

Financial Statements

Licking-Knox Goodwill Industries, Inc.

December 31, 2010 and 2009

CONTENTS

	Page
Independent Auditors' Report	3
Financial Statements:	
Statements of Financial Position	5
Statements of Activities and Changes in Net Assets	7
Statements of Functional Expenses	9
Statements of Cash Flows	11
Notes to Financial Statements	12



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

Independent Auditors' Report

We have audited the accompanying statement of financial position of Licking-Knox Goodwill Industries, Inc. as of December 31, 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Organization as of December 31, 2009 and for the year then ended were audited by other auditors whose report dated October 4, 2010, expressed an unqualified opinion on those statements. As discussed in the footnotes to the financial statements, the Organization has adjusted its December 31, 2009 financial statements to retrospectively apply the change in accounting for contributed inventory for resale. The other auditors reported on the financial statements before the retrospective adjustment.

We conducted our audit 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 consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Licking-Knox Goodwill Industries, Inc. as of December 31, 2010, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in the prior period adjustments section of the notes to financial statements that were applied to restate the 2009 financial statements. In our opinion, such adjustments are appropriate and were properly applied. We were not engaged to audit, review or apply any procedures to the 2009 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2009 financial statements taken as a whole.

GBQ Partners LLC

Columbus, Ohio
September 12, 2011

[This page left intentionally blank]

LICKING-KNOX GOODWILL INDUSTRIES, INC.

Statements of Financial Position

December 31, 2010 and 2009

	<u>2010</u>	2009 (As Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,257,466	\$ 1,608,922
Marketable securities	2,471,542	1,904,485
Certificates of deposit	3,465,570	2,478,145
Accounts and contributions receivable	1,226,044	1,275,597
Inventory	45,007	56,177
Funds held by others	15,530	12,560
Prepaid expenses and deposits	91,016	106,010
Total current assets	<u>8,572,175</u>	<u>7,441,896</u>
Property and Equipment, net	<u>1,617,353</u>	<u>1,706,578</u>
Other Assets		
Cash value of life insurance	43,913	40,458
Funds held by others - permanently restricted	41,766	41,766
Lease deposits	11,776	11,776
Total other assets	<u>97,455</u>	<u>94,000</u>
TOTAL ASSETS	<u>\$ 10,286,983</u>	<u>\$ 9,242,474</u>

The accompanying notes are an integral part of the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.

Statements of Financial Position (Continued)

December 31, 2010 and 2009

LIABILITIES AND NET ASSETS

	<u>2010</u>	2009 (As Restated)
Current Liabilities		
Current portion of capital lease obligations	\$ 22,354	\$ 25,741
Trade accounts payable	75,448	66,896
Payroll and payroll related liabilities	566,920	569,816
Accrued NISH contract commission	53,283	47,428
Total current liabilities	<u>718,005</u>	<u>709,881</u>
Capital lease obligations, less current portion	<u>121,111</u>	<u>70,702</u>
Total liabilities	<u>839,116</u>	<u>780,583</u>
Net Assets		
Unrestricted	9,404,311	8,406,475
Temporarily restricted	1,790	13,650
Permanently restricted	41,766	41,766
Total net assets	<u>9,447,867</u>	<u>8,461,891</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,286,983</u>	<u>\$ 9,242,474</u>

The accompanying notes are an integral part of the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.

