LICKING-KNOX
GOODWILL INDUSTRIES, INC.

Financial Statements

December 31, 2012 and 2011

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.
Newark, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Licking-Knox Goodwill Industries, Inc. which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. 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 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.

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, 2012 and 2011, 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.

Other Matter

The financial statements of Licking-Knox Goodwill Industries, Inc., as of December 31, 2011, were audited by other auditors whose report dated June 7, 2012 expressed an unmodified opinion on those statements.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
May 28, 2013

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LICKING-KNOX GOODWILL INDUSTRIES, INC.
Statements of Financial Position
December 31, 2012 and 2011

Assets

		2012	2011
Current assets:			
Cash and cash equivalents	$	3,228,598	1,232,176
Marketable securities		3,100,348	2,550,369
Certificates of deposit		2,769,620	3,249,558
Accounts receivable		876,924	1,232,427
Inventory		153,855	99,072
Funds held by others		72,448	19,550
Prepaid expenses and deposits		84,599	87,540
Total current assets		10,286,392	8,470,692
Property and equipment, net		2,237,743	2,431,888
Other assets:			
Cash value of life insurance		50,703	47,300
Funds held by others - permanently restricted		41,766	41,766
Lease deposits		11,776	11,776
Total other assets		104,245	100,842
Total assets	$	12,628,380	11,003,422

Liabilities and Net Assets

		2012	2011
Current liabilities:			
Capital lease obligation, current portion	$	30,670	28,881
Accounts payable, trade		117,642	90,273
Payroll and payroll related liabilities		708,958	682,017
Accrued NISH contract commission		36,771	53,432
Unearned revenue		17,422	-
Other liabilities		61,255	-
Total current liabilities		972,718	854,603
Long-term liabilities:			
Capital lease obligation, long term portion		61,077	92,710
Total liabilities		1,033,795	947,313
Net assets:			
Unrestricted		11,524,776	10,013,721
Temporarily restricted		28,043	622
Permanently restricted		41,766	41,766
Total net assets		11,594,585	10,056,109
Total liabilities and net assets	$	12,628,380	11,003,422

See accompanying notes to the financial statements.

LICKING-KNOX GOODWILL INDUSTRIES, INC.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2012

	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 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.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:				
Public support:				
Contributions - goods for resale	$ 472,618	-	-	472,618
Contributions - used car for resale	31,160	-	-	31,160
Contributions - general	4,985	622	-	5,607
	508,763	622	-	509,385
Program services:				
Recycling	293,257	-	-	293,257
Stores	3,598,410	-	-	3,598,410
Contracts	6,632,139	-	-	6,632,139
Vocational rehabilitation	700,411	-	-	700,411
Used car sales	110,685	-	-	110,685
Other	85,491	-	-	85,491
	11,420,393	-	-	11,420,393
Other revenues:				
Rental income	40,362	-	-	40,362
Interest and dividend income	175,454	-	-	175,454
Realized loss on marketable securities and funds held by others	(55,899)	-	-	(55,899)
Unrealized loss on marketable securities and funds by others	(34,675)	-	-	(34,675)
	125,242	-	-	125,242
Net assets released from restrictions	1,790	(1,790)	-	-
Total support and revenues	12,056,188	(1,168)	-	12,055,020
Expenses:				
Program services:				
Recycling	152,335	-	-	152,335
Stores	3,555,288	-	-	3,555,288
Contracts	5,578,219	-	-	5,578,219
Vocational rehabilitation	612,480	-	-	612,480
Used car sales	107,276	-	-	107,276
Other	100,231	-	-	100,231
Support services:				
Management and general	1,340,949	-	-	1,340,949
Fundraising	-	-	-	-
Total expenses	11,446,778	-	-	11,446,778
Change in net assets	609,410	(1,168)	-	608,242
Net assets at beginning of year	9,404,311	1,790	41,766	9,447,867
Net assets at end of year	$ 10,013,721	622	41,766	10,056,109

See accompanying notes to the financial statements.

