

KENTUCKY HIGH SCHOOL
ATHLETIC ASSOCIATION

LEXINGTON, KENTUCKY

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

YEARS ENDED JUNE 30, 2019 AND 2018

*HICKS & ASSOCIATES CPAS
CERTIFIED PUBLIC ACCOUNTANTS*

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Hicks & Associates CPAs

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Commissioner 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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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 24 and 25 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, which 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 evidence to express an opinion or provide any assurance.

Hicks & Associates CPAs

Lexington, Kentucky

July 6, 2021

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30

ASSETS	<u>2019</u>	<u>2018</u>	<u>INCREASE (DECREASE)</u>
CURRENT ASSETS			
Cash	\$ 1,002,931	\$ 763,066	\$ 239,865
Accounts receivable	246,065	238,162	7,903
Prepaid expenses	<u>19,060</u>	<u>13,680</u>	<u>5,380</u>
TOTAL CURRENT ASSETS	1,268,056	1,014,908	253,148
OTHER ASSETS			
Board designated cash	588,858	620,205	(31,347)
Restricted cash	<u>32,614</u>	<u>29,236</u>	<u>3,378</u>
TOTAL OTHER ASSETS	621,472	649,441	(27,969)
PROPERTY AND EQUIPMENT, NET	1,785,397	1,874,271	(88,874)
DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSION			
	<u>379,266</u>	<u>1,146,812</u>	<u>(767,546)</u>
TOTAL ASSETS	<u>\$ 4,054,191</u>	<u>\$ 4,685,432</u>	<u>\$ (631,241)</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 102,434	\$ 73,368	\$ 29,066
Deferred revenues	99,373	218,443	(119,070)
Accrued leave	<u>136,150</u>	<u>146,458</u>	<u>(10,308)</u>
TOTAL CURRENT LIABILITIES	337,957	438,269	(100,312)
NET PENSION LIABILITY	3,067,243	3,559,825	(492,582)
DEFERRED INFLOWS OF RESOURCES RELATED TO PENSION			
	<u>326,485</u>	<u>50,198</u>	<u>276,287</u>
TOTAL LIABILITIES	3,731,685	4,048,292	(316,607)
NET ASSETS			
Without donor restrictions - undesignated	(298,966)	(12,301)	(286,665)
Without donor restrictions - board designated	588,858	620,205	(31,347)
With donor restrictions	<u>32,614</u>	<u>29,236</u>	<u>3,378</u>
TOTAL NET ASSETS	<u>322,506</u>	<u>637,140</u>	<u>(314,634)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,054,191</u>	<u>\$ 4,685,432</u>	<u>\$ (631,241)</u>

See Notes to Financial Statements.

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

	<u>2019</u>	<u>2018</u>	INCREASE <u>(DECREASE)</u>
WITHOUT DONOR RESTRICTIONS:			
SUPPORT AND OTHER REVENUE			
Advertising and publications	\$ 4,344	\$ 6,884	\$ (2,540)
Boy's state basketball tournament	1,388,602	1,332,249	56,353
Football playoffs	392,576	562,746	(170,170)
Girl's state basketball tournament	440,241	270,595	169,646
Hall of fame events	9,965	15,065	(5,100)
Interest	238	196	42
Member fees	792,465	790,295	2,170
Other tournaments	838,528	782,839	55,689
Public and other support	1,271,406	1,472,582	(201,176)
Released from restrictions	<u>1,622</u>	<u>6,656</u>	<u>(5,034)</u>
TOTAL SUPPORT AND OTHER REVENUE	5,139,987	5,240,107	(100,120)
EXPENSES			
Boy's state basketball tournament	551,219	465,550	85,669
Football playoffs	195,865	212,073	(16,208)
Fundraising	15	15	-
General and administrative	3,836,575	4,191,581	(355,006)
Girl's state basketball tournament	315,855	202,540	113,315
Hall of fame events	24,077	32,568	(8,491)
Other tournaments	<u>534,393</u>	<u>567,897</u>	<u>(33,504)</u>
TOTAL EXPENSES	<u>5,457,999</u>	<u>5,672,224</u>	<u>(214,225)</u>
CHANGE IN NET ASSETS			
WITHOUT DONOR RESTRICTIONS	(318,012)	(432,117)	114,105
WITH DONOR RESTRICTIONS:			
Released from restrictions	(1,622)	(6,656)	5,034
Contributions	<u>5,000</u>	<u>7,750</u>	<u>(2,750)</u>
CHANGE IN NET ASSETS			
WITH DONOR RESTRICTIONS	<u>3,378</u>	<u>1,094</u>	<u>2,284</u>
CHANGE IN TOTAL NET ASSETS	(314,634)	(431,023)	116,389
NET ASSETS, BEGINNING OF YEAR	<u>637,140</u>	<u>1,068,163</u>	<u>(431,023)</u>
NET ASSETS, END OF YEAR	<u>\$ 322,506</u>	<u>\$ 637,140</u>	<u>\$ (314,634)</u>

