

KENTUCKY HIGH SCHOOL
ATHLETIC ASSOCIATION

LEXINGTON, KENTUCKY

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

YEARS ENDED JUNE 30, 2016 AND 2015

HICKS & ASSOCIATES CPAS
CERTIFIED PUBLIC ACCOUNTANTS

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Hicks & Associates CPAs

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Commissioners and Board of Control
Kentucky High School Athletic Association
Lexington, Kentucky

We have audited the accompanying financial statements of Kentucky High School Athletic Association (a nonprofit "Association"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2016 and 2015, 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.

INDEPENDENT AUDITORS' REPORT
- CONTINUED -

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the schedules of the Association's proportionate share of the net pension liability and the Association's contributions on pages 21 and 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient audit evidence to express an opinion or provide any assurance.

Other Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on page 23 are presented for purposes of additional analysis and are 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.

Hicks & Associates CPAs

June 12, 2017

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30

ASSETS	2016	2015	INCREASE (DECREASE)
CURRENT ASSETS			
Cash	\$ 643,364	\$ 660,125	\$ (16,761)
Accounts receivable	317,891	346,656	(28,765)
Prepaid expenses	15,542	23,086	(7,544)
TOTAL CURRENT ASSETS	976,797	1,029,867	(53,070)
RESTRICTED CASH			
Board designated	541,013	466,549	74,464
Temporarily restricted	42,697	49,697	(7,000)
TOTAL RESTRICTED CASH	583,710	516,246	67,464
PROPERTY AND EQUIPMENT, NET	2,025,481	2,182,370	(156,889)
DEFERRED OUTFLOWS OF RESOURCES			
Actuarially determined outflows	240,171	39,560	200,611
TOTAL ASSETS	<u>\$ 3,826,159</u>	<u>\$ 3,768,043</u>	<u>\$ 58,116</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 201,114	\$ 201,258	\$ (144)
Deferred revenues	242,418	283,410	(40,992)
Accrued leave	120,466	107,537	12,929
TOTAL CURRENT LIABILITIES	563,998	592,205	(28,207)
NET PENSION LIABILITY	1,859,950	1,562,691	297,259
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual investment earnings on pension plan investments	-	20,083	(20,083)
TOTAL LIABILITIES	2,423,948	2,174,979	248,969
NET ASSETS			
Unrestricted - undesignated	818,501	1,076,818	(258,317)
Unrestricted - board designated	541,013	466,549	74,464
Temporarily restricted	42,697	49,697	(7,000)
TOTAL NET ASSETS	1,402,211	1,593,064	(190,853)
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,826,159</u>	<u>\$ 3,768,043</u>	<u>\$ 58,116</u>

See Notes to Financial Statements.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30

	<u>2016</u>	<u>2015</u>	<u>INCREASE (DECREASE)</u>
UNRESTRICTED SUPPORT AND OTHER REVENUE			
Advertising and publications	\$ 4,530	\$ 5,820	\$ (1,290)
Boy's state basketball tournament	1,231,747	1,369,174	(137,427)
Football playoffs	234,643	265,765	(31,122)
Girl's state basketball tournament	304,668	350,674	(46,006)
Hall of fame events	15,514	20,005	(4,491)
Interest	190	188	2
Member fees	583,750	584,490	(740)
Other tournaments	737,628	739,189	(1,561)
Public and other support	1,544,987	1,130,598	414,389
Released from restrictions	<u>7,000</u>	<u>30,100</u>	<u>(23,100)</u>
TOTAL UNRESTRICTED SUPPORT AND OTHER REVENUE	4,664,657	4,496,003	168,654
UNRESTRICTED EXPENSES			
Boy's state basketball tournament	433,738	460,535	(26,797)
Football playoffs	85,325	100,356	(15,031)
Fundraising	354	265	89
General and administrative	3,545,879	3,446,252	99,627
Girl's state basketball tournament	196,539	142,050	54,489
Hall of fame events	38,893	37,243	1,650
Other tournaments	<u>547,782</u>	<u>568,313</u>	<u>(20,531)</u>
TOTAL UNRESTRICTED EXPENSES	<u>4,848,510</u>	<u>4,755,014</u>	<u>93,496</u>
CHANGE IN UNRESTRICTED NET ASSETS	(183,853)	(259,011)	75,158
TEMPORARILY RESTRICTED ACTIVITY			
Released from restrictions	(7,000)	(30,100)	23,100
Contributions	<u>-</u>	<u>25,800</u>	<u>(25,800)</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(7,000)</u>	<u>(4,300)</u>	<u>(2,700)</u>
TOTAL CHANGE IN NET ASSETS	(190,853)	(263,311)	72,458
NET ASSETS, BEGINNING OF YEAR	<u>1,593,064</u>	<u>1,856,375</u>	<u>(263,311)</u>
NET ASSETS, END OF YEAR	<u>\$ 1,402,211</u>	<u>\$ 1,593,064</u>	<u>\$ (190,853)</u>

