

**NORTH CAROLINA HIGH SCHOOL
ATHLETIC ASSOCIATION, INC.**

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010
(With Comparative Totals for the
Year Ended June 30, 2009)

CONFIDENTIAL

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Carolina High School
Athletic Association, Inc.
Chapel Hill, North Carolina

We have audited the accompanying statement of financial position of the North Carolina High School Athletic Association, Inc., as of June 30, 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated November 19, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina High School Athletic Association, Inc., as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Blackman & Sloop

Chapel Hill, North Carolina
October 18, 2010

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

EXHIBIT A

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ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,277,404	\$ 6,673,542
Investments	2,618,935	2,196,994
Grant receivable	43,847	45,556
Corporate sponsors receivable	168,803	309,368
Other receivables	13,941	8,038
Prepaid expenses	91,493	90,435
TOTAL CURRENT ASSETS	<u>11,214,423</u>	<u>9,323,933</u>
PROPERTY AND EQUIPMENT, NET	<u>492,117</u>	<u>492,977</u>
OTHER ASSETS:		
Investments	6,609,081	5,722,666
Restricted cash	2,196,966	2,400,710
Deposits	-	1,500
Agency cash	62,668	62,668
Cash surrender values - life insurance	2,043,046	1,999,557
TOTAL OTHER ASSETS	<u>10,911,761</u>	<u>10,187,101</u>
TOTAL ASSETS	<u>\$ 22,618,301</u>	<u>\$ 20,004,011</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

EXHIBIT A

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LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 160,644	\$ 90,689
Accrued payroll and related liabilities	202,427	20,239
Accrued vacation	9,695	186,555
Deferred revenue:		
Officials	217,045	219,333
Other	17,309	16,869
Agency funds	62,668	62,668
Current portion of deferred compensation	91,355	-
TOTAL CURRENT LIABILITIES	<u>761,143</u>	<u>596,353</u>
LONG-TERM LIABILITIES:		
Deferred compensation, net of current portion	91,355	237,970
TOTAL LIABILITIES	<u>852,498</u>	<u>834,323</u>
NET ASSETS:		
Unrestricted	12,848,865	11,021,126
Temporarily restricted	10,891	25,186
Permanently restricted	8,906,047	8,123,376
TOTAL NET ASSETS	<u>21,765,803</u>	<u>19,169,688</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,618,301</u>	<u>\$ 20,004,011</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

EXHIBIT B

For the Year Ended June 30, 2010
 (With Comparative Totals for the Year Ended June 30, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Totals	2009 Totals
SUPPORT AND REVENUE:					
Playoffs	\$ 1,470,121	\$ -	\$ -	\$ 1,470,121	\$ 1,331,752
Contributions	1,085,605	-	782,671	1,868,276	1,970,350
In-kind donations	72,418	-	-	72,418	128,593
Government grants and contracts	-	369,435	-	369,435	411,085
Officials' registrations	447,101	-	-	447,101	394,031
Membership dues	354,111	-	-	354,111	351,463
Fines, insurance administration, and other	567,645	-	-	567,645	546,733
Unrealized gains (losses) on investments	641,533	-	-	641,533	(189,483)
Realized gains (losses) on investments	186,313	-	-	186,313	(1,574,663)
Programs, books, and directories	67,270	-	-	67,270	58,810
Investment income	293,130	135	-	293,265	70,224
Change in cash surrender value - life insurance	43,489	-	-	43,489	55,298
	5,228,736	369,570	782,671	6,380,977	3,554,193
Net assets released from restrictions	383,865	(383,865)	-	-	-
TOTAL SUPPORT AND REVENUE	5,612,601	(14,295)	782,671	6,380,977	3,554,193
EXPENSES:					
Program services	2,851,988	-	-	2,851,988	3,031,448
Supporting services:					
General and administrative	662,341	-	-	662,341	610,880
Fundraising	270,533	-	-	270,533	238,657
Total supporting services	932,874	-	-	932,874	849,537
TOTAL EXPENSES	3,784,862	-	-	3,784,862	3,880,985
CHANGES IN NET ASSETS	1,827,739	(14,295)	782,671	2,596,115	(326,792)
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	11,021,126	25,186	8,123,376	19,169,688	19,496,480
NET ASSETS - END OF YEAR	\$ 12,848,865	\$ 10,891	\$ 8,906,047	\$ 21,765,803	\$ 19,169,688

