LICKING-KNOX
GOODWILL INDUSTRIES, INC.
AND AFFILIATE

Combined Financial Statements

December 31, 2014 and 2013

with Independent Auditors' Report

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Licking-Knox Goodwill Industries, Inc. and Affiliate which comprise the combined statements of financial position as of December 31, 2014 and 2013, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Licking-Knox Goodwill Industries, Inc. and Affiliate as of December 31, 2014 and 2013, and the changes in their net assets and their 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 04, 2015

LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE
Combined Statements of Financial Position
December 31, 2014 and 2013

		2014	2013
Assets			
Current assets:			
Cash and cash equivalents	$	3,428,283	3,412,184
Marketable securities		4,515,128	3,992,690
Certificates of deposit		2,475,299	2,497,731
Accounts receivable		1,747,174	1,617,586
Inventory		292,314	251,969
Funds held by others		564,023	341,677
Prepaid expenses and deposits		82,657	82,571
Total current assets		13,104,878	12,196,408
Property and equipment, net		2,957,949	2,536,556
Other assets:			
Cash value of life insurance		135,208	125,076
Funds held by others - permanently restricted		41,766	41,766
Lease deposits		11,776	11,776
Total other assets		188,750	178,618
Total assets	$	16,251,577	14,911,582
Liabilities and Net Assets			
Current liabilities:			
Capital lease obligation, current portion	$	-	6,133
Accounts payable, trade		165,464	163,734
Payroll and payroll related liabilities		550,343	755,423
Deferred compensation liability, current portion		10,000	55,000
Accrued NISH contract commission		77,022	56,776
Unearned revenue		17,682	17,866
Total current liabilities		820,511	1,054,932
Long-term liabilities:			
Deferred compensation liability, long term portion		58,384	68,755
Total liabilities		878,895	1,123,687
Net assets:			
Unrestricted		14,821,840	13,454,119
Unrestricted, board designated		485,362	265,793
Temporarily restricted		23,714	26,217
Permanently restricted		41,766	41,766
Total net assets		15,372,682	13,787,895
Total liabilities and net assets	$	16,251,577	14,911,582

See accompanying notes to the financial statements.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Public support:				
Contributions - goods for resale	$ 590,290	-	-	590,290
Contributions - used car for resale	43,068	-	-	43,068
Contributions - general	23,557	17,500	-	41,057
	656,915	17,500	-	674,415
Program services:				
Recycling	359,403	-	-	359,403
Stores	5,012,082	-	-	5,012,082
Contracts	6,887,513	-	-	6,887,513
Vocational rehabilitation	505,274	-	-	505,274
Used car sales	97,279	-	-	97,279
Other	314,831	-	-	314,831
	13,176,382	-	-	13,176,382
Other revenues:				
Rental income	47,683	-	-	47,683
Interest and dividend income	288,668	472	-	289,140
Realized gain on marketable securities and funds held by others	102,412	-	-	102,412
Unrealized gain on marketable securities and funds held by others	82,392	2,306	-	84,698
Other income	-	-	-	-
	521,155	2,778	-	523,933
Net assets released from restrictions	22,781	(22,781)	-	-
Total support and revenues	14,377,233	(2,503)	-	14,374,730
Expenses:				
Program services:				
Recycling	139,829	-	-	139,829
Stores	4,999,045	-	-	4,999,045
Contracts	5,500,642	-	-	5,500,642
Vocational rehabilitation	464,717	-	-	464,717
Used car sales	99,986	-	-	99,986
Other	80,057	-	-	80,057
Support services:				
Management and general	1,474,637	-	-	1,474,637
Total expenses	12,758,913	-	-	12,758,913
Change in operational net assets	1,618,320	(2,503)	-	1,615,817
Other revenue and (expenses):				
Loss on disposal of assets	(31,030)	-	-	(31,030)
Change in net assets	1,587,290	(2,503)	-	1,584,787
Net assets at beginning of year	13,719,912	26,217	41,766	13,787,895
Net assets at end of year	$ 15,307,202	23,714	41,766	15,372,682

See accompanying notes to the financial statements.

