

**Honorable Order of Kentucky Colonels, Inc.
and Subsidiary**

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2020 and 2019



Honorable Order of Kentucky Colonels, Inc. and Subsidiary

December 31, 2020 and 2019

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Independent Auditor's Report

Board of Trustees
Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Louisville, Kentucky

We have audited the accompanying consolidated financial statements of the Honorable Order of Kentucky Colonels, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Honorable Order of Kentucky Colonels, Inc. and Subsidiary as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating and other supplementary information for the years ended December 31, 2020 and 2019, listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

BKD, LLP

Louisville, Kentucky
February 23, 2021

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Consolidated Statements of Financial Position
December 31, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 662,104	\$ 618,101
Accounts receivable	81,365	61,921
Inventory	2,029	2,029
Prepaid expenses	71,924	-
Investments	17,788,528	18,313,218
Beneficial interest in third-party trust	691,720	627,225
Property and equipment, net of accumulated depreciation 2020 – \$103,495, 2019 – \$116,214	<u>1,198,179</u>	<u>866,766</u>
Total assets	<u><u>\$ 20,495,849</u></u>	<u><u>\$ 20,489,260</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 50,721	\$ 12,038
Grants payable	38,810	47,417
Note payable	<u>570,743</u>	<u>589,035</u>
Total liabilities	<u>660,274</u>	<u>648,490</u>

Net Assets

Without donor restrictions		
For general operations	727,891	622,596
Invested in property and equipment, net of related debt	627,436	277,731
Board-designated endowment	<u>17,788,528</u>	<u>18,313,218</u>
Net assets without donor restrictions	19,143,855	19,213,545
Net assets with donor restrictions	<u>691,720</u>	<u>627,225</u>
Total net assets	<u>19,835,575</u>	<u>19,840,770</u>
Total liabilities and net assets	<u><u>\$ 20,495,849</u></u>	<u><u>\$ 20,489,260</u></u>

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Consolidated Statements of Activities
Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support						
Contributions	\$ 2,129,782	\$ -	\$ 2,129,782	\$ 2,058,745	\$ -	\$ 2,058,745
Bequests	-	-	-	100,980	-	100,980
Annual Colonels relations events, net of direct expense of \$0 and \$114,153	-	-	-	(359)	-	(359)
Net investment return	2,105,704	-	2,105,704	3,787,689	-	3,787,689
Change in beneficial interest in third-party trust	-	64,495	64,495	-	97,983	97,983
License plate income	43,978	-	43,978	46,572	-	46,572
Other income	25,552	-	25,552	18,264	-	18,264
Total revenues, gains and other support	4,305,016	64,495	4,369,511	6,011,891	97,983	6,109,874
Expenses and Losses						
Program services	3,015,635	-	3,015,635	2,092,102	-	2,092,102
Management and general	554,715	-	554,715	371,743	-	371,743
Fundraising	804,356	-	804,356	509,072	-	509,072
Total expenses	4,374,706	-	4,374,706	2,972,917	-	2,972,917
Change in Net Assets	(69,690)	64,495	(5,195)	3,038,974	97,983	3,136,957
Net Assets, Beginning of Year	19,213,545	627,225	19,840,770	16,174,571	529,242	16,703,813
Net Assets, End of Year	\$ 19,143,855	\$ 691,720	\$ 19,835,575	\$ 19,213,545	\$ 627,225	\$ 19,840,770

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Consolidated Statements of Functional Expenses
Years Ended December 31, 2020 and 2019

	2020			
	Program Services	Management and General	Fundraising	Total
Accounting and legal	\$ -	\$ 228,071	\$ -	\$ 228,071
Annual Colonels relations events	-	-	3,330	3,330
Computer	2,081	7,786	1,133	11,000
Credit card commissions	-	-	21,836	21,836
Depreciation	2,642	24,218	17,173	44,033
General insurance	368	1,839	1,471	3,678
Group health insurance	4,495	10,591	8,348	23,434
Interest expense	1,650	15,124	10,725	27,499
Marketing and promotional materials	-	12,146	465,132	477,278
Miscellaneous	565	17,817	621	19,003
Payroll taxes	5,570	12,290	10,345	28,205
Printing and postage	568	-	73,267	73,835
Program grants	2,902,727	-	-	2,902,727
Program grants administration	4,634	-	-	4,634
Rent	677	3,386	2,709	6,772
Repairs and maintenance	896	4,482	3,585	8,963
Retirement plan	2,784	5,170	5,303	13,257
Salaries	83,256	185,413	154,618	423,287
Service agreements	-	8,076	3,299	11,375
Sorting and handling	-	-	9,741	9,741
Stationery and supplies	208	5,676	1,038	6,922
Telephone	1,437	7,183	5,746	14,366
Travel	-	64	630	694
Utilities	1,077	5,383	4,306	10,766
Total expenses	3,015,635	554,715	804,356	4,374,706
Expenses included with revenues	-	-	-	-
Total functional expenses	\$ 3,015,635	\$ 554,715	\$ 804,356	\$ 4,374,706