The accompanying Notes to Financial Statements are an integral part of these financial statements.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

EXHIBIT C

For the Year Ended June 30, 2010
 (With Comparative Totals for the Year Ended June 30, 2009)

	Program Services	General and Administrative	Fundraising	2010 Totals	2009 Totals
Salaries, benefits, and payroll taxes	\$ 707,599	\$ 315,225	\$ 221,849	\$ 1,244,673	\$ 1,156,998
Team expenses	594,435			594,435	580,720
Insurance	383,923	42,658	-	426,581	433,603
Gate receipts distribution	310,263	-	-	310,263	267,309
Office expense, supplies, and postage	137,080	73,813	1,071	211,964	234,975
Printing, publications, and programs	158,775	11,767	3,316	173,858	185,816
Professional services	34,709	104,129	270	139,108	74,061
Awards	116,752	-	-	116,752	130,773
Workshops - substance abuse program	112,744	-	-	112,744	134,255
Meetings expense	84,066	21,016	1,650	106,732	173,752
Contract services - substance abuse program	89,597	-	-	89,597	100,865
Miscellaneous	13,576	13,574	40,085	67,235	64,893
Depreciation	27,062	27,062	-	54,124	57,924
Telephone and utilities	33,844	5,973	-	39,817	40,746
Building and grounds - cleaning and maintenance	2,192	19,732	-	21,924	23,553
Medical reimbursement	-	21,048	-	21,048	21,731
Travel	9,516	6,344	1,542	17,402	23,714
Hall of Fame	13,941	-	-	13,941	10,232
Vehicle expense	11,364	-	-	11,364	8,192
AED Project	9,559	-	-	9,559	139,573
Other expenses	-	-	-	-	8,055
Advertising	991	-	750	1,741	9,245
Total expenses	<u>\$ 2,851,988</u>	<u>\$ 662,341</u>	<u>\$ 270,533</u>	<u>\$ 3,784,862</u>	<u>\$ 3,880,985</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

June 30, 2010 and 2009

EXHIBIT D

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,596,115	\$ (326,792)
Adjustments to reconcile changes in net assets to net cash provided (used) by operations:		
Depreciation	54,124	57,924
Increase in cash surrender values of life insurance	(43,489)	(55,298)
(Increase) decrease in cash surrender values of annuity investments	(134,133)	120,055
Permanently restricted contributions	(782,671)	(758,060)
Realized (gains) losses on investments	(186,313)	1,574,663
Unrealized (gains) losses on investments	(641,533)	189,483
Increase (decrease) in cash arising from changes in assets and liabilities:		
Grant receivable	1,709	16,136
Corporate sponsors receivable	140,565	132,962
Other receivables	(5,903)	(8,038)
Prepaid expenses	(1,058)	20,743
Restricted cash	203,744	(1,827,578)
Deposits	1,500	500
Accounts payable	69,955	26,248
Accrued payroll and related liabilities	182,188	(840)
Accrued vacation	(176,860)	24,514
Deferred revenue - officials	(2,288)	27,618
Deferred revenue - other	440	471
Deferred compensation	(55,260)	(51,315)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,220,832</u>	<u>(836,604)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(78,912)	(110,441)
Proceeds from sale of equipment	23,800	12,900
Proceeds from sale of investments	2,234,770	7,747,510
Purchase of investments	(2,579,299)	(7,902,376)
NET CASH USED IN INVESTING ACTIVITIES	<u>(399,641)</u>	<u>(252,407)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	782,671	758,060
NET INCREASE (DECREASE) IN CASH	1,603,862	(330,951)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>6,673,542</u>	<u>7,004,493</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 8,277,404</u>	<u>\$ 6,673,542</u>
Supplemental Cash Flow Information		
In-kind contributions	<u>\$ 72,418</u>	<u>\$ 128,593</u>

The accompanying Notes to Financial Statements are an integral part of these financial statements.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. Organization.

