

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

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2013
(With Comparative Totals for the
Year Ended June 30, 2012)**

CONFIDENTIAL

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of North Carolina High School Athletic Association, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the

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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 North Carolina High School Athletic Association, Inc., as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2012 financial statements, and our report dated December 3, 2012, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Blackman & Sloop

Chapel Hill, North Carolina
December 3, 2013

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012

EXHIBIT A

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ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 10,941,461	\$ 9,703,929
Investments	3,250,902	3,491,870
Grant receivable	8,811	43,270
Corporate sponsors receivable	308,827	250,776
Other receivables	18,335	16,908
Prepaid expenses	98,363	103,269
TOTAL CURRENT ASSETS	<u>14,626,699</u>	<u>13,610,022</u>
PROPERTY AND EQUIPMENT, NET	<u>518,786</u>	<u>507,192</u>
OTHER ASSETS:		
Investments	11,070,211	10,323,833
Agency cash	62,668	62,668
Cash surrender values - life insurance	2,204,551	2,158,622
TOTAL OTHER ASSETS	<u>13,337,430</u>	<u>12,545,123</u>
TOTAL ASSETS	<u>\$ 28,482,915</u>	<u>\$ 26,662,337</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, 2013 and 2012

EXHIBIT A

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LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 199,238	\$ 736,341
Accrued vacation	61,979	52,584
Deferred revenue:		
Officials	158,242	166,417
Other	7,950	22,673
Agency funds	<u>62,668</u>	<u>62,668</u>
TOTAL CURRENT LIABILITIES	<u>490,077</u>	<u>1,040,683</u>
NET ASSETS:		
Unrestricted:		
Board designated	7,223,602	6,557,264
Undesignated	9,661,977	8,730,387
Temporarily restricted	37,048	10,170
Permanently restricted	<u>11,070,211</u>	<u>10,323,833</u>
TOTAL NET ASSETS	<u>27,992,838</u>	<u>25,621,654</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,482,915</u>	<u>\$ 26,662,337</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, 2013
 (With Comparative Totals for the Year Ended June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Totals	2012 Totals
SUPPORT AND REVENUE:					
Playoffs	\$ 1,456,831	\$ -	\$ -	\$ 1,456,831	\$ 1,506,105
Contributions	1,332,242	-	746,378	2,078,620	1,926,284
In-kind contributions	187,650	-	-	187,650	106,020
Government grants and contracts	-	329,132	-	329,132	332,491
Officials' registrations	432,646	-	-	432,646	448,812
Membership dues	356,575	-	-	356,575	358,130
Fines, insurance administration, and other	589,990	-	-	589,990	560,068
Programs, books, and directories	60,727	-	-	60,727	59,337
Unrealized gains (losses) on investments	528,323	-	-	528,323	(215,024)
Realized gains (losses)	822,340	-	-	822,340	(29,270)
Investment income	410,911	43,288	-	454,199	244,460
Change in cash surrender value - life insurance	45,929	-	-	45,929	28,411
	6,224,164	372,420	746,378	7,342,962	5,325,824
Net assets released from restrictions	345,542	(345,542)	-	-	-
TOTAL SUPPORT AND REVENUE	6,569,706	26,878	746,378	7,342,962	5,325,824
EXPENSES:					
Program services	3,941,503	-	-	3,941,503	3,620,198
Supporting services:					
General and administrative	720,422	-	-	720,422	580,690
Fundraising	309,853	-	-	309,853	280,325
Total supporting services	1,030,275	-	-	1,030,275	861,015
TOTAL EXPENSES	4,971,778	-	-	4,971,778	4,481,213
CHANGES IN NET ASSETS	1,597,928	26,878	746,378	2,371,184	844,611
NET ASSETS - BEGINNING OF YEAR	15,287,651	10,170	10,323,833	25,621,654	24,777,043
NET ASSETS - END OF YEAR	\$ 16,885,579	\$ 37,048	\$ 11,070,211	\$ 27,992,838	\$ 25,621,654

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, 2013
(With Comparative Totals for the Year Ended June 30, 2012)