See Notes to Financial Statements.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Boy's State Basketball Tournament	Football Playoffs	Fundraising	General & Administrative	Girl's State Basketball Tournament	Hall of Fame Events	Other Tournaments	Total Expenses
Administrative travel	\$ -	\$ -	\$ -	\$ 21,679	\$ -	\$ -	\$ -	\$ 21,679
Audio visual expense	10,655	6,557	-	-	10,580	-	15,054	42,846
Board of Control	-	-	-	51,241	-	-	-	51,241
Clinic and officials' expenses	-	-	-	546,107	-	-	-	546,107
Coach education expense	-	-	-	19,370	-	-	-	19,370
Depreciation	-	-	-	146,154	-	-	-	146,154
Dues	-	-	-	2,500	-	-	-	2,500
Equipment and technology	-	-	-	42,225	-	-	-	42,225
Insurance	-	-	-	245,653	-	-	-	245,653
Miscellaneous	-	-	-	216,952	-	-	-	216,952
Other event costs	31,630	11,035	15	83,193	31,094	24,077	105,211	286,255
Pension expense	-	-	-	522,294	-	-	-	522,294
Personnel	-	-	-	1,517,296	-	-	-	1,517,296
Printing and publications	9,555	2,908	-	90,961	7,219	-	739	111,382
Professional fees	-	-	-	65,964	-	-	-	65,964
Radio network	43,108	-	-	-	21,963	-	-	65,071
Repairs and maintenance	-	-	-	2,989	-	-	-	2,989
Scholarships	7,000	-	-	8,000	-	-	2,000	17,000
Sponsorship expense	13,421	-	-	161,108	776	-	-	175,305
Team expenses and awards	52,245	28,974	-	-	43,323	-	136,001	260,543
Tournament facility rental	334,670	123,180	-	-	146,713	-	119,016	723,579
Tournament workers	48,935	23,211	-	-	54,187	-	156,372	282,705
Utilities and telephone	-	-	-	92,889	-	-	-	92,889
Total Expenses	\$ 551,219	\$ 195,865	\$ 15	\$ 3,836,575	\$ 315,855	\$ 24,077	\$ 534,393	\$ 5,457,999

See Notes to Financial Statements.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Boy's State Basketball Tournament	Football Playoffs	Fundraising	General & Administrative	Girl's State Basketball Tournament	Hall of Fame Events	Other Tournaments	Total Expenses
Administrative travel	\$ -	\$ -	\$ -	\$ 23,674	\$ -	\$ -	\$ -	\$ 23,674
Audio visual expense	6,765	6,630	-	-	10,188	-	20,780	44,363
Board of Control	-	-	-	51,955	-	-	-	51,955
Clinic and officials' expenses	-	-	-	680,678	-	-	-	680,678
Coach education expense	-	-	-	15,600	-	-	-	15,600
Depreciation	-	-	-	137,394	-	-	-	137,394
Dues	-	-	-	2,500	-	-	-	2,500
Equipment and technology	-	-	-	36,562	-	-	-	36,562
Insurance	-	-	-	243,653	-	-	-	243,653
Miscellaneous	-	-	-	230,158	-	-	-	230,158
Other event costs	24,561	6,927	15	102,637	16,438	32,568	91,326	274,472
Pension expense	-	-	-	854,115	-	-	-	854,115
Personnel	-	-	-	1,404,208	-	-	-	1,404,208
Printing and publications	14,782	8,265	-	110,293	7,737	-	2,121	143,198
Professional fees	-	-	-	73,943	-	-	-	73,943
Radio network	44,978	-	-	-	22,785	-	-	67,763
Repairs and maintenance	-	-	-	2,761	-	-	-	2,761
Scholarships	6,000	-	-	6,000	1,000	-	500	13,500
Sponsorship expense	16,334	-	-	119,399	463	-	525	136,721
Team expenses and awards	53,314	26,285	-	-	47,875	-	142,060	269,534
Tournament facility rental	252,814	141,234	-	-	52,985	-	130,655	577,688
Tournament workers	46,002	22,732	-	-	43,069	-	179,930	291,733
Utilities and telephone	-	-	-	96,051	-	-	-	96,051
Total Expenses	\$ 465,550	\$ 212,073	\$ 15	\$ 4,191,581	\$ 202,540	\$ 32,568	\$ 567,897	\$ 5,672,224