The North Carolina High School Athletic Association, Inc., was organized in 1913 and incorporated pursuant to the laws of the state of North Carolina. The Organization's programs consist of administering the state's interscholastic programs for its member high schools in North Carolina; the education and training of officials of high school athletic events; and the administration of chemical awareness and substance abuse education programs for high school students, teachers, and administrators.

B. Basis of Accounting.

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

The Organization 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 restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

C. Cash and Cash Equivalents.

Cash and cash equivalents include cash, money market investments, and certificates of deposit that mature in three months or less.

D. Investments.

Investments are stated at fair market value based on readily available published values.

E. Fair Value Measurements.

Investments are recorded at estimated fair value as defined by the Financial Accounting Standards Board Accounting Standards Codification 820 – *Fair Value Measurements and Disclosures* ("ASC 820"). Fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e. the exit price).

ASC 820 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fair Value Measurements (Continued).

characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I are publicly traded equity securities and are valued at the last sales price on a national securities exchange on the valuation date. As required by ASC 820, the Organization does not adjust the quoted price for these investments even in situations, if any, where the companies hold a large position and a sale could reasonably impact the quoted price.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, are valued at prices for similar assets or liabilities in markets that are not active, or determined through the use of models or other valuation methodologies. Investments which are generally included in this category are publicly traded equity securities with restrictions and equity swap contracts.

Level III – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Fair value for these investments is determined using valuation methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally are privately held debt and equity securities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Receivables.

Accounts receivable are carried at the estimated collectible amount. The Organization provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred in their collection. The allowance is based on historical collection experience and a review of the current status of the existing receivables. As of June 30, 2010 and 2009, all receivables were deemed collectible by management.

G. Property and Equipment.

All property and equipment acquisitions, including leasehold improvements, over \$500 are recorded at cost and are being depreciated using the straight-line method over estimated lives of five to ten years.

H. Promises to Give.

Unconditional promises to give are recognized as support and assets in the period received. Conditional promises to give are recognized when the conditions upon which they depend are substantially met.

I. Contributions.

The Organization 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 those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

J. 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 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 and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**K. Income Tax.**

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation.

The Organization is subject to Financial Accounting Standards Board ("FASB") Accounting Standards Codification 740 ("ASC 740") that deals with accounting for uncertainty in income taxes. Under ASC 740, the Organization will reflect in the financial statements the benefit of positions taken in a previously filed tax return or expected to be taken in a future tax return only when it is considered 'more-likely-than-not' that the position taken will be sustained by a taxing authority. The Organization evaluates its uncertain tax positions using provisions of ASC 450, Contingencies. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

If applicable, penalties and interest assessed by income taxing authorities are included in general and administrative expenses. Under the statute of limitations, the federal income tax returns of the Organization for 2006, 2007, and 2008, are subject to examination by the Internal Revenue Service. Management evaluated tax positions of the Organization for the 2006, 2007, and 2008 returns and concluded there are no uncertain tax positions, and believes there is no income tax affect on the financial statements.

CASH AND CASH EQUIVALENTS

At June 30, 2010 and 2009, the Organization had approximately \$10.3 million and \$9 million, respectively, of deposits at financial institutions in excess of federally insured amounts.

