

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

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014
(With Comparative Totals for the
Year Ended June 30, 2013)

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& SLOOP**
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

	<u>PAGES</u>
Independent Auditor's Report	2-3
Exhibits:	
"A" Statements of Financial Position	4-5
"B" Statement of Activities and Changes in Net Assets	6
"C" Statement of Functional Expenses	7
"D" Statements of Cash Flows	8
Notes to Financial Statements	9-20

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INDEPENDENT AUDITOR'S REPORT

Page 1 of 2

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, 2014, 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 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.

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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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 3, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Blackman & Sloop

Chapel Hill, North Carolina
November 20, 2014

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NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

June 30, 2014 and 2013

Page 1 of 2

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 9,888,794	\$ 10,941,461
Investments	8,665,858	3,231,397
Grant receivable	19,671	8,811
Corporate sponsors receivable	204,861	308,827
Other receivables	29,383	18,335
Prepaid expenses	48,101	98,363
TOTAL CURRENT ASSETS	<u>18,856,668</u>	<u>14,607,194</u>
PROPERTY AND EQUIPMENT, NET	<u>567,674</u>	<u>518,786</u>
OTHER ASSETS:		
Investments	11,779,856	11,089,716
Agency cash	62,668	62,668
Cash surrender values - life insurance	2,249,909	2,204,551
TOTAL OTHER ASSETS	<u>14,092,433</u>	<u>13,356,935</u>
TOTAL ASSETS	<u>\$ 33,516,775</u>	<u>\$ 28,482,915</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, 2014 and 2013

EXHIBIT A

Page 2 of 2

LIABILITIES AND NET ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 823,940	\$ 199,238
Accrued vacation	66,919	61,979
Deferred revenue	234,930	166,192
Agency funds	62,668	62,668
Current portion of long-term debt	190,211	-
	<u>1,378,668</u>	<u>490,077</u>
TOTAL CURRENT LIABILITIES		
LONG-TERM LIABILITIES:		
Loan payable, net of current portion	809,789	-
	<u>809,789</u>	<u>-</u>
NET ASSETS:		
Unrestricted:		
Board designated	8,777,349	7,213,787
Undesignated	10,677,837	9,649,271
Temporarily restricted	93,276	40,064
Permanently restricted	11,779,856	11,089,716
	<u>31,328,318</u>	<u>27,992,838</u>
TOTAL NET ASSETS		
	<u>31,328,318</u>	<u>27,992,838</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,516,775</u>	<u>\$ 28,482,915</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, 2014
 (With Comparative Totals for the Year Ended June 30, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Totals	2013 Totals
SUPPORT AND REVENUE:					
Playoffs	\$ 1,449,848	\$ -	\$ -	\$ 1,449,848	\$ 1,456,831
Contributions	1,363,097	11,874	690,140	2,065,111	2,078,620
In-kind contributions	204,848	-	-	204,848	187,650
Government grants and contracts	-	322,413	-	322,413	329,132
Officials' registrations	426,789	-	-	426,789	432,646
Membership dues	363,199	-	-	363,199	356,575
Fines, insurance administration, and other	598,351	-	-	598,351	589,990
Programs, books, and directories	46,613	-	-	46,613	60,727
Unrealized gains on investments	1,259,006	-	-	1,259,006	528,323
Realized gains	1,056,873	-	-	1,056,873	822,340
Investment income	604,607	65,588	-	670,195	612,117
Change in cash surrender value - life insurance	45,358	-	-	45,358	45,929
	7,418,589	399,875	690,140	8,508,604	7,500,880
Net assets released from restrictions	346,663	(346,663)	-	-	-
TOTAL SUPPORT AND REVENUE	7,765,252	53,212	690,140	8,508,604	7,500,880
EXPENSES:					
Program services	4,007,456	-	-	4,007,456	3,941,503
Supporting services:					
General and administrative	890,939	-	-	890,939	878,340
Fundraising	274,729	-	-	274,729	309,853
Total supporting services	1,165,668	-	-	1,165,668	1,188,193
TOTAL EXPENSES	5,173,124	-	-	5,173,124	5,129,696
CHANGES IN NET ASSETS	2,592,128	53,212	690,140	3,335,480	2,371,184
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	16,863,058	40,064	11,089,716	27,992,838	25,621,654
NET ASSETS - END OF YEAR	\$ 19,455,186	\$ 93,276	\$ 11,779,856	\$ 31,328,318	\$ 27,992,838