		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		779	84,775	3,355	5,773	3,072	-	65,389	-	163,143
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
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
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

	Program Services						Support Services		
	Recycling	Stores	Contracts	Vocational Rehabilitation	Used Cars	Other	Management and General	Fundraising	Total
Salaries and wages	$ 72,687	1,604,424	3,458,826	404,747	37,087	43,898	747,085	-	6,368,754
Payroll taxes	8,803	191,740	419,435	49,905	4,382	4,623	86,126	-	765,014
Health insurance	228	35,786	774,588	56,341	12,622	-	124,608	-	1,004,173
Total salaries and related expenses	81,718	1,831,950	4,652,849	510,993	54,091	48,521	957,819	-	8,137,941
Advertising	-	43,231	-	-	988	-	23,622	-	67,841
Contract commissions	-	-	214,498	-	-	-	-	-	214,498
Cost of goods sold	-	532,523	-	-	-	-	-	-	532,523
Depreciation and amortization	15,607	72,010	117,289	27,590	1,330	14,047	19,132	-	267,005
General insurance	480	6,890	38,487	8,477	10,200	11	6,800	-	71,345
Interest	-	4,832	12,492	4,237	-	-	8,056	-	29,617
Fundraising	-	-	-	-	-	-	-	-	-
Membership dues - Goodwill Industries International	-	-	-	-	-	-	97,204	-	97,204
Miscellaneous	6,762	68,630	3,551	27,940	3,203	-	69,961	-	180,047
Payroll processing fee	478	10,538	22,753	2,667	243	74	4,788	-	41,541
Postage and shipping	-	130,506	2,343	539	-	-	4,033	-	137,421
Professional fees	-	-	-	-	396	-	39,558	-	39,954
Rent	-	429,042	-	-	-	-	-	-	429,042
Repairs and maintenance	6,336	49,435	7,196	1,291	14,130	8,402	24,682	-	111,472
Small equipment	-	-	-	-	-	-	-	-	-
Supplies	26,501	87,000	381,901	5,905	664	12,274	26,484	-	540,729
Telephone	199	15,830	15,475	7,035	803	59	14,351	-	53,752
Transportation - wages and other	-	86,871	105,235	8,147	19,235	5,635	31,815	-	256,938
Trash and dumping fees	960	57,419	-	-	-	-	845	-	59,224
Utilities	13,294	128,581	4,150	7,659	1,993	11,208	11,799	-	178,684
Total other expenses	70,617	1,723,338	925,370	101,487	53,185	51,710	383,130	-	3,308,837
Total expenses	$ 152,335	3,555,288	5,578,219	612,480	107,276	100,231	1,340,949	-	11,446,778

LICKING-KNOX GOODWILL INDUSTRIES, INC.
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	1,538,476	608,242
Changes to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		267,406	267,005
Net realized (gain) loss on marketable securities and funds held by others		(13,501)	55,899
Net unrealized (gain) loss on marketable securities and funds held by others		(217,153)	34,675
Loss on disposal of asset		2,219	-
Effects of change in operating assets and liabilities:			
Accounts receivable		355,503	(6,383)
Inventory		(54,783)	(54,065)
Prepaid expenses and deposits		2,941	3,476
Accounts payable, trade		27,369	14,825
Payroll and payroll related liabilities		26,941	115,097
Accrued NISH contract commission		(16,661)	149
Unearned revenue		17,422	-
Other liabilities		61,255	-
Net cash provided by operating activities		1,997,434	1,038,920
Cash flows from investing activities:			
Net purchases of marketable securities and funds held by others		(372,223)	(173,421)
Purchases of certificates of deposit		(300,000)	(521,000)
Redemption of certificates of deposit		779,938	737,012
Purchases of property and equipment		(75,480)	(1,079,583)
Increase in cash value of life insurance		(3,403)	(3,387)
Net cash provided by (used in) investing activities		28,832	(1,040,379)
Cash flows from financing activities:			
Payments on capital lease obligations		(29,844)	(23,831)
Net increase (decrease) in cash and cash equivalents		1,996,422	(25,290)
Cash and cash equivalents, beginning of year		1,232,176	1,257,466
Cash and cash equivalents, end of year	$	3,228,598	1,232,176
Supplemental disclosures:			
Interest paid	$	24,001	29,617
Equipment acquired through capital lease obligations	$	-	1,957

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 not-for-profit 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 combined statement 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 $28,043 and $622 as of December 31, 2012 and 2011, 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, 2012 and 2011.

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. 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, 2012 and 2011 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 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. 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 2012 and 2011, 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 2009 through 2011. 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 2011 financial statement presentations in order to conform with the 2012 financial statement presentation.

2. MARKETABLE SECURITIES:

The following is a summary of marketable securities at December 31, 2012 and 2011:

		2012		2011	
		Cost	Fair Value	Cost	Fair Value
Government securities	$	109,975	110,384	60,000	60,661
Corporate obligations		59,641	60,753	34,898	35,604
Mutual funds		2,013,718	2,304,796	1,758,169	1,866,480
Equity securities		574,781	624,415	575,867	587,624
	$	2,758,115	3,100,348	2,428,934	2,550,369

The accumulated unrealized gains were approximately $342,233 and $121,435 at December 31, 2012 and 2011, 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, 2012 and 2011.

