2,274,811	2,274,811	-	-
Common stock:				
Consumer discretionary	52,594	52,594	-	-
Consumer staples	76,408	76,408	-	-
Financial	79,779	79,779	-	-
Healthcare	81,032	81,032	-	-
Industrial	106,065	106,065	-	-
Information technology	100,966	100,966	-	-
Materials	70,915	70,915	-	-
Telecommunication services	45,879	45,879	-	-
Utilities	40,763	40,763	-	-
Total common stock	654,401	654,401	-	-
Total marketable securities	3,100,348	2,929,212	171,136	-
Interest in assets held by community foundation	114,214	-	114,214	-
Cash value of life insurance	50,703	-	50,703	-

11. NET ASSETS:

Temporarily restricted net assets at December 31, 2013 and 2012 represent amounts unconditionally committed by the United Way as of each year-end, but not yet paid and earnings from the permanently restricted endowment.

11. NET ASSETS (CONTINUED):

Permanently restricted net assets at December 31, 2013 and 2012 represent the original corpus of the endowment fund contributed and subsequently transferred to the Licking County Foundation. Accordingly, the net asset value is recognized within the funds held by others asset on the statements of financial position at year-end.

12. CONCENTRATIONS:

Two government agencies accounted for approximately 40% (net of contract commissions) of total revenue for the years ended December 31, 2013 and 2012, respectively. The same two agencies accounted for approximately 81% and 56% of the trade accounts receivable balance as of December 31, 2013 and 2012, respectively.

13. RETIREMENT PLAN:

The Organization administers a contributory 403(b) retirement plan for the benefit of essentially all employees. There is no age or service requirement for participation in the plan. The Organization does not contribute to this plan.

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At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success