

# **LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Combined Financial Statements and Supplemental Information

December 31, 2016 and 2015

with Independent Auditors' Report

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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, 2016 and 2015, 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 Licking-Knox Goodwill Industries, Inc. and Affiliate'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 Licking-Knox Goodwill Industries, Inc. and Affiliate'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.

## **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, 2016 and 2015, 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.

## **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining schedules are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
June 01, 2017

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Combined Statements of Financial Position

December 31, 2016 and 2015

| Assets   | 2016          | 2015       |
|--|---------------|------------|
| Current assets:                                    |               |            |
| Cash and cash equivalents                          | \$ 4,958,752  | 4,828,340  |
| Marketable securities                              | 6,033,420     | 4,913,383  |
| Certificates of deposit                            | 1,579,270     | 1,943,065  |
| Accounts receivable                                | 1,890,834     | 1,167,888  |
| Inventory  | 418,499       | 495,461    |
| Funds held by others                               | 1,012,848     | 749,965    |
| Prepaid expenses and deposits                      | 68,901        | 109,634    |
| Total current assets                               | 15,962,524    | 14,207,736 |
| Property and equipment, net                        | 3,538,156     | 3,351,153  |
| Other assets:                                      |               |            |
| Cash value of life insurance                       | 154,913       | 145,804    |
| Funds held by others - permanently restricted      | 41,766        | 41,766     |
| Lease deposits                                     | 11,776        | 11,776     |
| Total other assets                                 | 208,455       | 199,346    |
| Total assets                                       | \$ 19,709,135 | 17,758,235 |
| Liabilities and Net Assets                         |               |            |
| Current liabilities:                               |               |            |
| Note payable, current portion                      | \$ 150,000    | -          |
| Accounts payable, trade                            | 348,664       | 106,249    |
| Payroll and payroll related liabilities            | 534,320       | 520,559    |
| Deferred compensation liability, current portion   | 10,000        | 10,000     |
| Accrued NISH contract commission                   | 82,218        | 99,974     |
| Unearned revenue                                   | 47,318        | 18,777     |
| Total current liabilities                          | 1,172,520     | 755,559    |
| Long-term liabilities:                             |               |            |
| Deferred compensation liability, long term portion | 45,485        | 55,885     |
| Key bonus liability, long-term portion             | 36,000        | -          |
| Total long-term liabilities                        | 81,485        | 55,885     |
| Total liabilities                                  | 1,254,005     | 811,444    |
| Net assets:  |               |            |
| Unrestricted                                       | 17,472,964    | 16,214,758 |
| Unrestricted, board designated                     | 925,133       | 671,985    |
| Temporarily restricted                             | 15,267        | 18,282     |
| Permanently restricted                             | 41,766        | 41,766     |
| Total net assets                                   | 18,455,130    | 16,946,791 |
| Total liabilities and net assets                   | \$ 19,709,135 | 17,758,235 |

See accompanying notes to the combined financial statements.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**  
 Combined Statement of Activities and Changes in Net Assets  
 Year Ended December 31, 2016

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
|--|----------------------|-----------------------------------|-----------------------------------|-------------------|
| Support and revenues:  |                      |                                   |                                   |                   |
| Public support:  |                      |                                   |                                   |                   |
| Contributions - goods for resale                                     | \$ 623,466           | -                                 | -                                 | 623,466           |
| Contributions - used car for resale                                  | 32,015               | -                                 | -                                 | 32,015            |
| Contributions - general  | 9,991                | -                                 | -                                 | 9,991             |
| Fundraising  | 2,563                | -                                 | -                                 | 2,563             |
|  | <u>668,035</u>       | <u>-</u>                          | <u>-</u>                          | <u>668,035</u>    |
| Program services:  |                      |                                   |                                   |                   |
| Recycling  | 219,257              | -                                 | -                                 | 219,257           |
| Stores   | 6,284,888            | -                                 | -                                 | 6,284,888         |
| Contracts  | 7,778,292            | -                                 | -                                 | 7,778,292         |
| Vocational rehabilitation  | 421,272              | -                                 | -                                 | 421,272           |
| Used car sales   | 140,603              | -                                 | -                                 | 140,603           |
| Other  | 110,759              | -                                 | -                                 | 110,759           |
|  | <u>14,955,071</u>    | <u>-</u>                          | <u>-</u>                          | <u>14,955,071</u> |
| Other revenues, gains and losses:                                    |                      |                                   |                                   |                   |
| Rental income  | 144,521              | -                                 | -                                 | 144,521           |
| Interest and dividend income   | 241,094              | 1,476                             | -                                 | 242,570           |
| Realized gain on marketable securities and<br>funds held by others   | 123,560              | -                                 | -                                 | 123,560           |
| Unrealized gain on marketable securities and<br>funds held by others | 238,962              | 8,259                             | -                                 | 247,221           |
| Loss on disposal of assets   | (1,612)              | -                                 | -                                 | (1,612)           |
|  | <u>746,525</u>       | <u>9,735</u>                      | <u>-</u>                          | <u>756,260</u>    |
| Net assets released from restrictions                                | <u>12,750</u>        | <u>(12,750)</u>                   | <u>-</u>                          | <u>-</u>          |
| Total support and revenues   | <u>16,382,381</u>    | <u>(3,015)</u>                    | <u>-</u>                          | <u>16,379,366</u> |
| Expenses:  |                      |                                   |                                   |                   |
| Program services:  |                      |                                   |                                   |                   |
| Recycling  | 146,970              | -                                 | -                                 | 146,970           |
| Stores   | 6,135,394            | -                                 | -                                 | 6,135,394         |
| Contracts  | 5,875,544            | -                                 | -                                 | 5,875,544         |
| Vocational rehabilitation  | 428,426              | -                                 | -                                 | 428,426           |
| Used car sales   | 142,712              | -                                 | -                                 | 142,712           |
| Other  | 353,316              | -                                 | -                                 | 353,316           |
| Support services:  |                      |                                   |                                   |                   |
| Management and general   | 1,788,665            | -                                 | -                                 | 1,788,665         |
| Total expenses   | <u>14,871,027</u>    | <u>-</u>                          | <u>-</u>                          | <u>14,871,027</u> |
| Change in net assets   | 1,511,354            | (3,015)                           | -                                 | 1,508,339         |
| Net assets at beginning of year                                      | <u>16,886,743</u>    | <u>18,282</u>                     | <u>41,766</u>                     | <u>16,946,791</u> |
| Net assets at end of year  | \$ <u>18,398,097</u> | <u>15,267</u>                     | <u>41,766</u>                     | <u>18,455,130</u> |

See accompanying notes to the combined financial statements.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**  
 Combined Statement of Activities and Changes in Net Assets (Continued)  
 Year Ended December 31, 2015