See Notes to Financial Statements.

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

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in total net assets	\$ (314,634)	\$ (431,023)
Adjustments to reconcile change in total net assets to net change in cash from operating activities:		
Bad debt	54	13,880
Depreciation	146,154	137,394
Deferred outflows of resources related to pension	767,546	(604,754)
Deferred inflows of resources related to pension	276,287	50,198
Increase/(decrease) in net pension liability	(492,582)	1,238,322
In-kind support and other revenue	(12,550)	(26,650)
In-kind expenses	12,550	26,650
(Increase) decrease in operating assets:		
Accounts receivable	(7,957)	(48,221)
Prepaid expenses	(5,380)	19,762
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	29,066	(151,667)
Deferred revenues	(119,070)	45,475
Accrued leave	(10,308)	8,858
NET CHANGE FROM OPERATING ACTIVITIES	269,176	278,224
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(57,280)	(65,808)
NET CHANGE FROM INVESTING ACTIVITIES	(57,280)	(65,808)
NET CHANGE IN CASH	211,896	212,416
CASH, BEGINNING OF YEAR	1,412,507	1,200,091
CASH, END OF YEAR	\$ 1,624,403	\$ 1,412,507

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, 2019 and 2018 was \$4,447 and \$5,301.

As of June 30, 2019, 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

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.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, all highly liquid investments with original maturities of three months or less are cash and cash equivalents.

The following table provides a reconciliation of cash, board designated cash, and restricted cash reported within the statements of financial position that sum to the total in the statements of cash flows as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash	\$1,002,931	\$ 763,066
Board designated cash	588,858	620,205
Restricted cash	<u>32,614</u>	<u>29,236</u>
Total cash and restricted cash	<u>\$1,624,403</u>	<u>\$1,412,507</u>

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, 2019 and 2018 using the specific write-off method totaled \$54 and \$13,880.

Net Assets

The Association reports two classes of net asset categories:

- 1) Net assets without donor restrictions encompass the portion of net assets that are not restricted by donor-imposed stipulations.
- 2) Net assets with donor restrictions are (1) 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; or (2) 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 with or without restriction support depending on the existence and nature of the donor restrictions.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of Donor Restrictions

The Association reports gifts of cash and other assets as 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized in the statements of activities. The statements of functional expenses present the natural classification of detail of expenses by function.

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.

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

Concentration of Revenues

The Association earned \$1,388,602 and \$1,332,249 in gross revenue from the Boy's State Basketball Tournament for the years ended June 30, 2019 and 2018. This represents approximately 27% and 25% of the Association's total gross revenues and support for 2019 and 2018.

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.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE C - PROPERTY AND EQUIPMENT

Land, building, and equipment for the years ended June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 431,341	\$ 431,341
Building	3,638,327	3,614,740
Equipment	<u>675,595</u>	<u>641,902</u>
	4,745,263	4,687,983
Accumulated depreciation	<u>(2,959,866)</u>	<u>(2,813,712)</u>
	<u>\$1,785,397</u>	<u>\$1,874,271</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$146,154 and \$137,394.