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Consolidated Statements of Functional Expenses (Continued)
Years Ended December 31, 2020 and 2019

	2019			
	Program Services	Management and General	Fundraising	Total
Accounting and legal	\$ -	\$ 41,068	\$ -	\$ 41,068
Annual Colonels relations events	-	-	114,153	114,153
Computer	-	3,697	6,212	9,909
Consulting	-	8,630	18,441	27,071
Credit card commissions	-	-	23,608	23,608
Depreciation	760	6,968	11,587	19,315
General insurance	679	6,225	4,414	11,318
Group health insurance	4,080	9,747	7,577	21,404
Interest expense	-	7,048	-	7,048
Marketing and promotional materials	-	8,578	189,618	198,196
Miscellaneous	579	18,749	772	20,100
Payroll taxes	6,141	13,594	11,405	31,140
Printing and postage	349	-	34,584	34,933
Program grants	1,980,311	-	-	1,980,311
Program grants administration	7,102	-	-	7,102
Rent	2,862	26,233	18,602	47,697
Repairs and maintenance	166	1,519	1,077	2,762
Retirement plan	3,167	6,033	5,882	15,082
Salaries	82,874	187,288	153,908	424,070
Service agreements	-	7,340	2,998	10,338
Sorting and handling	-	-	4,312	4,312
Stationery and supplies	147	4,016	735	4,898
Telephone	961	8,808	6,246	16,015
Travel	1,463	1,973	4,095	7,531
Utilities	461	4,229	2,999	7,689
Total expenses	2,092,102	371,743	623,225	3,087,070
Expenses included with revenues	-	-	114,153	114,153
Total functional expenses	\$ 2,092,102	\$ 371,743	\$ 509,072	\$ 2,972,917

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Cash received from donors	\$ 2,110,338	\$ 2,162,800
Interest and dividends received	293,611	384,767
Cash received from other activities	69,530	178,631
Cash paid for personnel costs	(449,275)	(487,411)
Cash paid to vendors and others	(984,648)	(518,674)
Cash paid to grantees	(2,911,099)	(2,054,676)
Cash paid for interest	(27,499)	(7,048)
	<u>(1,899,042)</u>	<u>(341,611)</u>
Investing Activities		
Proceeds from sale of investments	7,501,757	5,626,988
Purchases of investments	(5,164,974)	(4,620,231)
Purchases of property and equipment	(375,446)	(833,791)
	<u>1,961,337</u>	<u>172,966</u>
Financing Activities		
Proceeds from issuance of note payable	-	592,000
Principal payments on note payable	(18,292)	(2,965)
	<u>(18,292)</u>	<u>589,035</u>
Increase in Cash and Cash Equivalents	44,003	420,390
Cash and Cash Equivalents, Beginning of Year	<u>618,101</u>	<u>197,711</u>
Cash and Cash Equivalents, End of Year	<u>\$ 662,104</u>	<u>\$ 618,101</u>

Honorable Order of Kentucky Colonels, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

The Honorable Order of Kentucky Colonels, Inc. (Organization) is a charitable organization founded in 1932. The Order is an organization of talented and capable men and women appointed by the Governor of the Commonwealth of Kentucky because of their service to the state. The members act as the Governor's ambassadors of Kentucky's heritage and rich history of arts and entertainment. The primary objective is to support needy Kentucky charities and worthy Kentucky organizations by raising money from membership to help those organizations who stand ready to help citizens share in Kentucky's boundless future. The Order seeks out worthy nonprofits in seven vital areas: education, youth services, good health, community support, community enhancement, crisis relief and historic preservation. The Order will also support national or international crises that the members feel fit the mission.

The consolidated financial statements of the Order include the accounts of its wholly owned subsidiary, Kentucky Colonels Collectibles, Inc. (Collectibles) (collectively, the Order). Collectibles retails various Organization novelty items and memorabilia. All significant intercompany balances and transitions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Order considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At December 31, 2020, the Order's cash accounts exceeded federally insured limits by approximately \$395,000.