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 4.02%. Certificates of deposit are valued at amortized cost plus accrued interest.

4. INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION:

The Organization transferred their permanently restricted funds of $41,766 to the Licking County Foundation (the “Foundation”). The fair value of the funds at December 31, 2012 and 2011 was $114,214 and $61,316, 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 $6,404 and $0 for the years ended December 31, 2012 and 2011, 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:

		2012	2011
Land	$	497,426	497,426
Buildings		2,980,325	2,947,611
Equipment		825,904	825,905
Vehicles		332,370	322,782
Leasehold improvements		212,520	188,500
		4,848,545	4,782,224
Less: accumulated depreciation and amortization		(2,610,802)	(2,350,336)
Total property and equipment, net	$	2,237,743	2,431,888

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 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. Accordingly, the Organization has accrued an additional $15,000 under this agreement as of December 31, 2012 and 2011.

The total deferred compensation liability under both agreements was $62,000 and $45,000 as of December 31, 2012 and 2011, 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 $17,000 for the years ended December 31, 2012 and 2011.

7. CAPITAL LEASES:

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 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 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 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 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 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:

		2012	2011
Equipment	$	163,495	163,495
Less: accumulated amortization		(89,990)	(57,771)
	$	73,505	105,724

Future minimum lease payments under these capital leases as of December 31, 2012 through maturity are as follows:

2013	$	53,844
2014		53,083
2015		15,332
		122,259
Less: amount representing interest		(30,512)
Capital lease obligations	$	91,747

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, 2012 and 2011 was $389,738 and $429,042, respectively.

The future minimum lease payments are:

Year	Amount
2013	$ 283,318
2014	137,249
2015	107,673
2016	5,343
	$ 533,583

9. 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. The Company determined the fair value of the deferred compensation liability by discounting the expected future salary payments due under the deferred compensation plan using a discount rate for the vesting period. 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:

Description	12/31/12	Fair Value Measurements at Reporting Date Using (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 goods	52,594	52,594	-	-
Financial	76,408	76,408	-	-
Healthcare	79,779	79,779	-	-
Industrial	81,032	81,032	-	-
Information technology	106,065	106,065	-	-
Materials	100,966	100,966	-	-
Services	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	-
Cash value of life insurance	50,703	-	50,703	-
Liabilities:				
Deferred compensation	62,000	-	62,000	-

		Fair Value Measurements at Reporting Date Using		
Description	12/31/11	(Level 1)	(Level 2)	(Level 3)
Assets:				
Marketable securities:				
Government securities	$ 60,661	-	60,661	-
Corporate bonds	35,604	-	35,604	-
Mutual funds:				
Equity growth	633,464	633,464	-	-
Equity value	363,560	363,560	-	-
Equity international	320,311	320,311	-	-
Equity blend	89,582	89,582	-	-
Equity consumer staples	16,294	16,294	-	-
Equity institutional	34,261	34,261	-	-
Fixed income bond	195,755	195,755	-	-
Fixed income blend	52,706	52,706	-	-
Fixed income money market	59,048	59,048	-	-
Other	101,499	101,499	-	-
Total mutual funds	1,866,480	1,866,480	-	-
Common stock:				
Consumer discretionary	71,304	71,304	-	-
Consumer staples	77,742	77,742	-	-
Energy	65,928	65,928	-	-
Financial	44,064	44,064	-	-
Healthcare	52,379	52,379	-	-
Industrial	75,951	75,951	-	-
Information technology	123,965	123,965	-	-
Materials	30,518	30,518	-	-
Telecommunication services	26,894	26,894	-	-
Utilities	18,879	18,879	-	-
Total common stock	587,624	587,624	-	-
Total marketable securities	2,550,369	2,454,104	96,265	-
Cash value of life insurance	47,300	-	47,300	-
Liabilities:				
Deferred compensation	45,000	-	45,000	-

10. NET ASSETS:

Temporarily restricted net assets at December 31, 2012 and 2011 represent amounts unconditionally committed by the United Way as of each year-end, but not yet paid.

Permanently restricted net assets at December 31, 2012 and 2011 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.

11. CONCENTRATIONS:

Two government agencies accounted for approximately 40% and 45% (net of contract commissions) of total revenue for the years ended December 31, 2012 and 2011, respectively. The same two agencies accounted for approximately 56% and 75% of the trade accounts receivable balance as of December 31, 2012 and 2011, respectively.

12. 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.

13. SUBSEQUENT EVENT:

On January 30, 2013, the Organization purchased a new store location in Newark, Ohio for $335,000. The purchase of the property was paid in cash.

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

SINCE 1938

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