See Notes to Financial Statements.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Total change in net assets	\$ (190,853)	\$ (263,311)
Adjustments to reconcile total change in net assets to net change in cash from operating activities:		
Bad debt	24,335	-
Depreciation	165,938	174,918
Actuarially determined outflows	(200,611)	(39,560)
Net difference between projected and actual investment earnings on pension plan investments	(20,083)	20,083
Net pension liability	297,259	46,316
(Increase) decrease in operating assets:		
Accounts receivable	4,430	(27,174)
Prepaid expenses	7,544	(10,137)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(144)	(113,695)
Deferred revenues	(40,992)	65,795
Accrued leave	12,929	3,503
NET CHANGE FROM OPERATING ACTIVITIES	<u>59,752</u>	<u>(143,262)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(9,049)</u>	<u>(31,945)</u>
NET CHANGE FROM INVESTING ACTIVITIES	<u>(9,049)</u>	<u>(31,945)</u>
NET CHANGE IN CASH	50,703	(175,207)
CASH, BEGINNING OF YEAR	<u>1,176,371</u>	<u>1,351,578</u>
CASH, END OF YEAR	<u>\$ 1,227,074</u>	<u>\$ 1,176,371</u>

See Notes to Financial Statements.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Kentucky High School Athletic Association ("Association") is a nonprofit association organized for the purpose of development, regulation, and purification of high school athletic activities in the Commonwealth of Kentucky.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Income Taxes

The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Association qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under 509(a)(2). Unrelated business income for years ended June 30, 2016 and 2015 was \$4,358 and \$3,918.

As of June 30, 2016, the Association has no uncertain tax positions that qualify for disclosure in the financial statements. Tax years still open under federal and state statute of limitations remain subject to review and change.

Property and Equipment

The Association reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Assets with useful lives of more than one year and a cost greater than \$1,000 are capitalized, included in property and equipment, and depreciated over their useful lives.

Property and equipment are stated at cost and are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Year</u>
Building	40
Equipment	3-15

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in bank accounts and certificates of deposit with original maturities of three months or less.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts Receivable

Receivable balances are stated at their unpaid balance. Management evaluates the collectability of accounts receivable on an individual account basis and, using the specific write-off method, charges to expense the balance of accounts that are deemed uncollectible. Generally accepted accounting principles requires that an allowance for uncollectible account balances be established for uncollectible account balances, and write-off's charged to the allowance account when collection efforts have been exhausted. The difference in accounting treatment is not material to these financial statements. Accounts written off for the years ended June 30, 2016 and 2015 using the specific write-off method totaled \$24,335 and \$0.

Net Assets

The Association reports three classes of net asset categories:

- 1) Unrestricted net assets encompass the portion of net assets that are not temporarily restricted by donor-imposed stipulations.
- 2) Temporarily restricted net assets are the net assets resulting from contributions and other inflows whose use by the Association is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations.
- 3) Permanently restricted net assets are the net assets resulting from contributions and other inflows whose use by the Association is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Association.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of the donor restrictions.

Recognition of Donor Restrictions

The Association reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The costs of providing the Association's programs and other activities are summarized on a functional basis in the statements of activities.

Pensions

For purposes of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Employees Retirement System (KERS) and additions to/deductions from KERS' fiduciary net position have been determined on the same basis as they are reported by KERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE B - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

Donated Services

The Association does not record support, revenue or expense from services contributed by volunteers. However, a number of volunteers have donated time and materials to various programs.

Concentration of Revenues

The Association earned \$1,231,747 and \$1,369,174 in gross revenue from the Boy's State Basketball Tournament for the years ended June 30, 2016 and 2015. This represents approximately 26% and 30% of the Association's total gross revenues and support for 2016 and 2015.

