

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

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for the
Year Ended June 30, 2011)**

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, 2012, 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 2011 financial statements and, in our report dated November 30, 2011 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, 2012, 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
December 3, 2012

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

EXHIBIT A

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ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 9,703,929	\$ 8,237,888
Investments	3,491,870	4,199,636
Grant receivable	43,270	40,395
Corporate sponsors receivable	250,776	350,398
Other receivables	16,908	17,606
Prepaid expenses	103,269	100,491
TOTAL CURRENT ASSETS	<u>13,610,022</u>	<u>12,946,414</u>
PROPERTY AND EQUIPMENT, NET	<u>507,192</u>	<u>487,778</u>
OTHER ASSETS:		
Investments	10,323,833	9,606,699
Agency cash	62,668	62,668
Cash surrender values - life insurance	2,158,622	2,130,211
TOTAL OTHER ASSETS	<u>12,545,123</u>	<u>11,799,578</u>
TOTAL ASSETS	<u>\$ 26,662,337</u>	<u>\$ 25,233,770</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, 2012 and 2011

EXHIBIT A

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LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 736,341	\$ 67,851
Accrued vacation	52,584	50,492
Deferred revenue:		
Officials	166,417	179,651
Other	22,673	4,710
Agency funds	62,668	62,668
Deferred compensation	-	91,355
TOTAL CURRENT LIABILITIES	<u>1,040,683</u>	<u>456,727</u>
NET ASSETS:		
Unrestricted	15,287,651	15,159,967
Temporarily restricted	10,170	10,377
Permanently restricted	<u>10,323,833</u>	<u>9,606,699</u>
TOTAL NET ASSETS	<u>25,621,654</u>	<u>24,777,043</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,662,337</u>	<u>\$ 25,233,770</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, 2012
 (With Comparative Totals for the Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Totals	2011 Totals
SUPPORT AND REVENUE:					
Playoffs	\$ 1,506,105	\$ -	\$ -	\$ 1,506,105	\$ 1,380,501
Contributions	1,209,150	-	717,134	1,926,284	2,000,642
In-kind donations	106,020	-	-	106,020	100,050
Government grants and contracts	-	332,491	-	332,491	369,435
Officials' registrations	448,812	-	-	448,812	459,343
Membership dues	358,130	-	-	358,130	349,477
Fines, insurance administration, and other	560,068	-	-	560,068	571,681
Programs, books, and directories	59,337	-	-	59,337	61,889
Unrealized (losses) gains on investments	(215,024)	-	-	(215,024)	817,293
Realized (losses) gains on investments	(29,270)	-	-	(29,270)	578,079
Investment income	244,441	19	-	244,460	354,054
Change in cash surrender value - life insurance	28,411	-	-	28,411	87,165
	<u>4,276,180</u>	<u>332,510</u>	<u>717,134</u>	<u>5,325,824</u>	<u>7,129,609</u>
Net assets released from restrictions	<u>332,717</u>	<u>(332,717)</u>	-	-	-
TOTAL SUPPORT AND REVENUE	<u>4,608,897</u>	<u>(207)</u>	<u>717,134</u>	<u>5,325,824</u>	<u>7,129,609</u>
EXPENSES:					
Program services	<u>3,620,198</u>	-	-	<u>3,620,198</u>	<u>3,275,415</u>
Supporting services:					
General and administrative	580,690	-	-	580,690	594,919
Fundraising	280,325	-	-	280,325	248,035
Total supporting services	<u>861,015</u>	-	-	<u>861,015</u>	<u>842,954</u>
TOTAL EXPENSES	<u>4,481,213</u>	-	-	<u>4,481,213</u>	<u>4,118,369</u>
CHANGES IN NET ASSETS	127,684	(207)	717,134	844,611	3,011,240
NET ASSETS - BEGINNING OF YEAR	<u>15,159,967</u>	<u>10,377</u>	<u>9,606,699</u>	<u>24,777,043</u>	<u>21,765,803</u>
NET ASSETS - END OF YEAR	<u>\$ 15,287,651</u>	<u>\$ 10,170</u>	<u>\$ 10,323,833</u>	<u>\$ 25,621,654</u>	<u>\$ 24,777,043</u>

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, 2012
 (With Comparative Totals for the Year Ended June 30, 2011)