Accounts Receivable

Accounts receivable are stated at the amount of consideration from customers, of which the Order has an unconditional right to receive plus any accrued and unpaid interest. The Order provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Honorable Order of Kentucky Colonels, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. The Order generally does not charge interest on past due receivables.

Management considers all accounts receivable balances at December 31, 2020 and 2019, to be collectible and, therefore, believes no allowance is necessary.

Inventories

Inventories consist primarily of items held for sale by Collectibles. Inventories are stated at the lower of cost or net realizable value.

Investments and Net Investment Return

The Order measures securities, other than investments that qualify for the equity method of accounting, at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Property and equipment acquisitions are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	35–40 years
Furniture and equipment	3–5 years

Long-Lived Asset Impairment

The Order evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2020 and 2019.

Honorable Order of Kentucky Colonels, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Contributions

Contributions are provided to the Order either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts—with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Order overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

Honorable Order of Kentucky Colonels, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contribution revenue recognized from contributed services consisted of legal services of \$27,071 and \$0 for the year ended December 31, 2020 and 2019, respectively.

Other Revenue

Other revenue from license plate income and event ticket sales, are reported at the amount that reflects the consideration to which the Order expects to be entitled in exchange for providing license plates issued or the occurrence of the event.

Revenue from license plate income and event ticket sales is recognized at a point in time and is generally recognized when goods are provided to customers at a single point in time and the Order does not believe it is required to provide additional goods or services related to that sale. The transaction price is based on the event or license plates sold, and no significant judgments are applied based on the nature of the transactions.

The Order determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided in accordance with the Order's policy and implicit price concessions provided to customers, if applicable.

Income Taxes

The Order is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Order is subject to federal income tax on any unrelated business taxable income.

Honorable Order of Kentucky Colonels, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

The Order files tax returns in the U.S. federal jurisdiction.

Collectibles is a Kentucky corporation subject to federal, state, and local income taxes. No income taxes were due for 2020 and 2019. Collectibles has a net operating loss carryover of approximately \$535,000, which expires between 2035 and 2037 and \$50,000 that does not expire.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Expenses directly attributable to a specific-functional area of the Order are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on time and effort, full time employee equivalent or square footage. Accordingly, certain costs have been allocated among program and supporting services benefitted.

Note 2: Beneficial Interest in a Third-Party Trust

The Order has been named as an irrevocable beneficiary of a trust held and administered by an independent trustee. Under the terms of the trust, the trustee may distribute annually from both income and principal at the trustee's discretion.

At the date the Order receives notice of a beneficial interest, a contribution with donor restrictions is recorded in the consolidated statements of activities. A beneficial interest in a trust is recorded in the consolidated statements of financial position at the fair value of the underlying trust assets. Thereafter, beneficial interests in the trusts are reported at the fair value of the trusts' assets in the consolidated statements of financial position, with trust distributions and changes in fair value recognized in the consolidated statements of activities.

The estimated value of the expected future cash flows is \$691,720 and \$627,225, which represents the fair value of the trust assets at December 31, 2020 and 2019, respectively. The income from this trust for 2020 and 2019 was \$28,970 and \$27,459, respectively.

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 3: Property and Equipment

Property and equipment at December 31, 2020 and 2019, consists of:

	<u>2020</u>	<u>2019</u>
Building	\$ 1,100,023	\$ 744,063
Furniture and equipment	201,651	151,295
Construction in progress	-	87,622
	<u>1,301,674</u>	<u>982,980</u>
Less accumulated depreciation	103,495	116,214
	<u>\$ 1,198,179</u>	<u>\$ 866,766</u>

Note 4: Grants Payable

The Order awards grants each year to Kentucky charitable organizations which derive their primary support from their local communities. The Order has a policy such that grants expire at December 31 each year, unless the grantee has an approved extension from the Order. Grants payable at December 31, 2020 and 2019, consists of grants awarded to organizations who received an extension to submit claim documentation beyond the deadline of December 31. The following table summarizes the activity during the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Beginning grants payable	\$ 47,417	\$ 60,891
Grants awarded or adjusted	2,903,053	2,068,637
Distributions to grantees	(2,911,099)	(2,054,676)
Grants expired/unused	(561)	(27,435)
	<u>Ending grants payable</u>	<u>Ending grants payable</u>
	<u>\$ 38,810</u>	<u>\$ 47,417</u>

Note 5: Note Payable

During 2019, the Order entered into a note payable related to the purchase of property. The mortgage note is payable in monthly installments of \$3,822, including interest at 4.67% through October 2029. Substantially all of the property is pledged as collateral on the mortgage.