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, 2014
 (With Comparative Totals for the Year Ended June 30, 2013)

	Program Services	General and Administrative	Fundraising	2014 Totals	2013 Totals
Salaries and benefits	\$ 825,457	\$ 334,718	\$ 180,253	\$ 1,340,428	\$ 1,285,478
Team expenses	932,472	-	-	932,472	810,959
Payments to schools	641,848	-	-	641,848	665,507
Insurance	412,902	45,878	-	458,780	449,155
Gate receipts distribution	279,359	-	-	279,359	295,630
Other expenses	106,241	98,286	69,117	273,644	374,123
Investment fees	-	194,829	-	194,829	157,918
Office expense and supplies	124,931	67,270	622	192,823	221,483
Printing, publications, and programs	152,133	10,811	13,144	176,088	181,485
Awards	155,423	-	-	155,423	146,824
Workshops	106,933	-	-	106,933	119,042
Meetings expense	80,974	20,244	652	101,870	101,035
Professional services	18,940	56,821	-	75,761	66,880
Depreciation	34,264	34,265	-	68,529	56,416
Contract services	66,000	-	-	66,000	84,996
Telephone and utilities	30,778	5,432	-	36,210	33,348
Building and grounds maintenance	1,773	15,958	-	17,731	18,128
Travel	9,641	6,427	591	16,659	16,375
Hall of Fame	16,119	-	-	16,119	26,153
Advertising	620	-	10,350	10,970	8,502
Vehicle expense	10,648	-	-	10,648	10,259
Total expenses	<u>\$ 4,007,456</u>	<u>\$ 890,939</u>	<u>\$ 274,729</u>	<u>\$ 5,173,124</u>	<u>\$ 5,129,696</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

EXHIBIT D

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 3,335,480	\$ 2,371,184
Adjustments to reconcile changes in net assets to net cash provided (used) by operations:		
Depreciation	68,529	56,416
Increase in cash surrender values of life insurance	(45,358)	(45,929)
Increase in values of annuity investments	(191,871)	(155,512)
Permanently restricted contributions	(690,140)	(765,883)
Realized gains on investments	(1,058,972)	(812,940)
Realized loss (gain) on sale of property and equipment	2,099	(9,400)
Unrealized gains on investments	(1,259,006)	(528,323)
Increase (decrease) in cash arising from changes in assets and liabilities:		
Grant receivable	(10,860)	34,459
Corporate sponsors receivable	103,966	(58,051)
Other receivables	(11,048)	(1,427)
Prepaid expenses	50,262	4,906
Accounts payable and accrued expenses	624,702	(537,103)
Accrued vacation	4,940	9,395
Deferred revenue	68,738	(22,898)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>991,461</u>	<u>(461,106)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(133,630)	(68,862)
Proceeds from sale of equipment	14,114	10,250
Proceeds from sale of investments	7,150,366	8,266,754
Purchase of investments	(10,765,118)	(7,275,387)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(3,734,268)</u>	<u>932,755</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan	1,000,000	-
Permanently restricted contributions	690,140	765,883
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,690,140</u>	<u>765,883</u>
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(1,052,667)	1,237,532
CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>10,941,461</u>	<u>9,703,929</u>
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 9,888,794</u>	<u>\$ 10,941,461</u>
Supplemental Cash Flow Information		
Interest paid	<u>\$ 1,320</u>	<u>\$ -</u>
Non cash transactions:		
In-kind contributions	<u>\$ 204,848</u>	<u>\$ 187,650</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**

Page 1 of 12

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 ("U.S. 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, grants, corporate sponsorship, and other receivables 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, 2014 and 2013, based on management's estimated collectability of these receivables.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 2 of 12

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 estimated future cash flows. An allowance for uncollectible promises is calculated based on management's estimate.