|  | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>      |
|--|----------------------|-----------------------------------|-----------------------------------|-------------------|
| Support and revenues:  |                      |                                   |                                   |                   |
| Public support:  |                      |                                   |                                   |                   |
| Contributions - goods for resale                                     | \$ 646,741           | -                                 | -                                 | 646,741           |
| Contributions - used car for resale                                  | 83,000               | -                                 | -                                 | 83,000            |
| Contributions - general  | 19,186               | 12,750                            | -                                 | 31,936            |
| Grants   | 13,700               | -                                 | -                                 | 13,700            |
|  | <u>762,627</u>       | <u>12,750</u>                     | <u>-</u>                          | <u>775,377</u>    |
| Program services:  |                      |                                   |                                   |                   |
| Recycling  | 261,993              | -                                 | -                                 | 261,993           |
| Stores   | 6,108,273            | -                                 | -                                 | 6,108,273         |
| Contracts  | 7,133,133            | -                                 | -                                 | 7,133,133         |
| Vocational rehabilitation  | 458,605              | -                                 | -                                 | 458,605           |
| Used car sales   | 73,747               | -                                 | -                                 | 73,747            |
| Other  | 199,900              | -                                 | -                                 | 199,900           |
|  | <u>14,235,651</u>    | <u>-</u>                          | <u>-</u>                          | <u>14,235,651</u> |
| Other revenues, gains and losses:                                    |                      |                                   |                                   |                   |
| Rental income  | 105,424              | -                                 | -                                 | 105,424           |
| Interest and dividend income   | 310,597              | 1,259                             | -                                 | 311,856           |
| Realized gain on marketable securities and<br>funds held by others   | 135,428              | -                                 | -                                 | 135,428           |
| Unrealized loss on marketable securities and<br>funds held by others | (403,037)            | (1,941)                           | -                                 | (404,978)         |
|  | <u>148,412</u>       | <u>(682)</u>                      | <u>-</u>                          | <u>147,730</u>    |
| Net assets released from restrictions                                | <u>17,500</u>        | <u>(17,500)</u>                   | <u>-</u>                          | <u>-</u>          |
| Total support and revenues   | <u>15,164,190</u>    | <u>(5,432)</u>                    | <u>-</u>                          | <u>15,158,758</u> |
| Expenses:  |                      |                                   |                                   |                   |
| Program services:  |                      |                                   |                                   |                   |
| Recycling  | 131,445              | -                                 | -                                 | 131,445           |
| Stores   | 5,584,168            | -                                 | -                                 | 5,584,168         |
| Contracts  | 5,411,603            | -                                 | -                                 | 5,411,603         |
| Vocational rehabilitation  | 390,379              | -                                 | -                                 | 390,379           |
| Used car sales   | 91,835               | -                                 | -                                 | 91,835            |
| Other  | 405,334              | -                                 | -                                 | 405,334           |
| Support services:  |                      |                                   |                                   |                   |
| Management and general   | 1,569,885            | -                                 | -                                 | 1,569,885         |
| Total expenses   | <u>13,584,649</u>    | <u>-</u>                          | <u>-</u>                          | <u>13,584,649</u> |
| Change in net assets   | 1,579,541            | (5,432)                           | -                                 | 1,574,109         |
| Net assets at beginning of year                                      | <u>15,307,202</u>    | <u>23,714</u>                     | <u>41,766</u>                     | <u>15,372,682</u> |
| Net assets at end of year  | \$ <u>16,886,743</u> | <u>18,282</u>                     | <u>41,766</u>                     | <u>16,946,791</u> |

See accompanying notes to the combined financial statements.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Combined Statement of Functional Expenses

Year Ended December 31, 2016

|   | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Total</u>         |
|---|-----------------------------|-----------------------------------|----------------------|
| Salaries and wages                      | \$ 6,656,462                | 916,668                           | 7,573,130            |
| Payroll taxes                           | 662,280                     | 83,513                            | 745,793              |
| Health insurance                        | <u>1,253,821</u>            | <u>91,003</u>                     | <u>1,344,824</u>     |
| <br>Total salaries and related expenses | <br><u>8,572,563</u>        | <br><u>1,091,184</u>              | <br><u>9,663,747</u> |
| <br>                                    |                             |                                   |                      |
| Advertising                             | 135,878                     | 31,117                            | 166,995              |
| Contract commissions                    | 250,926                     | -                                 | 250,926              |
| Cost of goods sold                      | 1,812,163                   | -                                 | 1,812,163            |
| Depreciation and amortization           | 168,112                     | 118,319                           | 286,431              |
| General insurance                       | 71,132                      | 38,253                            | 109,385              |
| Membership dues - Goodwill              |                             |                                   |                      |
| Industries International                | -                           | 126,972                           | 126,972              |
| Miscellaneous                           | 127,324                     | 127,350                           | 254,674              |
| Payroll processing fee                  | 86,870                      | 13,603                            | 100,473              |
| Postage and shipping                    | 209,411                     | 3,429                             | 212,840              |
| Professional fees                       | 1,662                       | 51,100                            | 52,762               |
| Rent                                    | 346,728                     | 40,283                            | 387,011              |
| Repairs and maintenance                 | 170,475                     | 21,299                            | 191,774              |
| Small equipment                         | 42,799                      | 11,706                            | 54,505               |
| Supplies                                | 452,587                     | 30,505                            | 483,092              |
| Taxes and licenses                      | 22,067                      | -                                 | 22,067               |
| Telephone                               | 57,841                      | 20,020                            | 77,861               |
| Transportation - wages and other        | 245,494                     | 44,298                            | 289,792              |
| Trash and dumping fees                  | 76,695                      | 1,143                             | 77,838               |
| Travel                                  | 5,091                       | 2,147                             | 7,238                |
| Utilities                               | <u>226,544</u>              | <u>15,937</u>                     | <u>242,481</u>       |
| Total other expenses                    | <u>4,509,799</u>            | <u>697,481</u>                    | <u>5,207,280</u>     |
| <br>                                    |                             |                                   |                      |
| Total expenses                          | \$ <u>13,082,362</u>        | <u>1,788,665</u>                  | <u>14,871,027</u>    |

See accompanying notes to the combined financial statements.



**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Combined Statement of Functional Expenses

Year Ended December 31, 2015

|   | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Total</u>         |
|---|-----------------------------|-----------------------------------|----------------------|
| Salaries and wages                      | \$ 6,128,330                | 818,665                           | 6,946,995            |
| Payroll taxes                           | 567,561                     | 66,607                            | 634,168              |
| Health insurance                        | <u>1,048,051</u>            | <u>70,737</u>                     | <u>1,118,788</u>     |
| <br>Total salaries and related expenses | <br><u>7,743,942</u>        | <br><u>956,009</u>                | <br><u>8,699,951</u> |
| <br>                                    |                             |                                   |                      |
| Advertising                             | 102,796                     | 31,364                            | 134,160              |
| Contract commissions                    | 242,568                     | -                                 | 242,568              |
| Cost of goods sold                      | 1,671,350                   | -                                 | 1,671,350            |
| Depreciation and amortization           | 155,768                     | 101,281                           | 257,049              |
| General insurance                       | 84,241                      | 41,119                            | 125,360              |
| Membership dues - Goodwill              |                             |                                   |                      |
| Industries International                | -                           | 116,513                           | 116,513              |
| Miscellaneous                           | 118,691                     | 110,026                           | 228,717              |
| Payroll processing fee                  | 51,726                      | 8,076                             | 59,802               |
| Postage and shipping                    | 176,132                     | 3,399                             | 179,531              |
| Professional fees                       | 1,652                       | 39,126                            | 40,778               |
| Rent                                    | 342,136                     | 39,971                            | 382,107              |
| Repairs and maintenance                 | 130,812                     | 30,916                            | 161,728              |
| Small equipment                         | 80,248                      | 11,607                            | 91,855               |
| Supplies                                | 468,985                     | 22,674                            | 491,659              |
| Taxes and licenses                      | 20,509                      | -                                 | 20,509               |
| Telephone                               | 54,497                      | 17,406                            | 71,903               |
| Transportation - wages and other        | 268,454                     | 22,332                            | 290,786              |
| Trash and dumping fees                  | 65,077                      | 803                               | 65,880               |
| Travel                                  | 8,206                       | 1,860                             | 10,066               |
| Utilities                               | <u>226,974</u>              | <u>15,403</u>                     | <u>242,377</u>       |
| Total other expenses                    | <u>4,270,822</u>            | <u>613,876</u>                    | <u>4,884,698</u>     |
| <br>                                    |                             |                                   |                      |
| Total expenses                          | \$ <u>12,014,764</u>        | <u>1,569,885</u>                  | <u>13,584,649</u>    |