	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
	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	15,847	-	-	15,847
	869,722	3,436	-	873,158
Net assets released from restrictions	28,043	(28,043)	-	-
Total support and revenues	14,687,718	(1,826)	-	14,685,892
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
Total expenses	12,549,335	-	-	12,549,335
Change in operational net assets	2,138,383	(1,826)	-	2,136,557
Other revenue and (expenses):				
Gain on termination of lease	56,753	-	-	56,753
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.

LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE
Combined Statement of Functional Expenses
Year Ended December 31, 2014

	Program Services							
	Recycling	Stores	Contracts	Vocational Rehabilitation	Used Cars	Other	Management and General	Total
Salaries and wages	$ 65,757	2,123,111	3,400,698	322,261	24,769	5,440	752,558	6,694,594
Payroll taxes	7,867	251,503	405,007	37,387	2,829	634	93,020	798,247
Health insurance	746	68,190	833,105	39,060	(5,495)	-	76,857	1,012,463
Total salaries and related expenses	74,370	2,442,804	4,638,810	398,708	22,103	6,074	922,435	8,505,304
Advertising	-	83,716	134	-	-	-	24,440	108,290
Contract commissions	-	-	239,313	-	-	-	-	239,313
Cost of goods sold	-	1,318,735	-	-	37,928	131	-	1,356,794
Depreciation and amortization	20,536	73,097	1,784	20,149	1,330	22,905	89,238	229,039
General insurance	1,740	22,042	79,806	1,456	264	1,361	40,256	146,925
Interest	-	-	-	-	-	-	375	375
Membership dues - Goodwill Industries International	-	-	25	-	-	-	110,809	110,834
Miscellaneous	198	83,483	864	14,807	2,163	34	101,701	203,250
Payroll processing fee	457	15,024	28,530	2,452	136	37	5,674	52,310
Postage and shipping	-	123,853	1,600	12	-	-	3,009	128,474
Professional fees	-	-	-	-	-	1,200	33,321	34,521
Rent	-	332,407	3,348	2,004	-	-	36,204	373,963
Repairs and maintenance	5,960	52,015	10,815	4,135	11,113	16,411	20,820	121,269
Small equipment	-	39,505	3,978	-	-	-	12,505	55,988
Supplies	16,072	72,906	335,031	3,358	429	3,867	16,822	448,485
Taxes and licenses	-	13,896	580	361	-	-	-	14,837
Telephone	398	21,360	21,881	4,833	645	339	15,160	64,616
Transportation - wages and other	-	91,303	125,840	4,501	21,428	5,876	20,897	269,845
Trash and dumping fees	1,505	54,480	-	-	-	402	980	57,367
Travel	333	3,253	2,955	1,835	-	-	2,195	10,571
Utilities	18,260	155,166	5,348	6,106	2,447	21,420	17,796	226,543
Total other expenses	65,459	2,556,241	861,832	66,009	77,883	73,983	552,202	4,253,609
Total expenses	$ 139,829	4,999,045	5,500,642	464,717	99,986	80,057	1,474,637	12,758,913

See accompanying notes to the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE
Combined Statement of Functional Expenses (Continued)
Year Ended December 31, 2013

	Program Services							
	Recycling	Stores	Contracts	Vocational Rehabilitation	Used Cars	Other	Management and General	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
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. AND AFFILIATE
Combined Statements of Cash Flows
Years Ended December 31, 2014 and 2013

		2014	2013
Cash flow from operating activities:			
Change in net assets	$	1,584,787	2,193,310
Changes to reconcile change in net assets to net cash flow from operating activities:			
Depreciation and amortization		229,039	263,666
Net realized gain on marketable securities and funds held by others		(102,412)	(57,689)
Net unrealized gain on marketable securities and funds held by others		(84,698)	(554,083)
Gain on termination of lease		-	(56,753)
Loss on disposal of asset		31,030	9,038
Increase in cash value of life insurance		(10,132)	(74,373)
Effects of changes in operating assets and liabilities:			
Accounts receivable		(129,588)	(740,662)
Inventory		(40,345)	(98,114)
Prepaid expenses and deposits		(86)	2,028
Accounts payable, trade		1,730	46,092
Payroll and payroll related liabilities		(205,080)	108,465
Deferred compensation liability		(55,371)	61,755
Accrued NISH contract commission		20,246	20,005
Unearned revenue		(184)	444
Other liabilities		-	(61,255)
Net cash flow from operating activities		1,238,936	1,061,874
Cash flow from investing activities:			
Net purchases of marketable securities and funds held by others		(557,674)	(549,799)
Purchases of certificates of deposit		(49,532)	(20,775)
Redemption of certificates of deposit		71,964	292,664
Purchases of property and equipment		(685,685)	(571,517)
Net cash flow from investing activities		(1,220,927)	(849,427)
Cash flow from financing activities:			
Payments on capital lease obligations		(1,910)	(28,861)
Net change in cash and cash equivalents		16,099	183,586
Cash and cash equivalents, beginning of year		3,412,184	3,228,598
Cash and cash equivalents, end of year	$	3,428,283	3,412,184
Supplemental disclosures:			
Interest paid	$	375	13,807