Statement of Activities and Changes in Net Assets

For the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Public support:				
Contributions - goods for resale	\$ 391,007	\$ -	\$ -	\$ 391,007
Contributions - used cars for resale	23,750	-	-	23,750
Contributions - general	5,330	1,790	-	7,120
Total public support	<u>420,087</u>	<u>1,790</u>	<u>-</u>	<u>421,877</u>
Program services:				
Recycling	195,297	-	-	195,297
Stores	3,012,578	-	-	3,012,578
Contracts	6,742,677	-	-	6,742,677
Vocational rehabilitation	770,756	-	-	770,756
Used car sales	147,489	-	-	147,489
Other	52,220	-	-	52,220
Total program services	<u>10,921,017</u>	<u>-</u>	<u>-</u>	<u>10,921,017</u>
Rental income	38,786	-	-	38,786
Interest and dividend income	138,303	-	-	138,303
Realized loss on marketable securities and funds held by others	(14,458)	-	-	(14,458)
Unrealized gain on marketable securities and funds held by others	241,371	-	-	241,371
	<u>404,002</u>	<u>-</u>	<u>-</u>	<u>404,002</u>
Net assets released from restrictions	13,650	(13,650)	-	-
Total revenues	<u>11,758,756</u>	<u>(11,860)</u>	<u>-</u>	<u>11,746,896</u>
Expenses				
Program services:				
Recycling	107,866	-	-	107,866
Stores	3,000,032	-	-	3,000,032
Contracts	5,581,971	-	-	5,581,971
Vocational rehabilitation	612,895	-	-	612,895
Used cars	148,247	-	-	148,247
Other	48,875	-	-	48,875
Support services:				
Management and support services	1,261,034	-	-	1,261,034
Total expenses	<u>10,760,920</u>	<u>-</u>	<u>-</u>	<u>10,760,920</u>
Change in Net Assets	997,836	(11,860)	-	985,976
Net Assets at Beginning of Year - As Restated	<u>8,406,475</u>	<u>13,650</u>	<u>41,766</u>	<u>8,461,891</u>
Net Assets at End of Year	<u>\$ 9,404,311</u>	<u>\$ 1,790</u>	<u>\$ 41,766</u>	<u>\$ 9,447,867</u>

The accompanying notes are an integral part of the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.

Statement of Activities and Changes in Net Assets (Continued)

For the Year Ended December 31, 2009 (As Restated)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Public support:				
Contributions - goods for resale	\$ 413,515	\$ -	\$ -	\$ 413,515
Contributions - used cars for resale	33,670	-	-	33,670
Contributions - general	31,544	13,650	-	45,194
Total public support	<u>478,729</u>	<u>13,650</u>	<u>-</u>	<u>492,379</u>
Program services:				
Recycling	191,378	-	-	191,378
Stores	2,805,950	-	-	2,805,950
Contracts	7,743,660	-	-	7,743,660
Vocational rehabilitation	586,247	-	-	586,247
Used car sales	128,407	-	-	128,407
Other	44,033	-	-	44,033
Total program services	<u>11,499,675</u>	<u>-</u>	<u>-</u>	<u>11,499,675</u>
Rental income	42,201	-	-	42,201
Interest and dividend income	125,632	-	-	125,632
Realized loss on marketable securities and funds held by others	(30,460)	-	-	(30,460)
Unrealized gain on marketable securities and funds held by others	384,646	-	-	384,646
	<u>522,019</u>	<u>-</u>	<u>-</u>	<u>522,019</u>
Net assets released from restrictions	15,000	(15,000)	-	-
Total revenues	<u>12,515,423</u>	<u>(1,350)</u>	<u>-</u>	<u>12,514,073</u>
Expenses				
Program services:				
Recycling	124,784	-	-	124,784
Stores	2,856,212	-	-	2,856,212
Contracts	6,363,433	-	-	6,363,433
Vocational rehabilitation	535,296	-	-	535,296
Used cars	153,917	-	-	153,917
Other	44,748	-	-	44,748
Support services:				
Management and support services	1,410,800	-	-	1,410,800
Total expenses	<u>11,489,190</u>	<u>-</u>	<u>-</u>	<u>11,489,190</u>
Change in Net Assets	1,026,233	(1,350)	-	1,024,883
Net Assets at Beginning of Year - As Previously Reported	7,339,257	15,000	41,766	7,396,023
Prior Period Adjustment - Correction of an Error	<u>40,985</u>	<u>-</u>	<u>-</u>	<u>40,985</u>
Net Assets at Beginning of Year - As Restated	<u>7,380,242</u>	<u>15,000</u>	<u>41,766</u>	<u>7,437,008</u>
Net Assets at End of Year - As Restated	<u>\$ 8,406,475</u>	<u>\$ 13,650</u>	<u>\$ 41,766</u>	<u>\$ 8,461,891</u>

The accompanying notes are an integral part of the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2010