See accompanying notes to the combined financial statements.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Combined Statements of Cash Flows  
Years Ended December 31, 2016 and 2015

|   | 2016                | 2015                |
|---|---------------------|---------------------|
| Cash flow from operating activities:  |                     |                     |
| Change in net assets  | \$ 1,508,339        | 1,574,109           |
| Changes to reconcile change in net assets to net cash flow from operating activities: |                     |                     |
| Depreciation and amortization   | 286,431             | 257,049             |
| Net realized gain on marketable securities and funds held by others                   | (123,560)           | (135,428)           |
| Net unrealized (gain) loss on marketable securities and funds held by others          | (247,221)           | 404,978             |
| Loss on disposal of assets  | 1,612               | -                   |
| Increase in cash value of life insurance  | (9,109)             | (10,596)            |
| Effects of changes in operating assets and liabilities:                               |                     |                     |
| Accounts receivable   | (722,946)           | 579,286             |
| Inventory   | 76,962              | (203,147)           |
| Prepaid expenses and deposits   | 40,733              | (26,977)            |
| Accounts payable, trade   | 242,415             | (59,215)            |
| Payroll and payroll related liabilities   | 13,761              | (29,784)            |
| Key bonus liability   | 36,000              | -                   |
| Deferred compensation liability   | (10,400)            | (2,499)             |
| Accrued NISH contract commission  | (17,756)            | 22,952              |
| Unearned revenue  | 28,541              | 1,095               |
|   | <u>1,103,802</u>    | <u>2,371,823</u>    |
| Net cash flow from operating activities   |                     |                     |
| Cash flow from investing activities:  |                     |                     |
| Net purchases of marketable securities and funds held by others                       | (1,012,139)         | (853,747)           |
| Redemption of certificates of deposit   | 363,795             | 532,234             |
| Purchases of property and equipment   | (475,046)           | (650,253)           |
|   | <u>(1,123,390)</u>  | <u>(971,766)</u>    |
| Net cash flow from investing activities   |                     |                     |
| Cash flow from financing activities:  |                     |                     |
| Proceeds from note payable  | 150,000             | -                   |
|   | <u>150,000</u>      | <u>-</u>            |
| Net change in cash and cash equivalents   | 130,412             | 1,400,057           |
| Cash and cash equivalents, beginning of year  | 4,828,340           | 3,428,283           |
|   | <u>4,828,340</u>    | <u>3,428,283</u>    |
| Cash and cash equivalents, end of year  | \$ <u>4,958,752</u> | \$ <u>4,828,340</u> |
| Non cash investing activity:  |                     |                     |
| Disposal of property and equipment  |                     |                     |
| Equipment disposed  | \$ 20,076           | 39,900              |
| Accumulated depreciation  | \$ (18,464)         | (39,900)            |

See accompanying notes to the combined financial statements.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Notes to the Combined Financial Statements  
Years Ended December 31, 2016 and 2015

**1. SUMMARY OF 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, Goodwill formed GW Business Solutions, LLC (GW Solutions), a nonprofit entity, which beginning in 2015 operates the retail stores and donations centers of Goodwill.

**2. SIGNIFICANT ACCOUNTING POLICIES:**

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

**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*

The Organization 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 Licking-Knox Goodwill Industries, Inc. and GW Business Solutions, LLC which are Ohio not-for-profit organizations. Licking-Knox Goodwill Industries, Inc. is considered to exercise significant control and all significant intercompany transactions and balances have been eliminated in combination.

## LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

### **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 and changes in net assets 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 statements of activities and changes in net assets. The Organization had temporarily restricted net assets of \$15,267 and \$18,282 as of December 31, 2016 and 2015, 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, 2016 and 2015.

### **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.

### **Unearned revenue**

Revenues for certain contracts are received in advance of expenditures. Revenues are recognized as expenditures are incurred.

### **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 2016 and 2015, cash was held in six accounts with four financial institutions and, at times, balances may exceed federally insured limits.

## LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE

Notes to the Combined Financial Statements  
Years Ended December 31, 2016 and 2015

### **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 statements of financial position. Unrealized gains and losses are included in the combined statements of activities and changes in net assets.

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, housewares 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.

## LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

### 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 and changes in net asset.

### 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 2016 and 2015, 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

Licking-Knox Goodwill Industries, Inc. and GW Business Solutions, LLC are 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. 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 2015 financial statement presentations in order to conform with the 2016 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 01, 2017, the date which the combined financial statements were available to be issued.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

**3. MARKETABLE SECURITIES:**

The following is a summary of marketable securities at December 31, 2016 and 2015:

|                       | 2016                |                  | 2015             |                  |
|-----------------------|---------------------|------------------|------------------|------------------|
|                       | Cost                | Fair Value       | Cost             | Fair Value       |
| Government securities | \$ -                | -                | 25,000           | 25,002           |
| Corporate obligations | 49,681              | 49,993           | 49,681           | 49,673           |
| Marketable CD's       | 25,000              | 25,340           | 25,000           | 24,813           |
| Mutual funds          | 4,033,069           | 4,410,195        | 3,325,464        | 3,626,622        |
| Equity securities     | <u>1,151,115</u>    | <u>1,547,892</u> | <u>907,702</u>   | <u>1,187,273</u> |
|                       | <u>\$ 5,258,865</u> | <u>6,033,420</u> | <u>4,332,847</u> | <u>4,913,383</u> |

The accumulated unrealized gains were \$777,555 and \$580,536 at December 31, 2016 and 2015, 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, 2016 and 2015.

**4. 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 0.85% to 2.07%. Certificates of deposit are valued at amortized cost plus accrued interest.



**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

**5. FUNDS HELD BY COMMUNITY FOUNDATION:**

The Organization's endowment is held by the Licking County Foundation and the Community Foundation of Mount Vernon and Knox County (the "Foundations"). During 2016 and 2015, the Organization made board designated contributions to the Foundations of \$205,852 and \$205,740, respectively. The fair value of the funds held by the Foundations at December 31, 2016 and 2015, was \$1,054,614 and \$791,731, respectively, of which, \$41,766 is considered permanently restricted. Funds invested at the Foundations 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 and changes in net assets. Unrealized gains (losses) were \$36,385 and (\$22,913) for the years ended December 31, 2016 and 2015, respectively.

The fair value of substantially all securities is determined by the Foundations' independent investment managers. The fair value was confirmed by the Foundations 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.

**6. PROPERTY AND EQUIPMENT:**

Property and equipment consisted of the following at December 31:

|                                   | <u>2016</u>         | <u>2015</u>        |
|-----------------------------------|---------------------|--------------------|
| Land                              | \$ 925,761          | 883,861            |
| Buildings                         | 4,425,735           | 4,149,655          |
| Equipment                         | 758,510             | 736,710            |
| Vehicles                          | 466,442             | 452,203            |
| Leasehold improvements            | 288,603             | 279,506            |
| Construction in progress          | <u>94,054</u>       | <u>2,200</u>       |
|                                   | 6,959,105           | 6,504,135          |
| Less: accumulated depreciation    | <u>(3,420,949)</u>  | <u>(3,152,982)</u> |
| Total property and equipment, net | \$ <u>3,538,156</u> | <u>3,351,153</u>   |

**7. 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 named as the owner and beneficiary of the policy. The employee retired during 2013. At December 31, 2016 and 2015, the present value of the future payments was \$55,485 and \$65,885, respectively, assuming a discount rate of 5%. The cash value of the life insurance policy at December 31, 2016 and 2015 was \$154,913 and \$145,804, respectively. During 2016 and 2015, the Organization paid \$10,000, respectively in deferred compensation.



**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

**8. SELF-INSURANCE:**

During 2016, the Organization entered into a self-insurance program for its employees' health care costs. The Company is liable for losses on individual claims up to \$25,000 per claim and \$250,000 in total for the year. The Company has third-party insurance coverage for any losses in excess of such amounts (stop-loss amount). Self-insurance costs are accrued based on claims reported as of the combined statements of financial position date as well as an estimated liability for claims incurred but not reported. As of December 31, 2016, the Organization had an accrued liability for self-insurance claims of \$38,045 but was due \$48,263 for reimbursement of losses in excess of the stop-loss amounts. The net amount of \$10,218 due to the Organization is included as a reduction of accounts payable on the combined statements of financial position.