Concentration of Credit Risk

The Association has a concentration of credit risk in that it periodically maintains cash deposits in a single financial institution in excess of the amount insured by the FDIC. The Association has not experienced any losses on such accounts and does not believe that it is subject to significant credit risk related to these accounts.

NOTE C - PROPERTY AND EQUIPMENT

Land, building, and equipment for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 431,341	\$ 431,341
Building	3,568,124	3,568,124
Equipment	558,929	549,880
	<u>4,558,394</u>	<u>4,549,345</u>
Accumulated depreciation	<u>(2,532,913)</u>	<u>(2,366,975)</u>
	<u>\$2,025,481</u>	<u>\$2,182,370</u>

Depreciation expense for the years ended June 30, 2016 and 2015 were \$165,938 and \$174,918.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE D - DEFERRED REVENUES

Deferred revenues for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Unearned dues paid by member schools	\$ 72,800	\$ 60,800
Unearned registration fees paid by officials	112,615	197,600
Unearned corporate sponsorship support	<u>57,003</u>	<u>25,010</u>
	<u>\$242,418</u>	<u>\$283,410</u>

NOTE E - ACCRUED LEAVE

The Association's employees are granted sick leave in accordance with administrative policy. Employees earn one day per month with unlimited accumulation. Employees are compensated for 30% of unused accumulated sick leave upon retirement. Compensation shall be the daily rate of pay being received at the time of retirement, based upon 260 work days per year. KERS members receive a retirement service credit while the Kentucky Teachers' Retirement System (KTRS) members receive retirement service credit from KTRS and a board-funded sick leave payment. As of June 30, 2016 and 2015, the estimated accrued sick leave liability was \$120,466 and \$107,537.

NOTE F - PENSIONS

Kentucky Teachers' Retirement System

Eligible employees of the Association participate in the Statewide Kentucky Teachers' Retirement System ("System"), a cost sharing multi-employer public employee retirement system established and administered by the Commonwealth of Kentucky to provide benefit pension plan coverage for local school districts and other public educational agencies within the state.

Chapter 161 Section 220 of the Kentucky Revised Statutes stipulates who may become a member of the System. Generally, eligible persons are employed by local boards of education, the State Department of Education, some state universities, and some non-state supported organizations. The payroll for the Association's employees covered by the System for the years ended June 30, 2016 and 2015 were \$636,627 and \$637,864.

Normal Retirement Date

Employees are entitled to an annual retirement benefit, payable monthly for life, if they either attain the age of fifty-five (55) and complete five (5) years of Kentucky service or complete twenty-seven (27) years of Kentucky service.

Normal Retirement Benefits

Non-university employees receive monthly payments equal to either two (2) percent (service prior to July 1, 1983) or two and one half (2.5) percent (service after July 1, 1983) of their final average salary for each year of credited service.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE F - PENSIONS (continued)

The final average salary for employees retiring under the age of fifty-five (55) is the average of the employee's five (5) highest annual salaries, and for employees retiring at the age of fifty-five (55) or older, it is the average of the employee's three (3) highest annual salaries. New members (including second retirement accounts started) after July 1, 2002 will receive monthly benefits equal to two (2) percent of their final average salary for each year of service if, upon retirement, their total service is less than ten (10) years. New members after July 1, 2002 who retire with ten (10) or more years of total service will receive monthly benefits equal to two and one half (2.5) percent of their final average salary for each year of service, including the first ten (10) years.

In addition, members who retire July 1, 2004 and later with more than thirty (30) years of service will have their multiplier increased for all years over thirty (30) from two and one half (2.5) percent to three (3) percent to be used in their benefit calculation. The system also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary.

Early Retirement Benefits

Employees with less than twenty-seven (27) years of service may retire and receive reduced benefits.

Other Benefits

A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members. Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly. Members' retirement benefits become vested when they complete five (5) years of credited service.

Members are required by statute to contribute 12.855% of their salaries to the System. The Association contributes the remaining amounts necessary to finance the participation of employees in the System. Employer contributions are determined as a level percentage of payrolls. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee contributions plus interest earned are refunded to the employee upon his or her request. Participating employers contributed at 16.105% for employees hired prior to July 1, 2008 and 16.105% for employees hired after July 1, 2008, of members' non-hazardous compensation for the years ended June 30, 2016 and 2015.