	Program Services	General and Administrative	Fundraising	2013 Totals	2012 Totals
Salaries and benefits	\$ 782,231	\$ 315,182	\$ 188,065	\$ 1,285,478	\$ 1,133,368
Team expenses	810,959	-	-	810,959	804,694
Payments to schools	665,507	-	-	665,507	562,172
Insurance	404,239	44,916	-	449,155	424,038
Gate receipts distribution	295,630	-	-	295,630	327,928
Office expense and supplies	141,966	76,444	3,073	221,483	217,802
Printing, publications, and programs	153,089	11,362	17,034	181,485	188,234
Awards	135,324	-	11,500	146,824	135,765
Miscellaneous	149,149	146,899	78,075	374,123	128,456
Workshops	119,042	-	-	119,042	108,215
Meetings expense	78,097	19,524	3,414	101,035	105,315
Professional services	16,720	50,160	-	66,880	95,585
Contract services	84,996	-	-	84,996	86,069
Depreciation	28,208	28,208	-	56,416	51,972
Telephone and utilities	28,346	5,002	-	33,348	30,409
Travel	9,615	6,410	350	16,375	22,433
Hall of Fame	26,153	-	-	26,153	19,299
Building and grounds maintenance	1,813	16,315	-	18,128	17,822
Vehicle expense	9,819	-	440	10,259	11,162
Advertising	600	-	7,902	8,502	10,475
Total expenses	\$ 3,941,503	\$ 720,422	\$ 309,853	\$ 4,971,778	\$ 4,481,213

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,371,184	\$ 844,611
Adjustments to reconcile changes in net assets to net cash (used) provided by operations:		
Depreciation	56,416	51,972
Increase in cash surrender values of life insurance	(45,929)	(28,411)
(Increase) decrease in values of annuity investments	(155,512)	30,074
Permanently restricted contributions	(746,378)	(717,134)
Realized (gains) losses on investments	(812,940)	28,497
Realized (gain) loss on sale of property and equipment	(9,400)	773
Unrealized (gains) losses on investments	(528,323)	215,024
Increase (decrease) in cash arising from changes in assets and liabilities:		
Grant receivable	34,459	(2,875)
Corporate sponsors receivable	(58,051)	99,622
Other receivables	(1,427)	698
Prepaid expenses	4,906	(2,778)
Accounts payable	(537,103)	668,490
Accrued vacation	9,395	2,092
Deferred revenue - officials	(8,175)	(13,234)
Deferred revenue - other	(14,723)	17,963
Deferred compensation	-	(91,355)
	<u>(441,601)</u>	<u>1,104,029</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(68,862)	(105,680)
Proceeds from sale of equipment	10,250	33,520
Proceeds from sale of investments	8,266,754	5,148,478
Purchase of investments	(7,275,387)	(5,431,440)
	<u>932,755</u>	<u>(355,122)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Permanently restricted contributions	746,378	717,134
	<u>1,237,532</u>	<u>1,466,041</u>
NET INCREASE IN CASH AND EQUIVALENTS		
CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>9,703,929</u>	<u>8,237,888</u>
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 10,941,461</u>	<u>\$ 9,703,929</u>
Supplemental Cash Flow Information		
In-kind contributions	<u>\$ 187,650</u>	<u>\$ 106,020</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 ("US 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, 2013 and 2012, based on management's estimated collectability of these receivables.

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.

NOTES TO FINANCIAL STATEMENTS

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. If applicable, penalties and interest assessed by income taxing authorities are included in general and administrative expenses.

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, 2013:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain</u>
Mutual funds	\$ 4,762,998	\$ 5,286,403	\$ 523,405
Annuity contracts	1,507,393	1,507,393	-
Equity securities	6,306,734	7,527,317	1,220,583
	<u>\$ 12,577,125</u>	<u>\$ 14,321,113</u>	<u>\$ 1,743,988</u>

Investments consist of the following at June 30, 2012:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain</u>
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>

Investment income is reported net of investment fees of \$157,918 and \$139,416, for the years ending June 30, 2013 and 2012, 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 information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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FAIR VALUE OF ASSETS (CONTINUED)

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, 2013, 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, 2013 and 2012. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets:	June 30, 2013			Total
	Level 1	Level 2	Level 3	
Mutual funds	\$ 5,286,403	\$ -	\$ -	\$ 5,286,403
Annuity contracts	-	-	1,507,393	1,507,393
Equity securities	7,527,317	-	-	7,527,317
	<u>\$ 12,813,720</u>	<u>\$ -</u>	<u>\$ 1,507,393</u>	<u>\$ 14,321,113</u>