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

Page 3 of 12

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

Page 4 of 12

INVESTMENTS

Investments consist of the following at June 30, 2014:

	Cost	Market	Unrealized Gain
Mutual funds	\$ 8,109,864	\$ 9,000,487	\$ 890,623
Annuity contracts	1,699,264	1,699,264	-
Equity securities	7,334,542	9,410,521	2,075,979
ETFs and UITs	299,050	335,442	36,392
	<u>\$ 17,442,720</u>	<u>\$ 20,445,714</u>	<u>\$ 3,002,994</u>

Investments consist of the following at June 30, 2013:

	Cost	Market	Unrealized Gain
Mutual funds	\$ 4,342,354	\$ 4,865,949	\$ 523,595
Annuity contracts	1,507,393	1,507,393	-
Equity securities	6,306,734	7,527,317	1,220,583
ETFs and UITs	420,644	420,454	(190)
	<u>\$ 12,577,125</u>	<u>\$ 14,321,113</u>	<u>\$ 1,743,988</u>

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

Page 5 of 12

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, 2014, 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, 2014 and 2013. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2014			
Assets:	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 9,000,487	\$ -	\$ -	\$ 9,000,487
Annuity contracts	-	-	1,699,264	1,699,264
Equity securities	9,410,521	-	-	9,410,521
ETFs and UITs	335,442	-	-	335,442
	<u>\$ 18,746,450</u>	<u>\$ -</u>	<u>\$ 1,699,264</u>	<u>\$ 20,445,714</u>

	June 30, 2013			
Assets:	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 4,865,949	\$ -	\$ -	\$ 4,865,949
Annuity contracts	-	-	1,507,393	1,507,393
Equity securities	7,527,317	-	-	7,527,317
ETFs and UITs	420,454	-	-	420,454
	<u>\$ 12,813,720</u>	<u>\$ -</u>	<u>\$ 1,507,393</u>	<u>\$ 14,321,113</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 6 of 12

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investments, fair value beginning of year	\$ 1,507,393	\$ 1,351,881
Change in annuity valuation	191,871	155,512
Investments, fair value end of year	<u>\$ 1,699,264</u>	<u>\$ 1,507,393</u>

PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Furniture, fixtures, and equipment	\$ 350,361	\$ 626,829
Building and improvements	777,374	777,374
Vehicles	120,632	120,520
Renovations in process	60,000	-
	<u>1,308,367</u>	<u>1,524,723</u>
Less: accumulated depreciation	<u>(740,693)</u>	<u>(1,005,937)</u>
	<u>\$ 567,674</u>	<u>\$ 518,786</u>

CONDITIONAL PROMISES TO GIVE

Conditional promises to give at June 30, 2014 and 2013, total approximately \$430,000 and \$1.1 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.

LOAN PAYABLE

The Organization borrowed \$1 million in June 2014 to pay for renovations to its office building. Principal and interest payments amount to \$17,825 per month, with interest calculated at 2.64% per annum. The loan matures June 2019. Principal prepayment is allowed, however it is subject to a prepayment fee as described in the loan agreement. The fair value of the loan payable approximates the carrying value. Future minimum payments as of June 30, 2014, are as follows: June 30, 2015, \$190,211; 2016, \$194,878; 2017, \$200,085; 2018, \$205,432; 2019, \$209,394.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 7 of 12

TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Temporarily restricted net assets:		
Mylan grant	\$ 10,170	\$ 10,170
Tony Webb Coach of the Year Award	13,137	4,951
Gainey Student Scholarships	20,900	7,400
Clary Medal Awards	18,900	7,400
Charlie Adams Endowed Scholarship	8,750	3,179
Scholar Athletes Scholarship	8,768	1,789
Tony Cullen Memorial Fund	5,247	2,224
Dave Harris Athletic Director Award	5,094	2,159
Tony Cullen Expendable	2,310	792
Temporarily restricted net assets	<u>\$ 93,276</u>	<u>\$ 40,064</u>
Permanently restricted net assets:		
Endowment	\$ 11,223,756	\$ 10,554,111
Hall of Fame Endowment	115,970	112,455
Tony Webb Coach of the Year Award	78,720	78,620
Gainey Student Scholarships	100,000	100,000
Clary Medal Awards	100,000	100,000
Charlie Adams Endowed Scholarship	56,155	55,295
Scholar Athletes Scholarship	59,844	45,024
Tony Cullen Memorial Fund	20,705	19,505
Dave Harris Athletic Director Award	18,936	18,936
McGee Scholarship	5,770	5,770
Permanently restricted net assets	<u>\$ 11,779,856</u>	<u>\$ 11,089,716</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 U.S. 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.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 8 of 12

ENDOWMENTS (CONTINUED)*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.