NOTE D - DEFERRED REVENUES

Deferred revenues for the years ended June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Unearned dues paid by member schools	\$ -	\$ 95,000
Unearned registration fees paid by officials	81,140	89,960
Unearned corporate sponsorship support	<u>18,233</u>	<u>33,483</u>
	<u>\$ 99,373</u>	<u>\$218,443</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, 2019 and 2018, the estimated accrued sick leave liability was \$136,150 and \$146,458.

NOTE F - 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, 2019 and 2018, net revenue and expenses from such benefits were as follows:

<u>2019</u>	<u>2018</u>
\$ 12,550	\$ 26,650

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE G - OPERATING LEASES

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

Year Ended June 30	Amount
2020	\$4,977
2021	4,977
2022	4,977
2023	4,977
2024	2,178

Lease expense for the years ended June 30, 2019 and 2018 was \$5,090 and \$5,757.

NOTE H - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year of the June 30, 2019 statement of financial position date comprise the following:

	2019	2018
Financial assets at year-end:	\$1,870,468	\$1,650,669
Less those unavailable for general expenditures within one year:		
Board designated cash	(588,858)	(620,205)
Donor restricted cash	(<u>32,614</u>)	(<u>29,236</u>)
Financial assets available to meet cash needs for general expenditure within one year	<u>\$1,248,996</u>	<u>\$1,001,228</u>

As part of the Association's liquidity management, financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due.

NOTE I - KENTUCKY TEACHERS' RETIREMENT SYSTEM - PENSION

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, 2019 and 2018 were \$735,160 and \$682,103.

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.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE I - KENTUCKY TEACHERS' RETIREMENT SYSTEM - PENSION (continued)

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.

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.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE I - KENTUCKY TEACHERS' RETIREMENT SYSTEM - PENSION (continued)

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, 2019 and 2018.

Schedule of Contributions

Fiscal Year End	Required Employee Contribution	Required Employer Contribution	Required Total Contribution	Percentage of Required Contribution Actually Made
2019	\$ 94,505	\$118,398	\$212,903	100%
2018	\$ 87,534	\$109,664	\$197,198	100%

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 J - KENTUCKY EMPLOYEES RETIREMENT SYSTEM - PENSION

The Kentucky Employees Retirement System (KERS) defined benefit plan includes two funds, the pension fund which provides retirement benefits and the insurance fund which provides health insurance benefits. KERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension and insurance funds. The report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40501-6124 or by calling (502)696-8800.

Benefit and contribution rates are established under statute by the Commonwealth of Kentucky. Per KRS 61.565, contribution requirements of the active employees and the participating organization are established and may be amended by the KERS board of trustees. For the fiscal year ended June 30, 2019, Association employees were required to contribute 5% of their annual covered salary for retirement benefits. Employees with a participation date after September 1, 2008 were required to contribute an additional 1% of their salary for retiree healthcare benefits. The Association was contractually required to contribute 49.47% of covered payroll to the non-hazardous KERS pension and insurance plans for the year ended June 30, 2019. Actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

All eligible Association employees who work more than one hundred hours per month participate in the defined benefit plan administered by KERS. A summary of the plan is provided on the next page.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE J - KENTUCKY EMPLOYEES RETIREMENT SYSTEM - PENSION (continued)

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
Participation:	Prior to 9/1/2008	9/1/2008 through 12/31/2013	1/1/2014 and after
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula	Final Compensation x Benefit Factor x Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement)	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	1.97% - if you do not have 13 months credit for 1/1/1998-1/1/1999. 2.00% - if you have 13 months credit for 1/1/1998-1/1/1999	10 years or less = 1.10%; Greater than 10 years, but no more than 20 years = 1.30%; Greater than 20 years, but no more than 26 years = 1.50%; Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years)	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE J - KENTUCKY EMPLOYEES RETIREMENT SYSTEM - PENSION (continued)

At June 30, 2019 and 2018, the Association reported a liability of \$3,067,243 and \$3,559,825 for its proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability is determined by an actuarial valuation as of that date. The Association's proportion of the net pension liability was based on a projection of the plan's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2019 and 2018, the Association's proportionate share of the net pension liability was 0.023% and 0.027%.