**9. HEALTH AND WELFARE PLAN:**

The Organization sponsors a health and welfare plan (the Plan) to eligible participants. The plan is an employee benefit plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The plan provides medical coverage through a third party insurance company, Standard Life Insurance Company. The Plan also provides Health Reimbursement Arrangement (HRA) benefits. The HRA benefit is self-funded and allows employees to be reimbursed for certain out of pocket health benefits incurred by participants. During 2016 and 2015, the Organization made contributions to the plan of \$951,627 and \$896,045, respectively

**10. 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 October 2021.

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 \$1,390 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 agreement include a quarterly rental rate of \$2,112 with lease expiration in March 2019.

Total rental expense for the years ended December 31, 2016 and 2015 was \$387,011 and \$382,107, respectively.

The future minimum lease payments are:

| <u>Year</u> | <u>Amount</u>     |
|-------------|-------------------|
| 2017        | \$ 340,971        |
| 2018        | 307,282           |
| 2019        | 147,245           |
| 2020        | 102,448           |
| 2021        | 63,873            |
|             | <u>\$ 961,819</u> |

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

**11. NOTE PAYABLE:**

On October 27, 2016, the Organization entered into a promissory note with Alfred W. and Joyce A. Lanz for the purchase of the Fredericktown property, in the original amount of \$149,745. The note bears interest 0.68% per annum. The total amount of principal and interest due on or before January 31, 2017, is \$150,000. The note was paid in full on January 17, 2017.

**12. 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, 2016 and 2015 was as follows:

| <u>2016</u>      | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>     |
|------------------|---------------------|-----------------------------------|-----------------------------------|------------------|
| Donor-designated | \$ 72,448           | 15,267                            | 41,766                            | 129,481          |
| Board designated | <u>925,133</u>      | <u>-</u>                          | <u>-</u>                          | <u>925,133</u>   |
| Total            | <u>\$ 997,581</u>   | <u>15,267</u>                     | <u>41,766</u>                     | <u>1,054,614</u> |
|                  |                     |                                   |                                   |                  |
| <u>2015</u>      | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>     |
| Donor-designated | \$ 72,448           | 5,532                             | 41,766                            | 119,746          |
| Board designated | <u>671,985</u>      | <u>-</u>                          | <u>-</u>                          | <u>671,985</u>   |
| Total            | <u>\$ 744,433</u>   | <u>5,532</u>                      | <u>41,766</u>                     | <u>791,731</u>   |

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

**12. ENDOWMENT FUNDS (CONTINUED):**

The changes in endowment net assets for the years ended December 31, 2016 and 2015 were as follows:

|  |    |                       |                      |                      |                         |
|--|----|-----------------------|----------------------|----------------------|-------------------------|
| Endowment net assets,<br>January 01, 2015      | \$ | 557,809               | 6,214                | 41,766               | 605,789                 |
| Investment income:                             |    |                       |                      |                      |                         |
| Investment income, net                         |    | 8,618                 | 1,259                | -                    | 9,877                   |
| Net depreciation                               |    | <u>(12,409)</u>       | <u>(1,941)</u>       | <u>-</u>             | <u>(14,350)</u>         |
| Total investment income                        |    | (3,791)               | (682)                | -                    | (4,473)                 |
| Cash received from pledges<br>or contributions |    | 205,740               | -                    | -                    | 205,740                 |
| Distributions                                  |    | <u>(15,325)</u>       | <u>-</u>             | <u>-</u>             | <u>(15,325)</u>         |
| Endowment net assets,<br>December 31, 2015     | \$ | <u>744,433</u>        | <u>5,532</u>         | <u>41,766</u>        | <u>791,731</u>          |
| Investment income:                             |    |                       |                      |                      |                         |
| Investment income, net                         |    | 14,548                | 1,476                | -                    | 16,024                  |
| Net appreciation                               |    | <u>56,248</u>         | <u>8,259</u>         | <u>-</u>             | <u>64,507</u>           |
| Total investment income                        |    | 70,796                | 9,735                | -                    | 80,531                  |
| Cash received from pledges<br>or contributions |    | 205,852               | -                    | -                    | 205,852                 |
| Distributions                                  |    | <u>(23,500)</u>       | <u>-</u>             | <u>-</u>             | <u>(23,500)</u>         |
| Endowment net assets,<br>December 31, 2016     | \$ | <u><u>997,581</u></u> | <u><u>15,267</u></u> | <u><u>41,766</u></u> | <u><u>1,054,614</u></u> |

**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.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

**12. ENDOWMENT FUNDS (CONTINUED):**

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

Endowment distributions are at the discretion of the Board of Trustees 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.

**13. 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 are unadjusted quoted prices for identical assets and liabilities in active markets to which the reporting entity has access. Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. They include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable (for example, interest rates), and inputs that are derived from or corroborated by observable market data. Level 3 inputs are unobservable and significant to the fair value measurement. Life insurance is based on the cash surrender value of each policy where the Company is the beneficiary. Fair values of assets and liabilities measured at December 31, are as follows:

| <u>Description</u>      | <u>Fair Value Measurements at Reporting Date Using</u> |                  |                  |                  |
|-------------------------|--|------------------|------------------|------------------|
|                         | <u>12/31/16</u>  | <u>(Level 1)</u> | <u>(Level 2)</u> | <u>(Level 3)</u> |
| Assets:                 |  |                  |                  |                  |
| Marketable securities:  |  |                  |                  |                  |
| Government securities   | \$ -   | -                | -                | -                |
| Corporate bonds         | 49,993   | -                | 49,993           | -                |
| Marketable CD's         | 25,340   | -                | 25,340           | -                |
| Mutual funds:           |  |                  |                  |                  |
| Equity growth           | 1,603,858  | 1,603,858        | -                | -                |
| Equity value            | 883,151  | 883,151          | -                | -                |
| Equity international    | 306,420  | 306,420          | -                | -                |
| Equity blend            | 703,793  | 703,793          | -                | -                |
| Equity consumer staples | -  | -                | -                | -                |
| Equity institutional    | 119,073  | 119,073          | -                | -                |
| Fixed income bond       | 793,900  | 793,900          | -                | -                |
| Fixed income blend      | -  | -                | -                | -                |
| Other                   | -  | -                | -                | -                |
| Total mutual funds      | <u>4,410,195</u>                                       | <u>4,410,195</u> | <u>-</u>         | <u>-</u>         |

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

**13. FAIR VALUE MEASUREMENTS (CONTINUED):**

| <u>Fair Value Measurements at Reporting Date Using</u> |                     |                  |                  |                  |
|--|---------------------|------------------|------------------|------------------|
| <u>Description</u>                                     | <u>12/31/16</u>     | <u>(Level 1)</u> | <u>(Level 2)</u> | <u>(Level 3)</u> |
| Common stock:  |                     |                  |                  |                  |
| Consumer goods   | 205,888             | 205,888          | -                | -                |
| Financial  | 261,205             | 261,205          | -                | -                |
| Healthcare   | 229,237             | 229,237          | -                | -                |
| Industrial   | 139,800             | 139,800          | -                | -                |
| Information technology                                 | 283,681             | 283,681          | -                | -                |
| Materials  | 147,890             | 147,890          | -                | -                |
| Services   | 173,995             | 173,995          | -                | -                |
| Telecommunication services                             | 62,739              | 62,739           | -                | -                |
| Utilities  | 43,457              | 43,457           | -                | -                |
| Total common stock                                     | <u>1,547,892</u>    | <u>1,547,892</u> | <u>-</u>         | <u>-</u>         |
| Total marketable securities                            | \$ <u>6,033,420</u> | <u>5,958,087</u> | <u>75,333</u>    | <u>-</u>         |
| Interest in assets held                                |                     |                  |                  |                  |
| by community foundations                               | \$ <u>1,054,614</u> | <u>-</u>         | <u>1,054,614</u> | <u>-</u>         |
| Cash value of life insurance                           | \$ <u>154,913</u>   | <u>-</u>         | <u>154,913</u>   | <u>-</u>         |

| <u>Fair Value Measurements at Reporting Date Using</u> |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
| <u>Description</u>                                     | <u>12/31/15</u>  | <u>(Level 1)</u> | <u>(Level 2)</u> | <u>(Level 3)</u> |
| Assets:  |                  |                  |                  |                  |
| Marketable securities:                                 |                  |                  |                  |                  |
| Government securities                                  | \$ 25,002        | -                | 25,002           | -                |
| Corporate bonds  | 49,673           | -                | 49,673           | -                |
| Marketable CD's  | 24,813           | -                | 24,813           | -                |
| Mutual funds:  |                  |                  |                  |                  |
| Equity growth  | 1,340,690        | 1,340,690        | -                | -                |
| Equity value   | 594,154          | 594,154          | -                | -                |
| Equity international                                   | 310,444          | 310,444          | -                | -                |
| Equity blend   | 641,011          | 641,011          | -                | -                |
| Equity consumer staples                                | 14,843           | 14,843           | -                | -                |
| Equity institutional                                   | 66,879           | 66,879           | -                | -                |
| Fixed income bond                                      | 575,051          | 575,051          | -                | -                |
| Fixed income blend                                     | 64,170           | 64,170           | -                | -                |
| Other  | 19,380           | 19,380           | -                | -                |
| Total mutual funds                                     | <u>3,626,622</u> | <u>3,626,622</u> | <u>-</u>         | <u>-</u>         |