	Program Services					Management and Support Services	Total	
	Recycling	Stores	Contracts	Vocational Rehabilitation	Used Cars			Other
Salaries and wages	\$ 51,003	\$ 1,328,635	\$ 3,568,959	\$ 425,482	\$ 50,360	\$ 14,249	\$ 718,159	\$ 6,156,847
Payroll taxes	5,726	152,576	416,193	48,454	6,182	1,860	89,846	720,837
Health insurance	207	44,320	734,320	54,075	10,872	745	129,482	974,021
Total salaries and related expenses	<u>56,936</u>	<u>1,525,531</u>	<u>4,719,472</u>	<u>528,011</u>	<u>67,414</u>	<u>16,854</u>	<u>937,487</u>	<u>7,851,705</u>
Payroll processing fee	461	11,818	32,031	3,782	374	108	6,639	55,213
Advertising	-	53,855	-	-	2,000	-	13,665	69,520
Contract commissions	-	-	197,451	-	-	-	-	197,451
Cost of goods sold	-	392,952	-	-	33,927	-	-	426,879
Depreciation and amortization	11,528	70,211	134,496	23,526	6,124	15,072	15,459	276,416
General insurance	360	11,466	47,143	9,325	12,160	745	20,119	101,318
Interest	-	4,756	12,973	3,836	152	43	6,830	28,590
Gain on disposal of equipment	-	-	-	-	-	-	(10,392)	(10,392)
Membership dues	-	-	-	-	-	-	97,408	97,408
Miscellaneous	102	64,338	7,161	18,872	5,055	301	63,268	159,097
Postage and shipping	-	130,511	2,600	298	-	-	4,559	137,968
Professional fees	-	-	-	-	373	-	38,841	39,214
Rent	-	441,105	-	-	-	-	-	441,105
Repairs and maintenance	3,164	32,980	17,034	2,911	17,096	6,610	23,436	103,231
Supplies	21,732	79,795	386,560	8,632	570	774	16,266	514,329
Telephone	191	16,285	19,009	5,158	862	93	13,680	55,278
Trash and dumping fees	1,380	55,292	185	15	46	13	2,193	59,124
Utilities	12,012	109,137	5,856	8,529	2,094	8,262	11,576	157,466
	<u>50,930</u>	<u>1,474,501</u>	<u>862,499</u>	<u>84,884</u>	<u>80,833</u>	<u>32,021</u>	<u>323,547</u>	<u>2,909,215</u>
	<u>\$ 107,866</u>	<u>\$ 3,000,032</u>	<u>\$ 5,581,971</u>	<u>\$ 612,895</u>	<u>\$ 148,247</u>	<u>\$ 48,875</u>	<u>\$ 1,261,034</u>	<u>\$ 10,760,920</u>

The accompanying notes are an integral part of the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.

Statement of Functional Expenses (Continued)

For the Year Ended December 31, 2009 (As Restated)

	Program Services					Management and Support Services	Total
	Recycling	Stores	Contracts	Vocational Rehabilitation	Used Cars		
Salaries and wages	\$ 56,063	\$ 1,258,336	\$ 4,215,013	\$ 348,924	\$ 52,780	\$ 9,085	\$ 6,779,964
Payroll taxes	7,116	155,640	525,413	43,016	6,527	841	839,999
Health insurance	246	56,226	694,852	55,900	7,579	569	939,655
Total salaries and related expenses	<u>63,425</u>	<u>1,470,202</u>	<u>5,435,278</u>	<u>447,840</u>	<u>66,886</u>	<u>10,495</u>	<u>8,559,618</u>
Payroll processing fee	488	10,915	36,593	3,026	457	76	58,782
Advertising	-	43,951	-	-	2,168	-	60,234
Contract commissions	-	-	189,109	-	-	-	189,109
Cost of goods sold	-	411,623	-	-	34,948	-	446,571
Depreciation and amortization	11,633	63,748	162,656	22,815	5,402	14,450	292,766
General insurance	360	9,039	52,486	10,116	11,313	488	100,327
Interest	-	1,152	9,460	625	82	23	15,905
Loss on disposal of equipment	-	-	-	-	-	-	1,051
Membership dues	-	-	-	-	-	-	102,052
Miscellaneous	106	64,240	7,338	13,377	5,166	125	167,054
Postage and shipping	-	110,054	4,000	-	-	-	120,911
Professional fees	-	-	-	-	530	-	32,174
Rent	-	429,536	-	3,600	-	-	433,136
Repairs and maintenance	3,060	24,648	25,901	4,940	23,168	8,952	116,053
Supplies	30,454	60,998	411,627	13,799	1,162	1,969	539,812
Telephone	200	15,450	21,973	4,771	641	48	55,872
Trash and dumping fees	2,650	39,510	385	16	47	13	45,706
Utilities	12,408	101,146	6,627	10,371	1,947	8,109	152,057
	<u>61,359</u>	<u>1,386,010</u>	<u>928,155</u>	<u>87,456</u>	<u>87,031</u>	<u>34,253</u>	<u>2,929,572</u>
	<u>\$ 124,784</u>	<u>\$ 2,856,212</u>	<u>\$ 6,363,433</u>	<u>\$ 535,296</u>	<u>\$ 153,917</u>	<u>\$ 44,748</u>	<u>\$ 11,489,190</u>