	Program Services	General and Administrative	Fundraising	2012 Totals	2011 Totals
Salaries and benefits	\$ 681,129	\$ 266,643	\$ 185,596	\$ 1,133,368	\$ 1,131,928
Team expenses	804,694	-	-	804,694	712,860
Payments to schools	562,172	-	-	562,172	390,000
Insurance	381,634	42,404	-	424,038	419,904
Gate receipts distribution	327,928	-	-	327,928	272,828
Office expense and supplies	137,996	74,305	5,501	217,802	208,144
Printing, publications, and programs	158,584	12,489	17,161	188,234	186,490
Awards	120,765	-	15,000	135,765	136,484
Miscellaneous	37,425	37,425	53,606	128,456	131,263
Workshops	108,215	-	-	108,215	108,246
Meetings expense	83,243	20,811	1,261	105,315	83,943
Professional services	23,896	71,689	-	95,585	103,160
Contract services	86,069	-	-	86,069	91,288
Depreciation	25,986	25,986	-	51,972	50,916
Telephone and utilities	25,848	4,561	-	30,409	31,724
Travel	12,505	8,337	1,591	22,433	14,023
Hall of Fame	19,299	-	-	19,299	16,347
Building and grounds maintenance	1,782	16,040	-	17,822	17,810
Vehicle expense	11,126	-	36	11,162	10,486
Advertising	9,902	-	573	10,475	525
Total expenses	\$ 3,620,198	\$ 580,690	\$ 280,325	\$ 4,481,213	\$ 4,118,369

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

EXHIBIT D

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 844,611	\$ 3,011,240
Adjustments to reconcile changes in net assets to net cash provided by operations:		
Depreciation	51,972	50,916
Increase in cash surrender values of life insurance	(28,411)	(87,165)
Decrease (increase) in values of annuity investments	30,074	(193,604)
Permanently restricted contributions	(717,134)	(700,652)
Realized losses (gains) on investments	28,497	(571,170)
Realized loss (gain) on sale of property and equipment	773	(6,909)
Unrealized losses (gains) on investments	215,024	(817,293)
Increase (decrease) in cash arising from changes in assets and liabilities:		
Grant receivable	(2,875)	3,452
Corporate sponsors receivable	99,622	(181,595)
Other receivables	698	(3,665)
Prepaid expenses	(2,778)	(8,998)
Accounts payable	668,490	(92,793)
Accrued payroll and related liabilities	-	(202,427)
Accrued vacation	2,092	40,797
Deferred revenue - officials	(13,234)	(37,394)
Deferred revenue - other	17,963	(12,599)
Deferred compensation	(91,355)	(91,355)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,104,029</u>	<u>98,786</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(105,680)	(83,979)
Restricted cash	-	2,196,966
Proceeds from sale of equipment	33,520	44,311
Proceeds from sale of investments	5,148,478	4,194,205
Purchase of investments	(5,431,440)	(7,265,567)
NET CASH USED IN INVESTING ACTIVITIES	<u>(355,122)</u>	<u>(914,064)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	717,134	700,652
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	1,466,041	(114,626)
CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>8,237,888</u>	<u>8,352,514</u>
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 9,703,929</u>	<u>\$ 8,237,888</u>
Supplemental Cash Flow Information		
In-kind contributions	<u>\$ 106,020</u>	<u>\$ 100,050</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

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. 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 (GAAP). 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. If restricted contributions are expended in the same period as when they were received, the support is classified as unrestricted.

B. Cash and Equivalents.

Cash and equivalents include cash and money market investment funds.

C. Investments.

Investments in marketable securities are stated at their fair market value based on readily available published fair market values. Donated securities are recorded at their fair market value at the date of gift.

D. Receivables.

Accounts receivable are recorded at their net realizable value. 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 by management of the current status of the existing receivables. No allowance has been recorded at June 30, 2012 and 2011, based on management's estimated collectability of these receivables.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**E. Property and Equipment.**

Property and equipment are stated at cost when purchased and at fair market value on the date of the gift when donated. Property and equipment are capitalized if their lives are expected to be greater than one year and their cost exceeds \$500. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

F. 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 on which they depend are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. An allowance for uncollectible promises is calculated based on management's estimate of collectability.

G. Net Assets.

Unrestricted - Resources of the Organization that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations, undesignated gifts, and investments in property and equipment.

Temporarily Restricted - Resources that carry a donor-imposed restriction requiring the Organization to use or expend the donated assets as specified by the donor. The restrictions are satisfied by the passage of time or by actions of the Organization.

Permanently Restricted - Resources that carry a donor-imposed restriction that stipulates donated assets be maintained in perpetuity, but permit the Organization to use or expend part or all of the income derived from the donated assets.

H. 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.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. 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.

J. 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.

K. Fair Value of Financial Instruments.

Accounting principles generally accepted in the United States of America require the Organization to disclose estimated fair values for its financial instruments. The carrying amount of financial instruments approximates fair value because of the short maturities of the instruments held.