Schedule of Contributions

Fiscal Year End	Required Employee Contribution	Required Employer Contribution	Required Total Contribution	Percentage of Required Contribution Actually Made
2016	\$ 84,640	\$106,039	\$190,679	100%
2015	\$ 77,213	\$ 97,944	\$175,157	100%

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE F - PENSIONS (continued)

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess KTRS funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems.

A copy of the Kentucky Teachers' Retirement System's audited financial statements can be obtained from the Kentucky Teachers Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or on the internet at <http://ktrs.ky.gov>.

NOTE G - KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Plan Descriptions

Kentucky Employees Retirement System (KERS) consists of two plans, Nonhazardous and Hazardous. Each plan is a cost-sharing multiple employer defined benefit pension plan administered by the Kentucky Retirement Systems (KRS) under the provision of Kentucky Revised Statute 61.645. The plan covers all regular full-time members employed positions of any state department, board, or agency directed by Executive Orders to participate in KERS.

Benefits Provided

These systems provide for retirement (normal and early), disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

Retirement Eligibility for Members Whose Participation Began Before 9/01/2008		
Age	Years of Service	Allowance Reduction
65	4	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.

Retirement Eligibility for Members Whose Participation Began On or After 9/01/2008		
Age	Years of Service	Allowance Reduction
65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for next five years before age 65 or Rule of 87 (age plus years of service).

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE G - KENTUCKY EMPLOYEES RETIREMENT SYSTEM (continued)

Benefit Formula		
Final Compensation	x Benefit Factor	x Years of Service
Average of the five highest if participation began before 9/1/2008.	2.20% if: Member begins participating prior to 8/1/2004	Includes earned service, purchased service, prior service, and sick leave (if the member's employer participates in an approved sick leave program).
	2.00% if: Member begins participating on or after 8/1/2004 and before 9/1/2008	
Average of the last complete five if participation began on or after 9/1/2008.	Increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if: Member begins participating on or after 9/1/2008	

*Service (and Benefit Factor): 10 years or less (1.10%); 10-20 years (1.30%); 20-26 years (1.50%); 26-30 years (1.75%)

For members whose participation began on or after 1/1/2014, each year they are an active contributing member to the KRS, the member and the member's employer will contribute 5.00% and 4.00% of creditable compensation respectively into a hypothetical account. This hypothetical account will earn interest annually on both the member's and employer's contribution at a minimum rate of 4.00%. If the KRS's geometric average net investment return for the previous five years exceeds 4.00%, then the hypothetical account will be credited with an additional amount of interest equal to 75% of the amount of the return which exceeds 4.00%.

For post-retirement death benefits, if the member is receiving a monthly benefit based on at least 48 months of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for the benefit.

For disability benefits, members participating before 8/1/2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after 8/1/2004 but before 1/1/2014 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the greater of 20% of final rate of pay or the amount calculated under the Benefit Formula based upon actual service. Members participating on or after 1/1/2014 may retire on account of disability provided the member has at least 60 months of service credit. The hypothetical account which includes member contributions, employer contributions, and interest credits can be withdrawn from the KRS as a lump sum or an annuity equal to the greater of 20% of the member's monthly final rate of pay or the annuitized hypothetical account into a single life annuity option.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE G - KENTUCKY EMPLOYEES RETIREMENT SYSTEM (continued)

Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

For pre-retirement death benefits, the beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) any age with 60 months of service credit and currently working for a participating agency at the time of death or (3) any age and no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. On July 1, 2013, the COLA was not granted. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands.

Each system's assets are used only for the payment of benefits to the members of that system, and a pro-rata share of administrative costs in accordance with the provisions of Kentucky Revised Statute Section 78.630.

Contributions

Contributions for employees are established in the statutes governing the KRS and may only be changed by the Kentucky General Assembly. Employees contribute 5% of salary if they were plan members prior to September 1, 2008. For employees that entered the plan after September 1, 2008, they are required to contribute 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to the KRS 401(h) account, an account created for the payment of health insurance benefits. The Association makes employer contributions at the rate set by the KRS Board as determined by an actuarial valuation. For the fiscal year ended June 30, 2016, participating employers contributed 38.77% for the nonhazardous system. Contributions to the pension plan from the Association were \$129,698 and \$116,799 for the years ended June 30, 2016 and 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions

At June 30, 2016 and 2015, the Association reported a liability of \$1,859,950 and \$1,562,691 for its proportionate share of the net pension liability.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE G - KENTUCKY EMPLOYEES RETIREMENT SYSTEM (continued)

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Association's proportion of the net pension liability was based on the Association's share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2016, the Association's proportion for the nonhazardous system was 0.02%.