The accompanying notes are an integral part of the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.

Statements of Cash Flows

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u> (As Restated)
Cash Flows from Operating Activities:		
Change in net assets	\$ 985,976	\$ 1,024,883
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	276,416	292,766
(Gain) loss on disposal of equipment	(10,392)	1,051
Realized loss on sale of marketable securities and funds held by others	14,458	30,460
Unrealized gain on marketable securities and funds held by others	(241,371)	(384,646)
(Increase) decrease in operating assets:		
Accounts and contributions receivable	49,553	267,672
Inventory	11,170	(3,842)
Prepaid expenses and deposits	14,994	1,608
Increase (decrease) in operating liabilities:		
Trade accounts payable	8,552	(94,454)
Payroll and payroll related liabilities	(2,896)	(31,391)
Accrued NISH contract commission	5,855	4,730
Total adjustments	<u>126,339</u>	<u>83,954</u>
Net cash provided by operating activities	<u>1,112,315</u>	<u>1,108,837</u>
Cash Flows from Investing Activities:		
Net purchases of certificates of deposit	(987,425)	(713,863)
Net purchases of marketable securities	(343,114)	(252,504)
Purchase of property and equipment	(107,902)	(31,626)
Increase in cash value of life insurance	(3,455)	(3,485)
Net cash used in investing activities	<u>(1,441,896)</u>	<u>(1,001,478)</u>
Cash Flows from Financing Activities:		
Payments on capital lease obligations	(21,875)	(24,667)
Net (decrease) increase in cash and cash equivalents	(351,456)	82,692
Cash and Cash Equivalents – Beginning of Year	<u>1,608,922</u>	<u>1,526,230</u>
Cash and Cash Equivalents – End of Year	<u>\$ 1,257,466</u>	<u>\$ 1,608,922</u>
Supplemental Disclosure of Cash Flow Information:		
Interest payments	\$ 28,590	\$ 15,905
Supplemental Disclosures of Non-Cash Investing and Financing Transactions:		
Equipment acquired/disposed through capital lease obligations	\$ 135,124	\$ 26,414
Gain on forgiveness of capital lease obligations	66,227	3,058

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

December 31, 2010 and 2009

Nature and Scope of Activities

Licking-Knox Goodwill Industries, Inc. (the Organization), a not-for-profit entity, was incorporated for the purpose of employing persons with disabilities, selling contributed goods, and providing janitorial services in central Ohio.

Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets as follows:

- Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions and are available for use in the Organization's ongoing operations.
- Temporarily Restricted Net Assets – Net assets that are limited as to use by donor-imposed restrictions that either expire by passage of time, can be fulfilled and removed by action of the Organization pursuant to those restrictions and/or upon receipt of funding, or passage of date upon which the funds were due.
- Permanently Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that the principal be maintained permanently by the Organization and generally allow the use of investment earnings.

Cash and Cash Equivalents

For 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. Cash is 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, 2010 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. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and the non-interest bearing cash balances may again exceed federally insured limits. Interest-bearing amounts on deposit in excess of federally insured limits at December 31, 2010 approximated \$996,000.

Notes to Financial Statements

December 31, 2010 and 2009

Summary of Significant Accounting Policies (continued)

Marketable Securities

Marketable securities are stated at fair value as further described herein. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statement of activities. Donated marketable securities are recorded as contributions at the estimated fair value on the date of receipt.

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

Fair Value Measurements

Accounting guidance relating to fair value measurements provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. This level represents the highest priority. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets.• Quoted prices for identical or similar assets or liabilities in inactive markets.• Inputs other than quoted prices that are observable for the asset or liability.• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. |

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- | | |
|---------|---|
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 is the lowest priority. |
|---------|---|

Notes to Financial Statements

December 31, 2010 and 2009

Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

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

Receivables and Revenues

Certain funding is classified as exchange transactions and thus the revenues are reported as increases in unrestricted net assets. Revenue and receivables 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 collection 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 and recorded as unrestricted contributions. Contributions of assets other than cash are recorded at estimated fair value.