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

**13. FAIR VALUE MEASUREMENTS (CONTINUED):**

| <u>Description</u>           | <u>Fair Value Measurements at Reporting Date Using</u> |                  |                  |                  |
|------------------------------|--|------------------|------------------|------------------|
|                              | <u>12/31/15</u>  | <u>(Level 1)</u> | <u>(Level 2)</u> | <u>(Level 3)</u> |
| Common stock:                |  |                  |                  |                  |
| Consumer goods               | 133,235  | 133,235          | -                | -                |
| Financial                    | 182,740  | 182,740          | -                | -                |
| Healthcare                   | 197,450  | 197,450          | -                | -                |
| Industrial                   | 131,589  | 131,589          | -                | -                |
| Information technology       | 208,886  | 208,886          | -                | -                |
| Materials                    | 117,141  | 117,141          | -                | -                |
| Services                     | 135,534  | 135,534          | -                | -                |
| Telecommunication services   | 39,386   | 39,386           | -                | -                |
| Utilities                    | <u>41,312</u>  | <u>41,312</u>    | -                | -                |
| Total common stock           | <u>1,187,273</u>                                       | <u>1,187,273</u> | -                | -                |
| Total marketable securities  | \$ <u>4,913,383</u>                                    | <u>4,813,895</u> | <u>99,488</u>    | -                |
| Interest in assets held      |  |                  |                  |                  |
| by community foundation      | \$ <u>791,731</u>                                      | <u>-</u>         | <u>791,731</u>   | <u>-</u>         |
| Cash value of life insurance | \$ <u>145,804</u>                                      | <u>-</u>         | <u>145,804</u>   | <u>-</u>         |

**14. NET ASSETS:**

Temporarily restricted net assets at December 31, 2016 represent earnings from the permanently restricted endowment. At December 31, 2015, temporarily restricted net assets include amounts unconditionally committed by the United Way as of each year-end, but not yet paid and earnings from the permanently restricted endowment. The United Way funding ended during 2016.

Permanently restricted net assets at December 31, 2016 and 2015 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.

**15. CONCENTRATIONS:**

Two government agencies accounted for approximately 38% and 41% (net of contract commissions) of total revenue for the years ended December 31, 2016 and 2015, respectively. The same two agencies accounted for approximately 86% and 64% of the trade accounts receivable balance as of December 31, 2016 and 2015, respectively.

**16. 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.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Notes to the Combined Financial Statements

Years Ended December 31, 2016 and 2015

**17. COMMITMENTS:**

The Organization has entered into retention bonus agreements with various key employees. The bonuses are to reward employees for their continued service and are contingent upon the employee being employed by the Organization at an agreed upon future date, the Entitlement Date. The contracts range between one and five years with the bonus being paid prior to March 15th of the year following the Entitlement Date. The Organization will record a liability for the bonuses over the term of the agreements based on the likelihood of payout. Liabilities in the amount of \$36,000 and \$-0- were recorded by the Organization as of December 31, 2016 and 2015, respectively. The total commitment, if all agreements are earned, is \$358,466 through 2021. Estimated future payouts are as follows:

|            |    |         |
|------------|----|---------|
| 2017       | \$ | -       |
| 2018       |    | 6,240   |
| 2019       |    | 6,273   |
| 2020       |    | 6,480   |
| 2021       |    | 148,999 |
| Thereafter | \$ | 190,474 |

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**  
Combining Schedule of Financial Position  
December 31, 2016

| Assets   | <u>Goodwill</u>      | <u>GW Solutions</u> | <u>Eliminations</u> | <u>Total</u>      |
|--|----------------------|---------------------|---------------------|-------------------|
| Current assets:                                    |                      |                     |                     |                   |
| Cash and cash equivalents                          | \$ 3,581,068         | 1,377,684           | -                   | 4,958,752         |
| Marketable securities                              | 6,033,420            | -                   | -                   | 6,033,420         |
| Certificates of deposit                            | 1,579,270            | -                   | -                   | 1,579,270         |
| Accounts receivable                                | 1,823,285            | 67,549              | -                   | 1,890,834         |
| Inventory  | -                    | 418,499             | -                   | 418,499           |
| Funds held by others                               | 1,012,848            | -                   | -                   | 1,012,848         |
| Prepaid expenses and deposits                      | <u>63,753</u>        | <u>5,148</u>        | -                   | <u>68,901</u>     |
| Total current assets                               | <u>14,093,644</u>    | <u>1,868,880</u>    | -                   | <u>15,962,524</u> |
| Property and equipment, net                        | <u>3,538,156</u>     | -                   | -                   | <u>3,538,156</u>  |
| Other assets:                                      |                      |                     |                     |                   |
| Cash value of life insurance                       | 154,913              | -                   | -                   | 154,913           |
| Funds held by others - permanently restricted      | 41,766               | -                   | -                   | 41,766            |
| Lease deposits                                     | 11,776               | -                   | -                   | 11,776            |
| Due from GW Solutions                              | <u>183,067</u>       | -                   | <u>(183,067)</u>    | <u>-</u>          |
| Total other assets                                 | <u>391,522</u>       | -                   | <u>(183,067)</u>    | <u>208,455</u>    |
| Total assets                                       | \$ <u>18,023,322</u> | <u>1,868,880</u>    | <u>(183,067)</u>    | <u>19,709,135</u> |
| Liabilities and Net Assets                         |                      |                     |                     |                   |
| Current liabilities:                               |                      |                     |                     |                   |
| Note payable, current portion                      | \$ 150,000           | -                   | -                   | 150,000           |
| Accounts payable, trade                            | 251,395              | 97,269              | -                   | 348,664           |
| Payroll and payroll related liabilities            | 343,654              | 190,666             | -                   | 534,320           |
| Deferred compensation liability, current portion   | 10,000               | -                   | -                   | 10,000            |
| Accrued NISH contract commission                   | 82,218               | -                   | -                   | 82,218            |
| Unearned revenue                                   | 47,318               | -                   | -                   | 47,318            |
| Due to Goodwill                                    | -                    | <u>183,067</u>      | <u>(183,067)</u>    | <u>-</u>          |
| Total current liabilities                          | <u>884,585</u>       | <u>471,002</u>      | <u>(183,067)</u>    | <u>1,172,520</u>  |
| Long-term liabilities:                             |                      |                     |                     |                   |
| Deferred compensation liability, long term portion | 45,485               | -                   | -                   | 45,485            |
| Key bonus liability, long-term portion             | <u>32,000</u>        | <u>4,000</u>        | -                   | <u>36,000</u>     |
| Total long-term liabilities                        | <u>77,485</u>        | <u>4,000</u>        | -                   | <u>81,485</u>     |
| Total liabilities                                  | <u>962,070</u>       | <u>475,002</u>      | <u>(183,067)</u>    | <u>1,254,005</u>  |
| Net assets:  |                      |                     |                     |                   |
| Unrestricted                                       | 16,079,086           | 1,393,878           | -                   | 17,472,964        |
| Unrestricted, board designated                     | 925,133              | -                   | -                   | 925,133           |
| Temporarily restricted                             | 15,267               | -                   | -                   | 15,267            |
| Permanently restricted                             | <u>41,766</u>        | -                   | -                   | <u>41,766</u>     |
| Total net assets                                   | <u>17,061,252</u>    | <u>1,393,878</u>    | -                   | <u>18,455,130</u> |
| Total liabilities and net assets                   | \$ <u>18,023,322</u> | <u>1,868,880</u>    | <u>(183,067)</u>    | <u>19,709,135</u> |