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. and Affiliate (the Organization) are set forth to facilitate the understanding of data presented in the combined financial statements.

Organization and operations

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

In August 2013, the Organization formed GW Business Solutions, LLC (GW Solutions), a nonprofit entity, which beginning in 2015 will operate the retail stores and donations centers of the Organization. During 2014, GW Solutions had no activity related to the statement of activities. At December 31, 2014, GW Solutions had $150,035 in cash which is included in cash and cash equivalents on the Combined Statements of Financial Position.

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.

Principles of combination

The accompanying combined financial statements include the accounts of GW Business Solutions, LLC. which is an Ohio not-for-profit organization. Licking-Knox Goodwill Industries, Inc. is considered to exercise significant control and all significant intercompany transactions and balances have been eliminated in combination.

Basis of accounting

The combined 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 combined 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 combined statement of activities. The Organization had temporarily restricted net assets of $23,714 and $26,217 as of December 31, 2014 and 2013, 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, 2014 and 2013.

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 2014, cash was held in six accounts with four financial institutions and, at times, balances may exceed federally insured limits.

Marketable securities

The combined 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 combined statement of financial position. Unrealized gains and losses are included in the combined 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 combined 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 2014 and 2013, volunteers provided significant services that were not recognized as contributions in the combined financial statements since the aforementioned criteria was not met.

Income taxes and uncertain tax positions
The Organization 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 2011 through 2013. No income tax provision has been included in the combined financial statements as the Organization has determined it does not have unrelated business income subject to taxation.

Reclassifications of financial statement presentation
Certain reclassifications have been made to the 2013 financial statement presentations in order to conform with the 2014 financial statement presentation.

Subsequent events

The Organization evaluates events and transactions occurring subsequent to the date of the combined financial statements for matters requiring recognition or disclosure in the combined financial statements. The accompanying combined financial statements consider events through June 04, 2015, the date which the combined financial statements were available to be issued.

2. MARKETABLE SECURITIES:

The following is a summary of marketable securities at December 31, 2014 and 2013:

		2014		2013	
		Cost	Fair Value	Cost	Fair Value
Government securities	$	150,000	149,712	135,000	134,424
Corporate obligations		49,651	50,201	49,651	50,335
Mutual funds		2,653,010	3,268,274	2,276,457	2,920,967
Equity securities		716,627	1,046,941	654,247	886,964
	$	3,569,288	4,515,128	3,115,355	3,992,690

The accumulated unrealized gains were approximately $945,840 and $877,335 at December 31, 2014 and 2013, 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, 2014 and 2013.

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. FUNDS HELD BY COMMUNITY FOUNDATION:

The Organization's foundation is held by the Licking County Foundation (the "Foundation"). During 2014 and 2013, the Organization made board designated contributions to the Foundation of $182,053 and $237,690, respectively. The fair value of the funds held by the Foundation at December 31, 2014 and 2013, was $605,789 and $383,443, 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 combined statements of financial position. Realized and unrealized gains and losses are included in the combined statements of activities. Unrealized gains were $22,663 and $30,258 for the years ended December 31, 2014 and 2013, respectively.