RESTRICTED CASH

Restricted cash represents permanently restricted net assets not invested at year-end.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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INVESTMENTS

The following table summarizes the assets of the Organization for which fair values are determined on a recurring basis as of June 30, 2010. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets:	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 458,912	\$ -	\$ -	\$ 458,912
Annuity contracts	-	-	2,098,783	2,098,783
Certificates of deposit	-	136,382	-	136,382
Equity securities	6,533,939	-	-	6,533,939
	<u>\$ 6,992,851</u>	<u>\$ 136,382</u>	<u>\$ 2,098,783</u>	<u>\$ 9,228,016</u>

The following table summarizes the assets of the Organization for which fair values are determined on a recurring basis as of June 30, 2009.

Assets:	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,318,301	\$ -	\$ -	\$ 2,318,301
Annuity contracts	-	-	1,950,976	1,950,976
Certificates of deposit	-	163,692	-	163,692
Equity securities	3,486,691	-	-	3,486,691
	<u>\$ 5,804,992</u>	<u>\$ 163,692</u>	<u>\$ 1,950,976</u>	<u>\$ 7,919,660</u>

Investments consist of the following at June 30, 2010 and 2009:

	2010		2009	
	Cost	Market	Cost	Market
Mutual funds	\$ 500,678	\$ 458,912	\$ 2,364,650	\$ 2,318,301
Annuity contracts	2,098,783	2,098,783	1,950,976	1,950,976
Certificates of deposit	136,382	136,382	163,692	163,692
Equity securities	5,878,777	6,533,939	3,468,479	3,486,691
	<u>\$ 8,614,620</u>	<u>\$ 9,228,016</u>	<u>\$ 7,947,797</u>	<u>\$ 7,919,660</u>

As of June 30, 2010, the aggregate market value of assets exceeded cost by \$613,396. As of June 30, 2009, the aggregate cost of assets exceeded market value by \$28,137. Net unrealized gains and losses of \$641,533 and (\$189,483), were recorded during the years ended June 30, 2010 and 2009, respectively, to properly state investments at market value. Investment income is reported net of investment fees of \$85,806 and \$74,755, for the years ending June 30, 2010 and 2009, respectively.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2010 and 2009:

	2010	2009
Furniture, fixtures, and equipment	\$ 559,132	\$ 536,259
Building and improvements	752,374	\$ 745,983
Vehicles	104,498	92,882
	<u>1,416,004</u>	<u>1,375,124</u>
Less: accumulated depreciation	(923,887)	(882,147)
	<u>\$ 492,117</u>	<u>\$ 492,977</u>

PROMISES TO GIVE

Conditional promises to give at June 30, 2010 and 2009, total \$535,500 and \$1,386,796, respectively. These conditional promises to give, which are mostly for specific championship events and all-star games, are not recognized in the accompanying financial statements. They will be recognized when the conditions upon which they depend are substantially met.

NET ASSETS

Net assets at June 30 consist of the following:

	2010	2009
Unrestricted net assets:		
Board designated earnings from endowment	\$ 5,028,505	\$ 4,032,640
Undesignated	7,820,360	6,988,486
Unrestricted net assets	<u>\$ 12,848,865</u>	<u>\$ 11,021,126</u>
Temporarily restricted net assets:		
Hall of Fame	\$ 586	\$ 11,026
Scholarships	135	-
Mylan grant	10,170	14,160
Temporarily restricted net assets	<u>\$ 10,891</u>	<u>\$ 25,186</u>
Permanently restricted net assets:		
Endowment	\$ 8,806,047	\$ 8,023,376
Hall of Fame Endowment	100,000	100,000
Permanently restricted net assets	<u>\$ 8,906,047</u>	<u>\$ 8,123,376</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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ENDOWMENTS

The Organization's endowments were established for a variety of purposes. The endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted or temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as board-designated funds.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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ENDOWMENTS (CONTINUED)

Strategies Employed For Achieving Objectives

The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization makes investments in a wide array of asset classes, including, but not limited to, stocks, mutual funds and cash equivalents.