For the year ended June 30, 2016 and 2015, the Association recognized pension expense of \$203,966 and \$143,638. At June 30, 2016, the Association reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Difference between expected and actual experience	\$ 3,974
Net difference between projected and actual investment earnings on pension plan investments	5,298
Changes in proportion and differences between employer contributions and proportionate share of contributions	70,624
Change of assumptions	<u>160,275</u>
Total	<u>\$ 240,171</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$ 48,034
2018	48,034
2019	48,034
2020	48,034
2021	48,035
	<u>\$240,171</u>

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Measurement Date	June 30, 2015
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 Years
Asset Valuation Method	5-Year Smoothed Market
Inflation	3.25%
Salary Increase	4.00%, Average, Including Inflation
Investment Rate of Return	7.50% Net of Pension Plan Investment Expense, Including Inflation

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE G - KENTUCKY EMPLOYEES RETIREMENT SYSTEM (continued)

The mortality table used for active and healthy retired members, and beneficiaries is the RP-2000 Combined Mortality Table projected with Scale BB to 2013. For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 is used for the period after disability retirement.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated August 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, at a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Nominal Return
Combined Equity	42.00%	5.40%
Combined Fixed Income	20.00	1.50
Real Return (Diversified Inflation Strategies)	10.00	3.50
Real Estate	3.00	4.50
Absolute Return (Diversified Hedge Funds)	10.00	4.25
Private Equity	10.00	8.50
Cash	5.00	-0.25
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at actuarial determined contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE G - KENTUCKY EMPLOYEES RETIREMENT SYSTEM (continued)

Sensitivity of the Association's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Association's proportionate share of the net pension liability using the discount rate of 7.50%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Nonhazardous	\$ 2,095,076	\$ 1,859,950	\$ 1,661,043

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems Comprehensive Annual Financial Report on the KRS website at www.kyret.ky.gov.

NOTE H - IN-KIND SUPPORT AND EXPENDITURES

The Association receives donated services from a variety of unpaid vendors. These non-cash benefits are traded out for tickets or admission to various tournaments. The fair market value of these benefits is included as revenue and expenses to program activities in the statements of activities. For the years ended June 30, 2016 and 2015, revenue and expenses from such benefits were as follows:

<u>2016</u>	<u>2015</u>
\$ 27,500	\$ 13,150

NOTE I - CONTINGENCIES

Litigation

The Association is the joint defendant in various court cases in which the Association's legal representative believes a remote likelihood of liability exists. The potential liability for the case is within the Association's liability insurance coverage. Accordingly, no liability has been accrued in the accompanying financial statements.

Lease Commitments

The Association has entered into operating leases for mail and credit card machines. Minimum future payments are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$ 2,676
2018	2,676
2019	1,960
2020	1,245
2021	1,245

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE J - TEMPORARILY RESTRICTED AND BOARD DESIGNATED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes:

National City Bank scholarships	\$ 3,415
Museum Development	17,556
Sportsmanship awards	8,741
Stout Donations	10,785
Pannell Swim scholarships	1,700
Leachman scholarships	500
	<u>\$ 42,697</u>

Unrestricted net assets have been designated by the Board of Control for the following purposes:

Trademark/novelty reserve	\$ 42,403
Officials division recognition	50,842
Physical plant emergencies	62,947
Equipment replacement	62,842
Title IX Project	24,392
Promotion media reserve	127,098
Web development reserve	45,708
Accrued leave	120,466
Student leadership programs	4,315
	<u>\$541,013</u>

NOTE K - DATE OF MANAGEMENT'S REVIEW

The Association's subsequent events have been evaluated by management through June 12, 2017, which is the date the financial statements were available to be issued.