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:

		2014	2013
Land	$	803,261	658,026
Buildings		3,693,427	3,269,849
Equipment		736,710	864,781
Vehicles		380,878	348,990
Leasehold improvements		279,506	234,416
		5,893,782	5,376,062
Less: accumulated depreciation and amortization		(2,935,833)	(2,839,506)
Total property and equipment, net	$	2,957,949	2,536,556

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. 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, 2014 and 2013, the present value of the future payments was $68,384 and $78,755, respectively, assuming a discount rate of 5%. The cash value of the life insurance policy at December 31, 2014 and 2013 was $135,208 and $125,076, respectively.

6. DEFERRED COMPENSATION (CONTINUED):

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 was paid in full in 2014.

During 2014, the Organization paid $55,000 in deferred compensation. At December 31, 2014 and 2013, the total deferred compensation liability under both agreements was $68,384 and $123,755, respectively.

7. CAPITAL LEASES:

During 2013, the Organization negotiated the termination of copier and office equipment capital leases resulting in a gain on termination of lease of $56,753. The equipment under capital lease was disposed of in January 2014, resulting in a loss on disposal of assets of $31,030. As of December 31, 2014, the Organization had no capital lease obligations.

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 2019. Rental expense for the years ended December 31, 2014 and 2013 was $373,963 and $349,127, 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.

In April 2014, the Organization entered into an operating lease for a postage meter with payments beginning in July 2014. Terms of the lease agreements include a quarterly rental rate of $2,112 with lease expiration in March 2019.

The future minimum lease payments are:

Year	Amount
2015	$ 346,787
2016	251,535
2017	168,219
2018	134,530
2019	37,481
	$ 938,552

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.

The endowment net assets composition by type of fund as of December 31, 2014 and 2013 was as follows:

2014		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated	$	72,447	6,214	41,766	120,427
Board designated		485,362	-	-	485,362
Total	$	557,809	6,214	41,766	605,789

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

9. ENDOWMENT FUNDS (CONTINUED):

The changes in endowment net assets for the years ended December 31, 2014 and 2013 were as follows:

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 01, 2013	$	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
Investment income:					
Investment income, net		6,374	472	-	6,846
Net appreciation		31,141	2,306	-	33,447
Total investment income		37,515	2,778	-	40,293
Cash received from pledges or contributions		182,053	-	-	182,053
Endowment net assets, December 31, 2014	$	557,809	6,214	41,766	605,789

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

Endowment distributions are at the discretion of the Board of Directors which adhere to a policy of appropriating for distribution each year no more than 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:

		Fair Value Measurements at Reporting Date Using		
Description	12/31/14	(Level 1)	(Level 2)	(Level 3)
Assets:				
Marketable securities:				
Government securities	$ 149,712	-	149,712	-
Corporate bonds	50,201	-	50,201	-
Mutual funds:				
Equity growth	1,443,564	1,443,564	-	-
Equity value	515,071	515,071	-	-
Equity international	240,227	240,227	-	-
Equity blend	787,972	787,972	-	-
Equity consumer staples	14,403	14,403	-	-
Equity institutional	49,064	49,064	-	-
Fixed income bond	73,097	73,097	-	-
Fixed income blend	124,992	124,992	-	-
Other	19,883	19,883	-	-
Total mutual funds	3,268,273	3,268,273	-	-
Common stock:				
Consumer goods	103,185	103,185	-	-
Financial	167,129	167,129	-	-
Healthcare	169,322	169,322	-	-
Industrial	121,152	121,152	-	-
Information technology	181,745	181,745	-	-
Materials	122,432	122,432	-	-
Services	105,639	105,639	-	-
Telecommunication services	35,028	35,028	-	-
Utilities	41,310	41,310	-	-
Total common stock	1,046,942	1,046,942	-	-
Total marketable securities	4,515,128	4,315,215	199,913	-
Interest in assets held by community foundation	605,789	-	605,789	-
Cash value of life insurance	135,208	-	135,208	-

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	-

11. NET ASSETS:

Temporarily restricted net assets at December 31, 2014 and 2013 represent amounts unconditionally committed by the United Way as of each year-end, but not yet paid and earnings from the permanently restricted endowment.

Permanently restricted net assets at December 31, 2014 and 2013 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 combined 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, 2014 and 2013, respectively. The same two agencies accounted for approximately 87% and 81% of the trade accounts receivable balance as of December 31, 2014 and 2013, 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