Actuarial Assumptions

The following actuarial methods and assumptions were used in the calculation of the Association's net pension liability:

Actuarial Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial valuation of assets recognized
Investment Rate of Return	5.25%
Inflation Rate	2.30%
Projected Salary Increases	3.05%, average
Mortality tables:	RP-2000 Combined Mortality Table, projected with scale BB to 2013 *adjusted for type of member (active, health retired, or disabled)
Date of Experience Study	July 1, 2008 - June 30, 2013

For the year ended June 30, 2019, the Association recognized pension expense of \$522,294 and deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability experience	\$ 21,848	\$ 8,579
Changes of assumptions	136,977	-
Investment experience	22,989	20,060
Change in proportion and differences between employer contributions and proportionate share of plan contributions	197,452	297,846
Total	<u>\$379,266</u>	<u>\$326,485</u>

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE J - KENTUCKY EMPLOYEES RETIREMENT SYSTEM - PENSION (continued)

For the year ended June 30, 2018, the Association recognized pension expense of \$854,115 and deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Liability experience	\$ 633	\$22,924
Changes of assumptions	621,999	-
Investment experience	44,489	27,274
Change in proportion and differences between employer contributions and proportionate share of plan contributions	<u>479,691</u>	<u>-</u>
Total	<u>\$1,146,812</u>	<u>\$50,198</u>

The deferred outflows of resources related to the Association's contributions to the pension plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. The deferred outflows and inflows of resources related to the net difference between projected and actual earnings on pension plan investments are amortized and recognized in pension expense over five years. All other amounts reported as deferred outflows of resources and deferred inflows of resources are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided pensions through the pension plan which is determined to be 2.71 years for the KERS non-hazardous employees. The net increase (decrease) in pension expense related to the amortization of the deferred amounts is as follows:

2020	\$173,129
2021	(112,398)
2022	(6,054)
2023	(1,896)
2024	-
Thereafter	-
Total	<u>\$ 52,781</u>

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the KERS. The most recent analysis performed was for the period covering fiscal years 2008 through 2013, and is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return. Assumptions including long-term historical data, estimates inherent in current market data, and 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 asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE J - KENTUCKY EMPLOYEES RETIREMENT SYSTEM - PENSION (continued)

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

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
United States Equity	17.5%	5.75%
International Equity	17.5%	7.38%
Global Bonds	10.0%	2.64%
Global Credit	17.0%	3.63%
Real Estate	5.0%	6.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	5.13%
Private Equity	10.0%	8.25%
Cash Equivalent	3.0%	-0.25%
Total	100.0%	

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

June 30, 2018 is the actuarial valuation date upon which the total pension liability is based for the year ended June 30, 2019. No update procedures were used to determine the total pension liability. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefit payments for all current plan members projected through 2117.

The following presents the net pension liability of the Association, as well as what the Association's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
\$ 3,494,292	\$ 3,067,243	\$ 2,711,565

Detailed information about KERS's fiduciary net position is available in the separately issued KERS Annual Financial Report (which is a matter of public record). The Commonwealth's Comprehensive Annual Financial Report should be referred to for additional disclosures related to KERS.

NOTE K - CONTINGENCIES

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 cases is within the Association's liability insurance coverage. Accordingly, no liability has been accrued in the accompanying financial statements.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE L - BOARD DESIGNATED AND NET ASSETS WITH DONOR RESTRICTIONS

These net assets without donor restrictions have been designated by the Board of Control for the following purposes:

	<u>2019</u>	<u>2018</u>
Trademark/novelty reserve	\$ 35,180	\$ 39,583
Museum development	17,556	17,556
Officials division recognition	82,789	75,623
Physical plant emergencies	75,861	67,155
Equipment replacement	53,256	78,279
Title IX Project	42,082	37,200
Promotion media reserve	129,521	115,838
Web development reserve	12,148	38,198
Accrued leave	136,150	146,458
Student leadership programs	4,315	4,315
	<u>\$588,858</u>	<u>\$620,205</u>

Net assets with donor restrictions are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
KY Dept. of Agriculture scholarships	\$ 8,000	\$ 6,000
Leachman scholarships	1,000	1,000
Pannell Swim scholarships	2,700	2,700
Rawlings scholarships	750	750
Roberts Insurance scholarships	3,000	-
Stout Donations	17,164	18,786
	<u>\$32,614</u>	<u>\$29,236</u>