KENTUCKY HIGH SCHOOL
ATHLETIC ASSOCIATION

LEXINGTON, KENTUCKY

SUPPLEMENTAL INFORMATION

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
SCHEDULE OF THE ASSOCIATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

ASSOCIATION'S PROPORTION OF THE NET PENSION LIABILITY (ASSET)	0.02%
ASSOCIATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)	\$ 1,859,950
ASSOCIATION'S COVERED - EMPLOYEE PAYROLL	\$ 334,533
ASSOCIATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	555.98%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	18.83%

See Independent Auditors' Report and Notes to Financial Statements.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
SCHEDULES OF THE ASSOCIATION'S CONTRIBUTIONS
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
LAST 10 FISCAL YEARS

YEARS ENDED JUNE 30

Nonhazardous - Authority	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$ 129,698	\$ 116,799	\$ 77,383	\$ 68,070	\$ 61,287	\$ 52,646	\$ 30,526	\$ 24,734	\$ 21,619	\$ 18,075
Contributions in Relation to the Contractually Required Contribution	(129,698)	(116,799)	(77,383)	(68,070)	(61,287)	(52,646)	(30,526)	(24,734)	(21,619)	(18,075)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Association's Covered-Employee Payroll	\$ 334,533	\$ 301,262	\$ 288,851	\$ 288,311	\$ 309,216	\$ 310,046	\$ 262,928	\$ 247,096	\$ 254,343	\$ 233,222
Contributions as a Percentage of Covered-Employee Payroll	38.77%	38.77%	26.79%	23.61%	19.82%	16.98%	11.61%	10.01%	8.50%	7.75%

See Independent Auditors' Report and Notes to Financial Statements.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
SCHEDULES OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2016 AND 2015

	Boy's State Basketball Tournament	Football Playoffs	Fund Raising	General & Administrative	Girl's State Basketball Tournament	Hall of Fame Events	Other Tournaments	Total Expenses	2015 Total Expenses	Difference
Administrative travel	-	-	-	\$ 41,082	-	-	-	\$ 41,082	\$ 37,925	\$ 3,157
Audio visual expense	7,568	8,570	-	-	11,153	-	23,535	50,826	50,464	362
Board of Control	-	-	-	50,830	-	-	-	50,830	59,546	(8,716)
Clinic and officials' expenses	-	-	-	625,698	-	-	-	625,698	589,886	35,812
Coach education expense	-	-	-	6,550	-	-	-	6,550	6,380	170
Depreciation	-	-	-	165,938	-	-	-	165,938	174,918	(8,980)
Dues	-	-	-	2,500	-	-	-	2,500	2,500	-
Equipment and technology	-	-	-	24,548	-	-	-	24,548	23,848	700
Insurance	-	-	-	240,243	-	-	-	240,243	239,452	791
Miscellaneous	-	-	-	233,286	-	-	-	233,286	192,981	40,305
Other event costs	12,659	10,763	354	50,816	14,781	38,893	88,672	216,938	267,736	(50,798)
Pension expense	-	-	-	203,966	-	-	-	203,966	143,638	60,328
Personnel	-	-	-	1,349,580	-	-	-	1,349,580	1,270,157	79,423
Printing and publications	15,167	6,239	-	138,123	10,563	-	2,677	172,769	165,526	7,243
Professional fees	-	-	-	43,831	-	-	-	43,831	118,836	(75,005)
Radio network	56,868	-	-	-	20,970	-	-	77,838	61,186	16,652
Repairs and maintenance	-	-	-	13,924	-	-	-	13,924	17,564	(3,640)
Scholarships	4,000	-	-	-	1,000	-	-	5,000	23,000	(18,000)
Sponsorship expense	20,745	-	-	273,548	619	-	-	294,912	314,759	(19,847)
Team expenses and awards	48,072	34,170	-	-	44,520	-	141,703	268,465	286,720	(18,255)
Tournament facility rental	228,404	1,470	-	-	56,988	-	126,700	413,562	378,046	35,516
Tournament workers	40,255	24,113	-	-	35,945	-	164,495	264,808	246,514	18,294
Utilities and telephone	-	-	-	81,416	-	-	-	81,416	83,432	(2,016)
Total Expenses	\$ 433,738	\$ 85,325	\$ 354	\$ 3,545,879	\$ 196,539	\$ 38,893	\$ 547,782	\$ 4,848,510	\$ 4,755,014	\$ 93,496

See Independent Auditors' Report and Notes to Financial Statements.