Receivables consist of unconditional contributions receivable 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, grants and pledges 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 donated used cars 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 to offset the contribution revenue.

Notes to Financial Statements

December 31, 2010 and 2009

Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at cost 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.

Impairment of Assets

The carrying value of long-lived assets is reviewed for impairment whenever events or circumstances indicate the amount of the assets may not be recoverable. When an indication of impairment is present and the undiscounted cash flows estimated to be generated by the related assets are less than the assets' carrying amount, an impairment loss will be recorded based on the difference between the carrying amount of the assets and their estimated fair value. Management did not identify any events or circumstances that would require consideration of any impairment loss applicable for the years ended December 31, 2010 and 2009.

Donated Services

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

During 2010 and 2009, volunteers provided significant services that were not recognized as contributions in the financial statements since the aforementioned criteria was not met.

Functional Expenses

The Organization allocates 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.

Notes to Financial Statements

December 31, 2010 and 2009

Summary of Significant Accounting Policies (continued)Income Taxes

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income as defined by the Code. Accordingly, no provisions for federal, state or local taxes are included in the financial statements.

The Organization performs an annual assessment for any uncertainty in income tax positions which includes an analysis of whether there are any tax positions taken with regard to unrelated business income, related deductions applied, or other activities that may jeopardize their tax exempt status and thus would meet the definition of an uncertain tax position. As of December 31, 2010, tax filing periods for the years ended 2006 and prior are closed. Management has not been notified that their tax returns for years 2007 and subsequent are currently under examination. No tax liability accrual was recorded relating to material uncertain positions taken as management believes there are none.

Reclassifications

Certain reclassifications were made to the December 31, 2009 financial statements to conform to the December 31, 2010 financial statements presentation.

Marketable Securities

The following is a summary of marketable securities as of December 31:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Government securities	\$ 20,000	\$ 20,438	\$ 40,000	\$ 39,882
Corporate bonds	34,898	34,683	34,990	36,040
Mutual funds	1,630,726	1,790,867	1,331,377	1,323,805
Common stock	<u>634,908</u>	<u>625,554</u>	<u>583,377</u>	<u>504,758</u>
	<u>\$ 2,320,532</u>	<u>\$ 2,471,542</u>	<u>\$ 1,989,744</u>	<u>\$ 1,904,485</u>

The accumulated unrealized gain was approximately \$151,000 at December 31, 2010 and the accumulated unrealized loss was approximately \$85,000 at December 31, 2009.

LICKING-KNOX GOODWILL INDUSTRIES, INC.

Notes to Financial Statements

December 31, 2010 and 2009

Marketable Securities (continued)

The following is a summary of assets measured at fair value on a recurring basis in the statements of financial position as of December 31:

	<u>2010</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Government securities	\$ -	\$ 20,438	\$ 20,438
Corporate bonds	-	34,683	34,683
Mutual funds:			
Equity growth	543,573	-	543,573
Equity value	304,391	-	304,391
Equity international	395,315	-	395,315
Equity blend	64,278	-	64,278
Equity consumer staples	16,513	-	16,513
Equity institutional	38,696	-	38,696
Fixed income bond	271,793	-	271,793
Fixed income blend	5,211	-	5,211
Fixed income money market	82,760	-	82,760
Other	<u>68,337</u>	-	<u>68,337</u>
Total mutual funds	<u>1,790,867</u>	-	<u>1,790,867</u>
Common stock:			
Consumer discretionary	60,539	-	60,539
Consumer staples	63,294	-	63,294
Energy	66,482	-	66,482
Financial	78,557	-	78,557
Health Care	56,575	-	56,575
Industrial	76,479	-	76,479
Information technology	147,545	-	147,545
Materials	34,703	-	34,703
Telecommunication services	25,010	-	25,010
Utilities	<u>16,370</u>	-	<u>16,370</u>
Total common stock	<u>625,554</u>	-	<u>625,554</u>
	<u>\$ 2,416,421</u>	<u>\$ 55,121</u>	<u>\$ 2,471,542</u>

LICKING-KNOX GOODWILL INDUSTRIES, INC.