NOTE M - ACCOUNTING STANDARDS UPDATES

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), requiring an entity to recognize the amount of revenue to which it expected to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration which an entity is expected to be entitled for those goods or services. The standard replaces most existing revenue recognition guidance in GAAP and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard was effective for the year ended June 30, 2020. However, due do the COVID-19 pandemic in 2020, FASB extended the effective date of ASU 2014-09 by one year and will now be effective for the year ended June 30, 2021. FASB allows early implementation of ASU 2014-09 but the Association has elected to defer implementation until the year ended June 30, 2021.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statements of financial position at the date of lease commencement. Leases will be classified as either finance or operating. The standard will be effective for the Association for the year ended June 30, 2022.

NOTE N - DATE OF MANAGEMENT'S REVIEW

The Association's subsequent events have been evaluated by management through July 6, 2021, which is the date the financial statements were available to be issued.

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

NOTE 0 - SUBSEQUENT EVENTS

The financial effects of COVID-19 have impacted a variety of entities within the United States and abroad. The Association was greatly impacted by the global pandemic as it caused cancellations of virtually all events scheduled in the Spring of 2020, and reduced crowds at championship events in the Fall of 2020 and Spring of 2021. These cancellations and restrictions have greatly impacted the Association's revenue subsequent to June 30, 2019. In addition to reduced ticket revenue across all events, the Association's primary source of revenue, the Boy's State Basketball Tournament, was included in the Spring 2020 cancellations which represents a large portion of the Association's annual revenue. As a result of the COVID-19 pandemic, the Association has an unaudited loss of \$1.1 million for the year ended June 30, 2020. As of July 6, 2021, the Association's activities are returning to normal and the Association does not expect further negative effects from the pandemic.

The Association received \$486,500 in Paycheck Protection Program ("PPP") funding in April 2020 from PNC Bank through the U.S. Small Business Administration ("SBA") under the Coronavirus Aid Relief and Economic Security Act ("CARES Act"). The terms of the funding agreement indicate that the Association must utilize the proceeds to fund/offset qualifying expenses as allowed by the PPP. The Association expects a portion of the PPP loan payable to be forgivable under the provisions of the PPP as set forth in the CARES Act. However, if the Association must repay, the principal of the loan is due back plus interest, which accrues at 1% per annum. Interest is deferred for the first six months. As of July 6, 2021, the Association has not made any payments on the PPP loan and is in the process of filing for loan forgiveness. The amount to be forgiven has not been determined as of July 6, 2021. The future terms of the note will be finalized once the forgiveness application has been fully processed.

KENTUCKY HIGH SCHOOL
ATHLETIC ASSOCIATION

LEXINGTON, KENTUCKY

REQUIRED SUPPLEMENTAL INFORMATION

KENTUCKY HIGH SCHOOL ATHLETIC ASSOCIATION
SCHEDULE OF THE ASSOCIATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2019

ASSOCIATION'S PROPORTION OF THE NET PENSION LIABILITY	0.02%
ASSOCIATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	\$ 3,067,243
ASSOCIATION'S COVERED-EMPLOYEE PAYROLL	\$ 224,665
ASSOCIATION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	1365.25%
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	17.41%

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	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually Required Contribution	\$ 111,142	\$ 170,349	\$ 199,754	\$ 129,698	\$ 116,799	\$ 77,383	\$ 68,070	\$ 61,287	\$ 52,646	\$ 30,526
Contributions in Relation to the Contractually Required Contribution	(111,142)	(170,349)	(199,754)	(129,698)	(116,799)	(77,383)	(68,070)	(61,287)	(52,646)	(30,526)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Association's Covered-Employee Payroll	\$ 224,665	\$ 344,348	\$ 411,102	\$ 334,533	\$ 301,262	\$ 288,851	\$ 288,311	\$ 309,216	\$ 310,046	\$ 262,928
Contributions as a Percentage of Covered-Employee Payroll	49.47%	49.47%	48.59%	38.77%	38.77%	26.79%	23.61%	19.82%	16.98%	11.61%