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

Page 9 of 12

ENDOWMENTS (CONTINUED)

The changes in endowment net assets for the year ended June 30, 2014, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 7,213,787	\$ 29,102	\$ 11,089,716	\$ 18,332,605
Investment return:				
Income	983,466	64,694	-	1,048,160
Net appreciation	1,119,465	-	-	1,119,465
Total investment return	<u>2,102,931</u>	<u>64,694</u>	<u>-</u>	<u>2,167,625</u>
Contributions/other revenue	377,416	-	690,140	1,067,556
Appropriation for expenditure	(916,785)	(13,000)	-	(929,785)
Transfers	-	-	-	-
Endowment net assets, end of year	<u>\$ 8,777,349</u>	<u>\$ 80,796</u>	<u>\$ 11,779,856</u>	<u>\$ 20,638,001</u>

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	891,143	50,579	-	941,722
Net appreciation	490,491	10,781	-	501,272
Total investment return	<u>1,381,634</u>	<u>61,360</u>	<u>-</u>	<u>1,442,994</u>
Contributions/other revenue	255,740	7,550	765,883	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>\$ 7,213,787</u>	<u>\$ 29,102</u>	<u>\$ 11,089,716</u>	<u>\$ 18,332,605</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 10 of 12

PROGRAM SERVICES

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

	<u>2014</u>	<u>2013</u>
Administration of the state's athletic program for its member schools, including the education and training of officials.	\$ 3,685,043	\$ 3,612,371
Administration of chemical awareness and substance abuse education programs for high school students, teachers, and administration.	<u>322,413</u>	<u>329,132</u>
	<u>\$ 4,007,456</u>	<u>\$ 3,941,503</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 \$82,019 and \$78,542, for the years ended June 30, 2014 and 2013, 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, 2012 through 2014 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.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 11 of 12

OPERATING LEASES

The Organization was obligated under an operating lease agreement for office equipment. The monthly payment was \$3,616, and the lease was set to expire in 2016. The lease was terminated early April 2014. Total rental expense for the operating lease amounted to \$36,160 and \$43,392, for the years ended June 30, 2014 and 2013, respectively.

The Organization is obligated under an operating lease agreement for office equipment. The monthly payment is \$3,001, and the lease expires in 2019. Minimum future rental payments are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 36,009
2016	36,009
2017	36,009
2018	36,009
2019	36,009
2020	3,001
	<u>\$ 183,046</u>

Rent expense for the above operating lease amounted to \$6,002 for the year ended June 30, 2014.

The Organization entered into a one-year lease agreement for temporary office space in June 2014. The annual lease liability is \$28,440, payable quarterly. The Lease terminates in June 2015. There was no rent expense recorded in the year ended June 30, 2014.

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 \$204,848 and \$187,650, have been recognized as contributions as of June 30, 2014 and 2013, respectively.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2013 financial statements in order to conform to 2014 presentation. Such reclassification had no effect on net assets.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 12 of 12

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, 2013, from which the summarized information was derived.

CONTINGENCY

The Organization is a co-defendant in a lawsuit. Liability exposure is capped at \$1M, but will be fully covered by insurance. The Organization believes the suit is without merit and intends to vigorously defend its position. No accrual has been made in the accompanying financial statements for any possible loss.

RESTATEMENT OF NET ASSETS

Subsequent to the issuance of the June 30, 2013, financial statements, management determined certain contributions were accounted for incorrectly. Opening net assets as of July 1, 2013, were adjusted as follows: permanently restricted net assets were increased by \$19,505; temporarily restricted net assets were increased by \$3,086; and unrestricted net assets were decreased by \$22,591.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through November 20, 2014, which was the date that the financial statements were available to be issued, and determined there are no events that require disclosure.