CASH AND EQUIVALENTS

At times, the Organization places deposits with high-quality financial institutions that may be in excess of federally insured amounts. The Organization has not experienced any financial loss related to such deposits.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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INVESTMENTS

Investments consist of the following at June 30, 2012:

	Cost	Market	Unrealized Gain
Mutual funds	\$ 5,554,136	\$ 5,981,473	\$ 427,337
Annuity contracts	1,351,881	1,351,881	-
Equity securities	5,694,021	6,482,349	788,328
	<u>\$ 12,600,038</u>	<u>\$ 13,815,703</u>	<u>\$ 1,215,665</u>

Investments consist of the following at June 30, 2011:

	Cost	Market	Unrealized Gain (Loss)
Mutual funds	\$ 1,538,456	\$ 1,648,545	\$ 110,089
Annuity contracts	2,292,387	2,292,387	-
Equity securities	8,544,803	9,865,403	1,320,600
	<u>\$ 12,375,646</u>	<u>\$ 13,806,335</u>	<u>\$ 1,430,689</u>

Investment income is reported net of investment fees of \$139,416 and \$101,147, for the years ending June 30, 2012 and 2011, respectively.

FAIR VALUE OF ASSETS

The Financial Accounting Standards Board Accounting Standards Codification 820 – *Fair Value Measurements and Disclosures* (“ASC 820”) defines fair value as 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 fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization’s assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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FAIR VALUE OF ASSETS (CONTINUED)

information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets as of the reporting date.

Level 2 - Valuations based on inputs other than quoted prices, which are either directly or indirectly observable as of the reporting date, are valued at prices for similar assets or liabilities in markets not active, or determined through the use of models or other valuation methodologies.

Level 3 - Pricing inputs are unobservable and include situations where there is little, if any, market activity for the asset. Fair value for these assets is determined using valuation methodologies that consider a range of factors, including but not limited to the price at which the asset was acquired, the nature of the assets, 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 asset. 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 readily available market for these assets existed.

There were no changes during the year ending June 30, 2012, to the Organization's valuation techniques used to measure asset values on a recurring basis.

The following tables summarize the assets of the Foundation for which fair values are determined on a recurring basis as of June 30, 2012 and 2011. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets:	June 30, 2012			Total
	Level 1	Level 2	Level 3	
Mutual funds	\$ 5,981,473	\$ -	\$ -	\$ 5,981,473
Annuity contracts	-	-	1,351,881	1,351,881
Equity securities	5,918,309	564,040	-	6,482,349
	<u>\$ 11,899,782</u>	<u>\$ 564,040</u>	<u>\$ 1,351,881</u>	<u>\$ 13,815,703</u>

Assets:	June 30, 2011			Total
	Level 1	Level 2	Level 3	
Mutual funds	\$ 1,648,545	\$ -	\$ -	\$ 1,648,545
Annuity contracts	-	-	2,292,387	2,292,387
Equity securities	9,865,403	-	-	9,865,403
	<u>\$ 11,513,948</u>	<u>\$ -</u>	<u>\$ 2,292,387</u>	<u>\$ 13,806,335</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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FAIR VALUE OF ASSETS (CONTINUED)

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investments, fair value beginning of year	\$ 2,292,387	\$ 2,098,783
Change in annuity valuation	(30,074)	193,604
Annuities sold	(910,432)	-
Investments, fair value end of year	<u>\$ 1,351,881</u>	<u>\$ 2,292,387</u>

PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Furniture, fixtures, and equipment	\$ 599,358	\$ 578,321
Building and improvements	777,374	752,374
Vehicles	<u>114,393</u>	<u>111,042</u>
	1,491,125	1,441,737
Less: accumulated depreciation	<u>(983,933)</u>	<u>(953,959)</u>
	<u>\$ 507,192</u>	<u>\$ 487,778</u>

CONDITIONAL PROMISES TO GIVE

Conditional promises to give at June 30, 2012 and 2011, total approximately \$2.4 million and \$1 million, respectively. These conditional promises to give, which are predominantly 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.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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NET ASSETS

Net assets at June 30 consist of the following:

	<u>2012</u>	<u>2011</u>
Unrestricted net assets:		
Board designated earnings from endowment	\$ 6,256,298	\$ 6,243,017
Undesignated	9,031,353	8,916,950
Unrestricted net assets	<u>\$ 15,287,651</u>	<u>\$ 15,159,967</u>
Temporarily restricted net assets:		
Scholarships	\$ -	\$ 207
Mylan grant	10,170	10,170
Temporarily restricted net assets	<u>\$ 10,170</u>	<u>\$ 10,377</u>
Permanently restricted net assets:		
Endowment	\$ 9,836,145	\$ 9,156,866
Hall of Fame Endowment	107,965	103,770
Tony Webb Coach of the Year Award	78,520	76,270
Gainey Student Scholarships	100,000	100,000
Clary Medal Awards	100,000	100,000
Charlie Adams Endowed Scholarship	54,202	50,857
Scholar Athletes Scholarship	24,465	-
Dave Harris Athletic Director Award	18,936	18,936
McGee Scholarship	3,600	-
Permanently restricted net assets	<u>\$ 10,323,833</u>	<u>\$ 9,606,699</u>

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

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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ENDOWMENTS (CONTINUED)*Interpretation of Relevant Law (Continued)*

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.

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.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that SPMIFA requires to retain as a fund of perpetual duration. There were no endowments below the required amounts at year-end.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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ENDOWMENTS (CONTINUED)

The changes in endowment net assets for the year ended June 30, 2012, were as follows:

	Unrestricted	Temporarily restricted	Permanently Restricted	Totals
Endowment net assets, beginning of year	\$ 6,243,017	\$ 207	\$ 9,606,699	\$ 15,849,923
Investment return:				
Income	167,481	424	-	167,905
Net (depreciation) appreciation	(122,594)	16,056	-	(106,538)
Total investment return	<u>44,887</u>	<u>16,480</u>	<u>-</u>	<u>61,367</u>
Contributions	248,716	-	717,134	965,850
Appropriation for expenditure	(280,322)	(35,628)	-	(315,950)
Transfers	-	18,941	-	18,941
Endowment net assets, end of year	<u>\$ 6,256,298</u>	<u>\$ -</u>	<u>\$ 10,323,833</u>	<u>\$ 16,580,131</u>

The changes in endowment net assets for the year ended June 30, 2011, were as follows:

	Unrestricted	Temporarily restricted	Permanently Restricted	Totals
Endowment net assets, beginning of year	\$ 5,028,505	\$ 721	\$ 8,906,047	\$ 13,935,273
Investment return:				
Income	626,291	5,047	-	631,338
Net appreciation	517,927	-	-	517,927
Total investment return	<u>1,144,218</u>	<u>5,047</u>	<u>-</u>	<u>1,149,265</u>
Contributions	318,328	-	700,652	1,018,980
Appropriation for expenditure	(248,034)	(5,561)	-	(253,595)
Endowment net assets, end of year	<u>\$ 6,243,017</u>	<u>\$ 207</u>	<u>\$ 9,606,699</u>	<u>\$ 15,849,923</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>2012</u>	<u>2011</u>
Administration of the state's athletic program for its member schools, including the education and training of officials.	\$ 3,287,707	\$ 2,905,980
Administration of chemical awareness and substance abuse education programs for high school students, teachers, and administration.	<u>332,491</u>	<u>369,435</u>
	<u>\$ 3,620,198</u>	<u>\$ 3,275,415</u>

RETIREMENT PLANS

The Organization established a 401(k) retirement plan (the "plan") effective June 1, 2010. Employees are eligible to participate 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 \$71,164 and \$68,836 for the years ended June 30, 2012 and 2011, respectively. This includes a 2% additional discretionary matching contribution, and a 2% profit sharing contribution for each year.

INCOME TAXES

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification 740-10 ("ASC 740-10") *Accounting for Income Taxes*, the Organization reflects 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.

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INCOME TAXES (CONTINUED)

If applicable, penalties and interest assessed by income taxing authorities are included in general and administrative expenses. Under the statute of limitations, the federal informational returns of the Organization for 2009 through 2011 are subject to examination by taxing authorities. Management evaluated tax positions for the 2009 through 2011 returns, and concluded that there are no uncertain tax positions and believes there is no income tax effect on the financial statements.

OPERATING LEASES

The Organization is obligated under an operating lease agreement for office equipment. The monthly payment is \$3,616, and the lease expires in 2016. Minimum future rental payments are as follows:

<u>Year Ending June 30,</u>	
2013	\$ 43,392
2014	43,392
2015	43,392
2016	36,160
	<u>\$ 166,336</u>

Total rental expense for the above operating leases amounted to \$43,392 and \$43,742, for the years ending June 30, 2012 and 2011, 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 \$106,020 and \$100,050, have been recognized as contributions as of June 30, 2012 and 2011, respectively.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through December 3, 2012, which was the date that the financial statements were available to be issued, and determined there are no events that require disclosure.

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, 2011, from which the summarized information was derived.