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Notes to Consolidated Financial Statements
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Principal payments for the next five years and thereafter are due as follows:

	Long-Term Debt
2021	\$ 19,255
2022	20,187
2023	21,164
2024	22,120
2025	23,259
Thereafter	464,758
	\$ 570,743

Note 6: Retirement Plan

The Order has a defined contribution retirement plan (Plan) whereby its employees are eligible to participate after attaining the age of 21 and the completion of one year of service (at least 1,000 hours). Participants in the Plan may elect to have up to 100% of their annual compensation contributed to the plan subject to limits prescribed under the Internal Revenue Code. The Order provides a matching contribution of 100% of the first 3% of eligible earnings contributed, and 50% of addition eligible earnings contributed up to a maximum contribution by the Order of 4.5% of the participant's annual salary. Contributions to the plan were \$13,257 and \$15,082 for the years ended December 31, 2020 and 2019, respectively.

Note 7: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions consist entirely of a beneficial interest in a third-party trust (see Note 2). There were no assets released from restriction during the years ended December 31, 2020 and 2019.

Note 8: Endowment

The Order's governing body is subject to the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA). As a result, the Order classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Honorable Order of Kentucky Colonels, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Additionally, in accordance with UPMIFA, the Order considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Order and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Order
7. Investment policies of the Order

The Order's endowment consists of approximately two individual funds, a donor-restricted fund and funds designated by the board of trustees to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Change in endowment net assets for the years ended December 31, 2020 and 2019, were:

	2020		Total
	Without Donor Restrictions	With Donor Restrictions	
Endowment net assets, beginning of year	\$ 18,313,218	\$ 627,225	\$ 18,940,443
Net investment return	2,105,704	-	2,105,704
Change in beneficial interest	-	64,495	64,495
Appropriation of endowment assets for expenditures	(2,650,000)	-	(2,650,000)
Other changes			
Transfer to board-designated endowment	19,606	-	19,606
Endowment net assets, end of year	<u>\$ 17,788,528</u>	<u>\$ 691,720</u>	<u>\$ 18,480,248</u>

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Endowment net assets, beginning of year	\$ 15,917,053	\$ 529,242	\$ 16,446,295
Net investment return	3,787,689	-	3,787,689
Change in beneficial interest	-	97,983	97,983
Appropriation of endowment assets for expenditures	(1,408,181)	-	(1,408,181)
Other changes			
Transfer to board-designated endowment	16,657	-	16,657
Endowment net assets, end of year	<u>\$ 18,313,218</u>	<u>\$ 627,225</u>	<u>\$ 18,940,443</u>

Investment and Spending Policies

The Order has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Under the Order's policies, endowment assets are invested in a manner that is intended to produce results that exceed price while assuming a moderate level of investment risk.

To satisfy its long-term rate of return objectives, the Order relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Order targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The spending policy determines the amount of money in a given year that may be distributed from the Order's endowment funds. The Order has a policy of appropriating distributions based on the endowment fund's average fair value over the prior twelve quarters through the year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Order considered the long-term expected return on its endowment. Accordingly, over the long term, the Order expects the current spending policy to allow its endowment to maintain the fair value of the original gift. This is consistent with the Order'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.

The investment and spending policies of the third-party trust are determined by an independent trustee, not the Order.

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 9: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2020 and 2019, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 662,104	\$ 618,101
Accounts receivable	81,365	61,921
Investments	17,788,528	18,313,218
Beneficial interest in third-party trust	<u>691,720</u>	<u>627,225</u>
Total financial assets	19,223,717	19,620,465
Donor-imposed restrictions		
Beneficial interest in third-party trust	<u>691,720</u>	<u>627,225</u>
Net financial assets after donor-imposed restrictions	18,531,997	18,993,240
Internal designations		
Board-designated endowment	17,788,528	18,313,218
Less endowment fund appropriations for the following year	<u>(841,247)</u>	<u>(832,101)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,584,716</u>	<u>\$ 1,512,123</u>

The Order's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment is subject to an annual spending rate of 5%. Although the Order does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation), these amounts could be made available if necessary.

The Order manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Order invests excess cash in short term investments, such as money market accounts. During the years ended December 31, 2020 and 2019, the level of liquidity and reserves was managed within the policy requirements.