The changes in endowment net assets for the year ended June 30, 2010, were as follows:

	Unrestricted	Temporarily restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 4,032,640	\$ 11,026	\$ 8,123,376
Investment return:			
Income	327,830	4,959	-
Net appreciation	397,640	-	-
Total investment return	<u>725,470</u>	<u>4,959</u>	<u>-</u>
Contributions	550,488	5,150	782,671
Appropriation of endowment assets for expenditure	(280,093)	(20,414)	-
Endowment net assets, end of year	<u>\$ 5,028,505</u>	<u>\$ 721</u>	<u>\$ 8,906,047</u>

The changes in endowment net assets for the year ended June 30, 2009, were as follows:

	Unrestricted	Temporarily restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 5,017,156	\$ 18,150	\$ 7,365,316
Investment return:			
Income	119,449	4,702	-
Net depreciation	(1,041,846)	-	-
Total investment return	<u>(922,397)</u>	<u>4,702</u>	<u>-</u>
Contributions	330,560	17,740	758,060
Appropriation of endowment assets for expenditure	(392,679)	(29,566)	-
Endowment net assets, end of year	<u>\$ 4,032,640</u>	<u>\$ 11,026</u>	<u>\$ 8,123,376</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

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PROGRAM SERVICES

The following program services are included in the accompanying financial statements:

	<u>2010</u>	<u>2009</u>
Administration of the state's athletic program for its member schools, including the education and training of officials.	\$ 2,482,553	\$ 2,620,363
Administration of chemical awareness and substance abuse education programs for high school students, teachers, and administration.	<u>369,435</u>	<u>411,085</u>
	<u>\$ 2,851,988</u>	<u>\$ 3,031,448</u>

RETIREMENT PLANS

The Organization was a participant in the State of North Carolina Teachers' and State Employees' Retirement System through June 1, 2010. All full-time employees were covered by the plan and were required to make contributions based on salary. The Organization's share of retirement cost was \$97,751 and \$80,930, for the years ended June 30, 2010 and 2009, respectively.

The Organization established a 401(k) retirement plan (the "plan") effective June 1, 2010. Employees are eligible on the first day of the month following employment. The Organization provides for a safe harbor matching of each participant's deferral up to a maximum of 4% of compensation. The plan also allows for a discretionary matching contribution, and a discretionary profit sharing contribution, both of which are determined by management annually. Participants are 100% vested in the discretionary contributions after six years of service. Plan benefits are distributed upon retirement, disability, termination, or death. The Organization's share of retirement cost was \$4,048 for the year ended June 30, 2010. This includes a 2% additional discretionary matching contribution, and a 2% profit sharing contribution for the year ended June 30, 2010.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

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OPERATING LEASES

The Organization is obligated under various operating lease agreements for office equipment. Monthly payments total approximately \$3,600, and the leases expire in 2011 through 2013. Minimum future rental payments under all lease agreements are as follows:

<u>Year Ending June 30,</u>	
2011	43,272
2012	21,624
2013	10,800
	<u>\$ 75,696</u>

Total rental expense for the above operating leases amounted to \$43,812 and \$41,292, for the years ending June 30, 2010 and 2009, respectively.

DONATED SERVICES AND SUPPLIES

Although not recognized in the accompanying financial statements, volunteers have contributed services and supplies toward the general operation and championship activities of the Organization. Certain officiating and team supplies, and travel expenses totaling \$72,418 and \$128,593, have been recognized as contributions as of June 30, 2010 and 2009, respectively.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through October 18, 2010, which was the date that the financial statements were available to be issued.

RESTATEMENT OF NET ASSETS

Net assets as of July 1, 2008, have been restated to record the cost of the Organization's building and improvements, net of accumulated depreciation. Fixed asset cost was increased \$655,512, and accumulated depreciation was increased \$333,592, resulting in unrestricted net assets being increased by \$321,920.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

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RECLASSIFICATION

Certain reclassifications have been made to the 2009 financial statements in order to conform to 2010 changes. Such reclassifications had no effect on total net assets.

PRIOR YEAR INFORMATION

The statements of activities and changes in net assets, and functional expenses include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

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