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>

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Investments, fair value beginning of year	\$ 1,351,881	\$ 2,292,387
Change in annuity valuation	155,512	(30,074)
Annuities sold	-	(910,432)
Investments, fair value end of year	<u>\$ 1,507,393</u>	<u>\$ 1,351,881</u>

PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Furniture, fixtures, and equipment	\$ 626,829	\$ 599,358
Building and improvements	777,374	777,374
Vehicles	120,520	114,393
	<u>1,524,723</u>	<u>1,491,125</u>
Less: accumulated depreciation	<u>(1,005,937)</u>	<u>(983,933)</u>
	<u>\$ 518,786</u>	<u>\$ 507,192</u>

CONDITIONAL PROMISES TO GIVE

Conditional promises to give at June 30, 2013 and 2012, total approximately \$1.1 million and \$2.4 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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TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted and permanently restricted net assets at June 30 consist of the following:

	<u>2013</u>	<u>2012</u>
Temporarily restricted net assets:		
Mylan grant	\$ 10,170	\$ 10,170
Tony Webb Coach of the Year Award	4,951	-
Gainey Student Scholarships	7,400	-
Clary Medal Awards	7,400	-
Charlie Adams Endowed Scholarship	3,179	-
Scholar Athletes Scholarship	1,789	-
Dave Harris Athletic Director Award	2,159	-
McGee Scholarship	-	-
Temporarily restricted net assets	<u>\$ 37,048</u>	<u>\$ 10,170</u>
Permanently restricted net assets:		
Endowment	\$ 10,554,111	\$ 9,836,145
Hall of Fame Endowment	112,455	107,965
Tony Webb Coach of the Year Award	78,620	78,520
Gainey Student Scholarships	100,000	100,000
Clary Medal Awards	100,000	100,000
Charlie Adams Endowed Scholarship	55,295	54,202
Scholar Athletes Scholarship	45,024	24,465
Dave Harris Athletic Director Award	18,936	18,936
McGee Scholarship	5,770	3,600
Permanently restricted net assets	<u>\$ 11,070,211</u>	<u>\$ 10,323,833</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, 2013, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 6,557,264	\$ -	\$ 10,323,833	\$ 16,881,097
Investment return:				
Income	881,453	48,355	-	929,808
Net appreciation	490,491	10,781	-	501,272
Total investment return	<u>1,371,944</u>	<u>59,136</u>	<u>-</u>	<u>1,431,080</u>
Contributions/other revenue	275,245	7,550	746,378	1,029,173
Appropriation for expenditure	(980,851)	(47,543)	-	(1,028,394)
Transfers	-	7,735	-	7,735
Endowment net assets, end of year	<u>\$ 7,223,602</u>	<u>\$ 26,878</u>	<u>\$ 11,070,211</u>	<u>\$ 18,320,691</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 6,543,983	\$ 207	\$ 9,606,699	\$ 16,150,889
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/other revenue	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>\$ 6,557,264</u>	<u>\$ -</u>	<u>\$ 10,323,833</u>	<u>\$ 16,881,097</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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PROGRAM SERVICES

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

	<u>2013</u>	<u>2012</u>
Administration of the state's athletic program for its member schools, including the education and training of officials.	\$ 3,612,371	\$ 3,287,707
Administration of chemical awareness and substance abuse education programs for high school students, teachers, and administration.	<u>329,132</u>	<u>332,491</u>
	<u>\$ 3,941,503</u>	<u>\$ 3,620,198</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 \$78,542 and \$71,164 for the years ended June 30, 2013 and 2012, respectively. This includes a 2% additional discretionary matching contribution, and a 2% profit sharing contribution for each year.

INCOME TAXES

Under the statute of limitations, the federal informational returns of the Organization for the years ended June 30, 2011 through 2013 are subject to examination by taxing authorities. Management evaluated tax positions for these returns, and concluded that there are no uncertain tax positions and believes there is no income tax effect on the financial statements.

NOTES TO 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>		
2014	\$	43,392
2015		43,392
2016		36,160
	<u>\$</u>	<u>122,944</u>

Total rental expense for the above operating leases amounted to \$43,392 for each year ended June 30, 2013 and 2012.

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 \$187,650 and \$106,020, have been recognized as contributions as of June 30, 2013 and 2012, respectively.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2012 financial statements in order to conform to 2013 presentation. Such reclassification had no effect on 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, 2012, from which the summarized information was derived.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through December 3, 2013, which was the date that the financial statements were available to be issued, and determined there are no events that require disclosure.