**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Combining Schedule of Activities and Changes in Net Assets

Year Ended December 31, 2016

|   | <u>Goodwill</u>      | <u>GW Solutions</u> | <u>Eliminations</u> | <u>Total</u>      |
|---|----------------------|---------------------|---------------------|-------------------|
| Support and revenues:   |                      |                     |                     |                   |
| Public support:   |                      |                     |                     |                   |
| Contributions - goods for resale                                  | \$ -                 | 623,466             | -                   | 623,466           |
| Contributions - used car for resale                               | -                    | 32,015              | -                   | 32,015            |
| Contributions - general   | 7,945                | 2,046               | -                   | 9,991             |
| Fundraising   | <u>2,563</u>         | <u>-</u>            | <u>-</u>            | <u>2,563</u>      |
|   | <u>10,508</u>        | <u>657,527</u>      | <u>-</u>            | <u>668,035</u>    |
| Program services:   |                      |                     |                     |                   |
| Recycling   | -                    | 219,257             | -                   | 219,257           |
| Stores  | -                    | 6,284,888           | -                   | 6,284,888         |
| Contracts   | 7,778,292            | -                   | -                   | 7,778,292         |
| Vocational rehabilitation   | 421,272              | -                   | -                   | 421,272           |
| Used car sales  | -                    | 140,603             | -                   | 140,603           |
| Other   | <u>109,219</u>       | <u>1,540</u>        | <u>-</u>            | <u>110,759</u>    |
|   | <u>8,308,783</u>     | <u>6,646,288</u>    | <u>-</u>            | <u>14,955,071</u> |
| Other revenues, gains and losses:                                 |                      |                     |                     |                   |
| Rental income   | 144,521              | -                   | -                   | 144,521           |
| Interest and dividend income                                      | 232,781              | 9,789               | -                   | 242,570           |
| Realized gain on marketable securities and funds held by others   | 123,560              | -                   | -                   | 123,560           |
| Unrealized gain on marketable securities and funds held by others | 247,221              | -                   | -                   | 247,221           |
| Loss on disposal of assets  | <u>(1,612)</u>       | <u>-</u>            | <u>-</u>            | <u>(1,612)</u>    |
|   | <u>746,471</u>       | <u>9,789</u>        | <u>-</u>            | <u>756,260</u>    |
| Total support and revenues  | <u>9,065,762</u>     | <u>7,313,604</u>    | <u>-</u>            | <u>16,379,366</u> |
| Expenses:   |                      |                     |                     |                   |
| Program services:   |                      |                     |                     |                   |
| Recycling   | -                    | 146,970             | -                   | 146,970           |
| Stores  | -                    | 6,135,394           | -                   | 6,135,394         |
| Contracts   | 5,875,544            | -                   | -                   | 5,875,544         |
| Vocational rehabilitation   | 428,426              | -                   | -                   | 428,426           |
| Used car sales  | -                    | 142,712             | -                   | 142,712           |
| Other   | <u>353,316</u>       | <u>-</u>            | <u>-</u>            | <u>353,316</u>    |
| Support services:   |                      |                     |                     |                   |
| Management and general  | <u>1,104,349</u>     | <u>684,316</u>      | <u>-</u>            | <u>1,788,665</u>  |
| Total expenses  | <u>7,761,635</u>     | <u>7,109,392</u>    | <u>-</u>            | <u>14,871,027</u> |
| Change in net assets  | 1,304,127            | 204,212             | -                   | 1,508,339         |
| Net assets at beginning of year                                   | <u>15,757,125</u>    | <u>1,189,666</u>    | <u>-</u>            | <u>16,946,791</u> |
| Net assets at end of year   | \$ <u>17,061,252</u> | <u>1,393,878</u>    | <u>-</u>            | <u>18,455,130</u> |

See Independent Auditors' Report.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**  
 Combining Schedule of Functional Expenses  
 Year Ended December 31, 2016

|   | Program Services |                           |         |              |           |           |                        |               |          |              | Management and General |       |  | Total |
|---|------------------|---------------------------|---------|--------------|-----------|-----------|------------------------|---------------|----------|--------------|------------------------|-------|--|-------|
|   | Goodwill         |                           |         | GW Solutions |           |           |                        | Total Program | Goodwill | GW Solutions | Management and General |       |  |       |
|   | Contracts        | Vocational Rehabilitation | Other   | Recycling    | Stores    | Used Cars | Management and General |               |          |              |                        | Total |  |       |
| \$  | 3,629,609        | 294,434                   | 95,594  | 66,931       | 2,543,190 | 26,704    | 6,656,462              | 916,668       | -        | 916,668      | 7,573,130              |       |  |       |
|   | 352,100          | 28,180                    | 9,236   | 7,083        | 262,914   | 2,767     | 662,280                | 83,513        | -        | 83,513       | 745,793                |       |  |       |
|   | 1,069,270        | 59,117                    | 4,548   | 769          | 119,983   | 134       | 1,253,821              | 91,003        | -        | 91,003       | 1,344,824              |       |  |       |
| Total salaries and related expenses                 | 5,050,979        | 381,731                   | 109,378 | 74,783       | 2,926,087 | 29,605    | 8,572,563              | 1,091,184     | -        | 1,091,184    | 9,663,747              |       |  |       |
| Advertising   | -                | 890                       | 2,346   | -            | 132,642   | -         | 135,878                | 31,017        | 100      | 31,117       | 166,995                |       |  |       |
| Contract commissions                                | 246,019          | -                         | -       | 4,907        | -         | -         | 250,926                | -             | -        | -            | 250,926                |       |  |       |
| Cost of goods sold                                  | -                | -                         | -       | 226          | 1,759,412 | 52,525    | 1,812,163              | -             | -        | -            | 1,812,163              |       |  |       |
| Depreciation and amortization                       | 3,109            | 20,204                    | 53,186  | 20,582       | 69,697    | 1,334     | 168,112                | 118,319       | -        | 118,319      | 286,431                |       |  |       |
| General insurance                                   | 43,056           | 663                       | 11,341  | 351          | 15,567    | 154       | 71,132                 | 38,253        | -        | 38,253       | 109,385                |       |  |       |
| Membership dues - Goodwill Industries International | -                | -                         | -       | -            | -         | -         | -                      | 126,012       | 960      | 126,972      | 126,972                |       |  |       |
| Miscellaneous                                       | 218              | 2,786                     | 2,397   | 156          | 119,453   | 2,314     | 127,324                | 122,009       | 5,341    | 127,350      | 254,674                |       |  |       |
| Payroll processing fee                              | 53,325           | 4,111                     | 1,362   | 693          | 27,105    | 274       | 86,870                 | 13,603        | -        | 13,603       | 100,473                |       |  |       |
| Postage and shipping                                | 2,000            | -                         | 6       | -            | 207,405   | -         | 209,411                | 3,429         | -        | 3,429        | 212,840                |       |  |       |
| Professional fees                                   | -                | -                         | 1,662   | -            | -         | -         | 1,662                  | 51,100        | -        | 51,100       | 52,762                 |       |  |       |
| Rent  | 3,348            | 2,004                     | -       | -            | 341,376   | -         | 346,728                | 40,283        | -        | 40,283       | 387,011                |       |  |       |
| Repairs and maintenance                             | 7,350            | 2,258                     | 48,102  | 11,770       | 74,845    | 26,150    | 170,475                | 21,289        | 10       | 21,299       | 191,774                |       |  |       |
| Small equipment                                     | 15,736           | 1,095                     | 15,065  | 675          | 10,228    | -         | 42,799                 | 11,706        | -        | 11,706       | 54,505                 |       |  |       |
| Supplies  | 326,457          | 4,259                     | 21,760  | 14,368       | 85,331    | 412       | 452,587                | 30,505        | -        | 30,505       | 483,092                |       |  |       |
| Taxes and licenses                                  | 475              | -                         | 21,592  | -            | -         | -         | 22,067                 | -             | -        | -            | 22,067                 |       |  |       |
| Telephone   | 23,380           | 3,957                     | 6,720   | 1,178        | 21,954    | 652       | 57,841                 | 19,165        | 855      | 20,020       | 77,861                 |       |  |       |
| Transportation - wages and other                    | 93,868           | 126                       | 10,837  | -            | 113,733   | 26,930    | 245,494                | 44,298        | -        | 44,298       | 289,792                |       |  |       |
| Trash and dumping fees                              | -                | -                         | 11,203  | 2,291        | 63,201    | -         | 76,695                 | 1,143         | -        | 1,143        | 77,838                 |       |  |       |
| Travel  | 1,635            | 825                       | -       | -            | 2,631     | -         | 5,091                  | 2,147         | -        | 2,147        | 7,238                  |       |  |       |
| Utilities   | 4,589            | 3,517                     | 36,359  | 14,990       | 164,727   | 2,362     | 226,544                | 15,937        | -        | 15,937       | 242,481                |       |  |       |
| Total other expenses                                | 824,565          | 46,695                    | 243,938 | 72,187       | 3,209,307 | 113,107   | 4,509,799              | 690,215       | 7,266    | 697,481      | 5,207,280              |       |  |       |
| Allocation of administrative overhead               | -                | -                         | -       | -            | -         | -         | -                      | (677,050)     | 677,050  | -            | -                      |       |  |       |
| Total expenses                                      | 5,875,544        | 428,426                   | 353,316 | 146,970      | 6,135,394 | 142,712   | 13,082,362             | 1,104,349     | 684,316  | 1,788,665    | 14,871,027             |       |  |       |

LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE

Combining Schedule of Financial Position

December 31, 2015

| Assets   | <u>Goodwill</u>      | <u>GW Solutions</u> | <u>Eliminations</u> | <u>Total</u>      |
|--|----------------------|---------------------|---------------------|-------------------|
| Current assets:                                    |                      |                     |                     |                   |
| Cash and cash equivalents                          | \$ 3,864,710         | 963,630             | -                   | 4,828,340         |
| Marketable securities                              | 4,913,383            | -                   | -                   | 4,913,383         |
| Certificates of deposit                            | 1,943,065            | -                   | -                   | 1,943,065         |
| Accounts receivable                                | 1,115,694            | 52,194              | -                   | 1,167,888         |
| Inventory  | 7,915                | 487,546             | -                   | 495,461           |
| Funds held by others                               | 749,965              | -                   | -                   | 749,965           |
| Prepaid expenses and deposits                      | 94,461               | 15,173              | -                   | 109,634           |
| Total current assets                               | <u>12,689,193</u>    | <u>1,518,543</u>    | <u>-</u>            | <u>14,207,736</u> |
| Property and equipment, net                        | <u>3,351,153</u>     | <u>-</u>            | <u>-</u>            | <u>3,351,153</u>  |
| Other assets:                                      |                      |                     |                     |                   |
| Cash value of life insurance                       | 145,804              | -                   | -                   | 145,804           |
| Funds held by others - permanently restricted      | 41,766               | -                   | -                   | 41,766            |
| Lease deposits                                     | 11,776               | -                   | -                   | 11,776            |
| Due from Goodwill                                  | 114,568              | -                   | (114,568)           | -                 |
| Total other assets                                 | <u>313,914</u>       | <u>-</u>            | <u>(114,568)</u>    | <u>199,346</u>    |
| Total assets                                       | <u>\$ 16,354,260</u> | <u>1,518,543</u>    | <u>(114,568)</u>    | <u>17,758,235</u> |
| Liabilities and Net Assets                         |                      |                     |                     |                   |
| Current liabilities:                               |                      |                     |                     |                   |
| Accounts payable, trade                            | \$ 63,217            | 43,032              | -                   | 106,249           |
| Payroll and payroll related liabilities            | 349,282              | 171,277             | -                   | 520,559           |
| Deferred compensation liability, current portion   | 10,000               | -                   | -                   | 10,000            |
| Accrued NISH contract commission                   | 99,974               | -                   | -                   | 99,974            |
| Unearned revenue                                   | 18,777               | -                   | -                   | 18,777            |
| Due to GW Solutions                                | -                    | 114,568             | (114,568)           | -                 |
| Total current liabilities                          | <u>541,250</u>       | <u>328,877</u>      | <u>(114,568)</u>    | <u>755,559</u>    |
| Long-term liabilities:                             |                      |                     |                     |                   |
| Deferred compensation liability, long term portion | 55,885               | -                   | -                   | 55,885            |
| Total long-term liabilities                        | <u>55,885</u>        | <u>-</u>            | <u>-</u>            | <u>55,885</u>     |
| Total liabilities                                  | <u>597,135</u>       | <u>328,877</u>      | <u>(114,568)</u>    | <u>811,444</u>    |
| Net assets:  |                      |                     |                     |                   |
| Unrestricted                                       | 15,025,092           | 1,189,666           | -                   | 16,214,758        |
| Unrestricted, board designated                     | 671,985              | -                   | -                   | 671,985           |
| Temporarily restricted                             | 18,282               | -                   | -                   | 18,282            |
| Permanently restricted                             | 41,766               | -                   | -                   | 41,766            |
| Total net assets                                   | <u>15,757,125</u>    | <u>1,189,666</u>    | <u>-</u>            | <u>16,946,791</u> |
| Total liabilities and net assets                   | <u>\$ 16,354,260</u> | <u>1,518,543</u>    | <u>(114,568)</u>    | <u>17,758,235</u> |

See Independent Auditors' Report.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**

Combining Schedule of Activities and Changes in Net Assets

Year Ended December 31, 2015

|   | <u>Goodwill</u>      | <u>GW Solutions</u> | <u>Eliminations</u> | <u>Total</u>      |
|---|----------------------|---------------------|---------------------|-------------------|
| Support and revenues:   |                      |                     |                     |                   |
| Public support:   |                      |                     |                     |                   |
| Contributions - goods for resale                                  | \$ -                 | 646,741             | -                   | 646,741           |
| Contributions - used car for resale                               | -                    | 83,000              | -                   | 83,000            |
| Contributions - general   | 30,142               | 1,794               | -                   | 31,936            |
| Grants  | <u>13,700</u>        | <u>-</u>            | <u>-</u>            | <u>13,700</u>     |
|   | <u>43,842</u>        | <u>731,535</u>      | <u>-</u>            | <u>775,377</u>    |
| Program services:   |                      |                     |                     |                   |
| Recycling   | -                    | 261,993             | -                   | 261,993           |
| Stores  | -                    | 6,108,273           | -                   | 6,108,273         |
| Contracts   | 7,133,133            | -                   | -                   | 7,133,133         |
| Vocational rehabilitation   | 458,605              | -                   | -                   | 458,605           |
| Used car sales  | -                    | 73,747              | -                   | 73,747            |
| Other   | <u>197,350</u>       | <u>2,550</u>        | <u>-</u>            | <u>199,900</u>    |
|   | <u>7,789,088</u>     | <u>6,446,563</u>    | <u>-</u>            | <u>14,235,651</u> |
| Other revenues, gains and losses:                                 |                      |                     |                     |                   |
| Rental income   | 105,424              | -                   | -                   | 105,424           |
| Space and facilities charges                                      | 101,122              | -                   | (101,122)           | -                 |
| Interest and dividend income                                      | 307,908              | 3,948               | -                   | 311,856           |
| Realized gain on marketable securities and funds held by others   | 135,428              | -                   | -                   | 135,428           |
| Unrealized loss on marketable securities and funds held by others | <u>(404,978)</u>     | <u>-</u>            | <u>-</u>            | <u>(404,978)</u>  |
|   | <u>244,904</u>       | <u>3,948</u>        | <u>(101,122)</u>    | <u>147,730</u>    |
| Total support and revenues  | <u>8,077,834</u>     | <u>7,182,046</u>    | <u>(101,122)</u>    | <u>15,158,758</u> |
| Expenses:   |                      |                     |                     |                   |
| Program services:   |                      |                     |                     |                   |
| Recycling   | -                    | 152,015             | (20,570)            | 131,445           |
| Stores  | -                    | 5,663,390           | (79,222)            | 5,584,168         |
| Contracts   | 5,411,603            | -                   | -                   | 5,411,603         |
| Vocational rehabilitation   | 390,379              | -                   | -                   | 390,379           |
| Used car sales  | -                    | 93,165              | (1,330)             | 91,835            |
| Other   | 405,334              | -                   | -                   | 405,334           |
| Support services:   |                      |                     |                     |                   |
| Management and general  | <u>987,878</u>       | <u>582,007</u>      | <u>-</u>            | <u>1,569,885</u>  |
| Total expenses  | <u>7,195,194</u>     | <u>6,490,577</u>    | <u>(101,122)</u>    | <u>13,584,649</u> |
| Change in net assets  | 882,640              | 691,469             | -                   | 1,574,109         |
| Net assets at beginning of year                                   | 15,122,682           | 250,000             | -                   | 15,372,682        |
| Transfer of net assets  | <u>(248,197)</u>     | <u>248,197</u>      | <u>-</u>            | <u>-</u>          |
| Net assets at end of year   | \$ <u>15,757,125</u> | <u>1,189,666</u>    | <u>-</u>            | <u>16,946,791</u> |