Notes to Financial Statements

December 31, 2010 and 2009

Marketable Securities (continued)

	2009		
	Level 1	Level 2	Total
Government securities	\$ -	\$ 39,882	\$ 39,882
Corporate bonds	-	36,040	36,040
Mutual funds:			
Equity growth	452,096	-	452,096
Equity value	183,698	-	183,698
Equity international	180,589	-	180,589
Equity blend	69,400	-	69,400
Equity consumer staples	14,780	-	14,780
Equity institutional	34,070	-	34,070
Fixed income bond	269,641	-	269,641
Fixed income blend	15,173	-	15,173
Fixed income money market	73,131	-	73,131
Other	<u>31,227</u>	-	<u>31,227</u>
Total mutual funds	<u>1,323,805</u>	-	<u>1,323,805</u>
Common stock:			
Consumer discretionary	31,035	-	31,035
Consumer staples	48,727	-	48,727
Energy	63,620	-	63,620
Financial	66,794	-	66,794
Health Care	71,908	-	71,908
Industrial	57,560	-	57,560
Information technology	107,513	-	107,513
Materials	16,937	-	16,937
Telecommunication services	23,508	-	23,508
Utilities	<u>17,156</u>	-	<u>17,156</u>
Total common stock	<u>504,758</u>	-	<u>504,758</u>
	<u>\$ 1,828,563</u>	<u>\$ 75,922</u>	<u>\$ 1,904,485</u>

These methods of valuation may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. There were no changes in valuation methodology during 2010 or 2009. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair values of Level 2 investments are determined utilizing quoted market prices of similar securities with similar due dates or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Notes to Financial Statements

December 31, 2010 and 2009

Marketable Securities (continued)

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 the intent and ability to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Organization does not consider those investments to be other-than-temporarily impaired at December 31, 2010 and 2009.

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 1.64% to 3.64% with maturity dates through November 2015. Certificates of deposit are valued at amortized cost plus accrued interest, which approximates fair value, and are considered level 2 within the fair value hierarchy as described herein.

Structured certificate of deposit balances are reported at fair value as of the date of the financial statements. When possible, the fair value of assets are determined by reference to quoted market prices of underlying investment baskets. When quoted market prices are not available, fair value is estimated by reference to market values for similar securities or by discounting cash flows at an appropriate risk rate taking into consideration the varying degrees of risk specific to the asset.

Funds Held by Others

The Organization established an endowment fund with the Licking County Foundation by contributing \$41,766 of permanently restricted funds. The Organization did not grant variance power to the foundation and the Organization named itself the beneficiary for use of the funds or generated investment earnings. The Organization has unrestricted access to the funds. Effectively, the Organization is using the foundation to manage their investments within the foundation's investment accounts. The fair value of the funds at December 31, 2010 and 2009 was \$57,296 and \$54,326, respectively. 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 approximately \$5,100 and \$5,600 for the years ended December 31, 2010 and 2009, respectively.

Notes to Financial Statements

December 31, 2010 and 2009

Funds Held by Others (continued)

The fair value of substantially all securities is determined by the foundation's independent investment manager. The fair value was confirmed by the Licking County 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.

While the initial funds were received to establish a permanently restricted endowment, with earnings to be used for unrestricted purposes as defined by the Organization, the funds have since been transferred to the foundation, which now has fiduciary responsibility over the investment and management of these funds. Accordingly, management does not consider these endowment funds for the purposes of disclosure.

Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
Land	\$ 208,426	\$ 208,426
Buildings	2,252,253	2,250,673
Leasehold improvements	184,550	138,843
Equipment	734,833	694,081
Vehicles	<u>320,622</u>	<u>305,417</u>
	3,700,684	3,597,440
Less: accumulated depreciation and amortization	<u>(2,083,331)</u>	<u>(1,890,862)</u>
Property and equipment, net	<u>\$ 1,617,353</u>	<u>\$ 1,706,578</u>

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 individual with the deferred compensation agreement and the Organization is the owner and beneficiary of the policy.