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 10: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 and 2019:

	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Assets				
Investments				
Money market funds	\$ 792,848	\$ 792,848	\$ -	\$ -
Municipal bonds	761,493	-	761,493	-
Corporate bonds	2,466,903	-	2,466,903	-
Common stocks	11,730,254	11,730,254	-	-
Mutual funds	2,037,030	2,037,030	-	-
Total investments	17,788,528	14,560,132	3,228,396	-
Beneficial interest in third-party trust	691,720	-	691,720	-
Total assets	\$ 18,480,248	\$ 14,560,132	\$ 3,920,116	\$ -

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	Total Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Assets				
Investments				
Money market funds	\$ 369,875	\$ 369,875	\$ -	\$ -
U.S. Treasury securities	541,924	-	541,924	-
Municipal bonds	753,877	-	753,877	-
Corporate bonds	3,075,642	-	3,075,642	-
Common stocks	11,437,170	11,437,170	-	-
Mutual funds	2,134,730	2,134,730	-	-
Total investments	18,313,218	13,941,775	4,371,443	-
Beneficial interest in third-party trust	627,225	-	627,225	-
Total assets	\$ 18,940,443	\$ 13,941,775	\$ 4,998,668	\$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2020.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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Beneficial Interest in Third-Party Trust

The fair value of the beneficial interest in charitable trust has been recorded at the closing price reported on the active market on which the individual trust's assets are traded. Due to the nature of the valuation inputs, the value is classified within Level 2 of the hierarchy.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Investments

The Order invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

Note 12: Subsequent Events

Subsequent events have been evaluated through February 23, 2021, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Consolidating Schedules of Activities Information
Years Ended December 31, 2020 and 2019

	2020			
	Honorable Order of Kentucky Colonels, Inc.		Kentucky Colonels Collectibles	Total
	Without Donor Restrictions	With Donor Restrictions		
Revenues, Gains and Other Support				
Contributions	\$ 2,129,782	\$ -	\$ -	\$ 2,129,782
Net investment return	2,105,704	-	-	2,105,704
Change in beneficial interest in third-party trust	-	64,495	-	64,495
License plate income	43,978	-	-	43,978
Other income	4,281	-	21,271	25,552
	<u>4,283,745</u>	<u>64,495</u>	<u>21,271</u>	<u>4,369,511</u>
Total revenues, gains and other support				
Expenses and Losses				
Program services	3,015,635	-	-	3,015,635
Management and general	524,014	-	30,701	554,715
Fundraising	804,356	-	-	804,356
	<u>4,344,005</u>	<u>-</u>	<u>30,701</u>	<u>4,374,706</u>
Total expenses				
Change in Net Assets	<u>\$ (60,260)</u>	<u>\$ 64,495</u>	<u>\$ (9,430)</u>	<u>\$ (5,195)</u>

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Consolidating Schedules of Activities Information (Continued)
Years Ended December 31, 2020 and 2019

	2019			
	Honorable Order of Kentucky Colonels, Inc.		Kentucky Colonels Collectibles	Total
	Without Donor Restrictions	With Donor Restrictions		
Revenues, Gains and Other Support				
Contributions	\$ 2,058,745	\$ -	\$ -	\$ 2,058,745
Bequests	100,980	-	-	100,980
Annual Colonels relations events, net of direct expense of \$114,153	(359)	-	-	(359)
Net investment return	3,787,689	-	-	3,787,689
Change in beneficial interest in third-party trust	-	97,983	-	97,983
License plate income	46,572	-	-	46,572
Other income	10,537	-	7,727	18,264
	<u>6,004,164</u>	<u>97,983</u>	<u>7,727</u>	<u>6,109,874</u>
Total revenues, gains and other support				
Expenses and Losses				
Program services	2,092,102	-	-	2,092,102
Management and general	329,183	-	42,560	371,743
Fundraising	509,072	-	-	509,072
	<u>2,930,357</u>	<u>-</u>	<u>42,560</u>	<u>2,972,917</u>
Total expenses				
Change in Net Assets	<u>\$ 3,073,807</u>	<u>\$ 97,983</u>	<u>\$ (34,833)</u>	<u>\$ 3,136,957</u>

Honorable Order of Kentucky Colonels, Inc. and Subsidiary
Schedule of Percentage of Fundraising Expenses to Contributions
Without Donor Restrictions
Years Ended December 31, 2020 and 2019

	2020	2019
Fundraising Expenses	\$ 804,356	\$ 509,072
Contributions and Bequests Without Donor Restrictions	\$ 2,129,782	\$ 2,159,725
Percentage of Fundraising Expenses to Contributions	37.77%	23.57%