See Independent Auditors' Report.

**LICKING-KNOX GOODWILL INDUSTRIES, INC. AND AFFILIATE**  
Combining Schedule of Functional Expenses  
Year Ended December 31, 2015

|   | Program Services |                           |         |              |           |           |                        |               |          |              | Management and General       |  |  | Total |
|---|------------------|---------------------------|---------|--------------|-----------|-----------|------------------------|---------------|----------|--------------|------------------------------|--|--|-------|
|   | Goodwill         |                           |         | GW Solutions |           |           |                        | Total Program | Goodwill | GW Solutions | Total Management and General |  |  |       |
|   | Contracts        | Vocational Rehabilitation | Other   | Recycling    | Stores    | Used Cars | Management and General |               |          |              |                              |  |  |       |
| \$  | 3,366,884        | 279,386                   | 69,018  | 76,169       | 2,312,661 | 24,212    | 6,128,330              | 818,665       | -        | 818,665      | 6,946,995                    |  |  |       |
|   | 297,072          | 25,265                    | 5,724   | 7,586        | 229,448   | 2,466     | 567,561                | 66,607        | -        | 66,607       | 634,168                      |  |  |       |
|   | 923,402          | 37,822                    | 4,374   | 767          | 81,552    | 134       | 1,048,051              | 70,737        | -        | 70,737       | 1,118,788                    |  |  |       |
|   | 4,587,358        | 342,473                   | 79,116  | 84,522       | 2,623,661 | 26,812    | 7,743,942              | 956,009       | -        | 956,009      | 8,699,951                    |  |  |       |
| Advertising   | -                | -                         | 2,756   | -            | 100,040   | -         | 102,796                | 28,579        | 2,785    | 31,364       | 134,160                      |  |  |       |
| Contract commissions                                | 235,674          | -                         | -       | 6,894        | -         | -         | 242,568                | -             | -        | -            | 242,568                      |  |  |       |
| Cost of goods sold                                  | -                | -                         | -       | -            | 1,649,425 | 21,925    | 1,671,350              | -             | -        | -            | 1,671,350                    |  |  |       |
| Depreciation and amortization                       | -                | 20,149                    | 135,619 | -            | -         | -         | 155,768                | 101,281       | -        | 101,281      | 257,049                      |  |  |       |
| General insurance                                   | 55,303           | 800                       | 9,226   | 440          | 18,292    | 180       | 84,241                 | 41,119        | -        | 41,119       | 125,360                      |  |  |       |
| Membership dues - Goodwill Industries International | -                | -                         | -       | -            | -         | -         | -                      | 116,173       | 340      | 116,513      | 116,513                      |  |  |       |
| Miscellaneous                                       | 480              | 5,231                     | 659     | 170          | 110,470   | 1,681     | 118,691                | 100,295       | 9,731    | 110,026      | 228,717                      |  |  |       |
| Payroll processing fee                              | 28,026           | 2,519                     | 800     | 639          | 19,742    | -         | 51,726                 | 7,874         | 202      | 8,076        | 59,802                       |  |  |       |
| Postage and shipping                                | 1,400            | -                         | -       | -            | 174,732   | -         | 176,132                | 3,399         | -        | 3,399        | 179,531                      |  |  |       |
| Professional fees                                   | -                | -                         | 1,652   | -            | -         | -         | 1,652                  | 39,126        | -        | 39,126       | 40,778                       |  |  |       |
| Rent  | 3,348            | 2,004                     | -       | -            | 336,784   | -         | 342,136                | 39,971        | -        | 39,971       | 382,107                      |  |  |       |
| Repairs and maintenance                             | 9,634            | 1,691                     | 35,406  | 5,626        | 64,121    | 14,334    | 130,812                | 30,093        | 823      | 30,916       | 161,728                      |  |  |       |
| Small equipment                                     | 17,176           | 1,935                     | 37,458  | -            | 23,679    | -         | 80,248                 | 11,607        | -        | 11,607       | 91,855                       |  |  |       |
| Space and facility charges                          | -                | -                         | -       | 20,570       | 79,222    | 1,330     | 101,122                | -             | -        | -            | 101,122                      |  |  |       |
| Supplies  | 327,448          | 5,020                     | 28,908  | 14,939       | 92,097    | 573       | 468,985                | 22,674        | -        | 22,674       | 491,659                      |  |  |       |
| Taxes and licenses                                  | 545              | -                         | 8,167   | -            | 11,797    | -         | 20,509                 | -             | -        | -            | 20,509                       |  |  |       |
| Telephone   | 21,141           | 4,123                     | 4,607   | 1,300        | 22,676    | 650       | 54,497                 | 16,552        | 854      | 17,406       | 71,903                       |  |  |       |
| Transportation - wages and other                    | 115,018          | 755                       | 9,285   | -            | 120,061   | 23,335    | 268,454                | 22,332        | -        | 22,332       | 290,786                      |  |  |       |
| Trash and dumping fees                              | -                | -                         | 10,205  | 1,776        | 53,096    | -         | 65,077                 | 803           | -        | 803          | 65,880                       |  |  |       |
| Travel  | 4,665            | 295                       | -       | 183          | 3,063     | -         | 8,206                  | 1,860         | -        | 1,860        | 10,066                       |  |  |       |
| Utilities   | 4,387            | 3,384                     | 41,470  | 14,956       | 160,432   | 2,345     | 226,974                | 15,403        | -        | 15,403       | 242,377                      |  |  |       |
| Total other expenses                                | 824,245          | 47,906                    | 326,218 | 67,493       | 3,039,729 | 66,353    | 4,371,944              | 599,141       | 14,735   | 613,876      | 4,985,820                    |  |  |       |
| Allocation of administrative overhead               | -                | -                         | -       | -            | -         | -         | -                      | (567,272)     | 567,272  | -            | -                            |  |  |       |
| Intercompany elimination                            | -                | -                         | -       | (20,570)     | (79,222)  | (1,330)   | (101,122)              | -             | -        | -            | (101,122)                    |  |  |       |
| Total expenses                                      | \$ 5,411,603     | 390,379                   | 405,334 | 131,445      | 5,584,168 | 91,635    | 12,014,764             | 987,878       | 582,007  | 1,569,885    | 13,584,649                   |  |  |       |