Notes to Financial Statements

December 31, 2010 and 2009

Deferred Compensation (continued)

The deferred compensation liability was \$28,000 and \$59,000 as of December 31, 2010 and 2009, respectively, and is included in the payroll and payroll related liabilities classification on the statements of financial position. Total expense for the deferred compensation agreement was \$5,000 for the year ended December 31, 2009. The deferred compensation liability was reduced during 2010 to properly reflect the liability at December 31, 2010, resulting in no expense for 2010.

Capital Lease Obligations

In May 2010, the Organization entered into a capital lease of a copier, which expires in 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 equipment was placed in service in May 2010 and is amortized over the estimated useful life of 5 years.

In May 2010, the Organization entered into a capital lease of office equipment, which expires in 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 5 years.

In March 2009, the Organization entered into a capital lease of 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 May 2010 and is amortized over its estimated useful life of 5 years.

Additional capital leases were in place during the year ended December 31, 2009. These lease agreements were terminated during the year ended December 31, 2010, prior to the maturity dates, and the equipment was replaced with the new leases as noted above.

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

	<u>2010</u>	<u>2009</u>
Equipment	\$ 161,538	\$ 153,317
Less: accumulated depreciation	<u>(25,046)</u>	<u>(66,925)</u>
	<u>\$ 136,492</u>	<u>\$ 86,392</u>

Amortization expense is included in depreciation and amortization expense on the statements of functional expenses.

LICKING-KNOX GOODWILL INDUSTRIES, INC.

Notes to Financial Statements

December 31, 2010 and 2009

Capital Lease Obligations (continued)

Future minimum lease payments under these capital leases as of December 31, 2010 through maturity are as follows:

2011	\$ 53,114
2012	53,114
2013	53,114
2014	50,831
2015	<u>12,348</u>
	222,521
Less: amount representing interest	<u>(79,056)</u>
Capital lease obligations	<u>\$ 143,465</u>

Operating Leases

The Organization has various leases for buildings and equipment 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, 2010 and 2009 was approximately \$441,000 and \$433,000, respectively.

Future minimum lease payments as of December 31, 2010 for the equipment and building leases approximate the following:

2011	\$ 415,000
2012	336,000
2013	122,000
2014	67,000
2015	<u>39,000</u>
Total	<u>\$ 979,000</u>

Net Assets

Temporarily restricted net assets at December 31, 2010 and 2009 represent amounts unconditionally committed by the United Way as of each year-end, but not yet paid. The corresponding asset is recorded as contributions receivable at year-end.

Permanently restricted net assets at December 31, 2010 and 2009 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.

Notes to Financial Statements

December 31, 2010 and 2009

Concentrations

Two government agencies accounted for approximately 42% and 38% (net of contract commissions) of total revenue for the years ended December 31, 2010 and 2009, respectively. The same two agencies accounted for approximately 74% and 65% of the trade accounts receivable balance as of December 31, 2010 and 2009, respectively.

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.

Prior Period Restatement

In 2009 and prior years, the Organization did not record the value of contributed inventory used for retail sales in accordance with generally accepted accounting principles. Accounting guidance requires that contributions be recognized as revenue when received. Guidance was released from Goodwill Industries International in 1996 providing instructions and suggested calculation methodologies for determining the value of such contributed goods. During the year ended December 31, 2009, contributed merchandise was received with an approximate fair value of \$412,000. Thus, revenue and expenses were understated as of December 31, 2009. Additionally, the inventory asset value was understated as of December 31, 2009, and the beginning net assets for the year ended December 31, 2009 were understated related to the inventory value that should have been recorded at December 31, 2008.

Accordingly, the financial statements for the year ended December 31, 2009 were restated to correct for these accounting errors as follows:

	<u>Originally Issued</u>	<u>As Restated</u>	<u>Increase (Decrease)</u>
Statement of Financial Position:			
Assets:			
Inventory	\$ 13,300	\$ 56,177	\$ 42,877
Net Assets:			
Unrestricted	8,363,598	8,406,475	42,877
Statement of Activities and Changes in Net Assets:			
Donations – contributed goods for resale	-	413,515	413,515
Cost of goods sold	-	411,623	411,623
Beginning net assets	7,396,023	7,437,008	40,985
Ending net assets	8,419,014	8,461,891	42,877

Notes to Financial Statements

December 31, 2010 and 2009

Subsequent Events – Date of Management Evaluation

Management evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued. In August 2011, the Organization purchased a facility for \$850,000 to be used for retail and warehouse space. No additional debt was incurred related to this purchase.