

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

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Totals for the
Year Ended June 30, 2015)

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& SLOOP**
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2016, 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.

BLACKMAN & SLOOP, CPAS, P.A.

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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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Blackman & Sloop

Chapel Hill, North Carolina
November 21, 2016

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NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

June 30, 2016 and 2015

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ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 8,932,405	\$ 9,035,241
Investments	8,517,884	9,022,888
Grant receivable	66,925	68,322
Corporate sponsors receivable	74,526	104,047
Other receivables	23,333	94,528
Prepaid expenses	93,530	58,571
TOTAL CURRENT ASSETS	<u>17,708,603</u>	<u>18,383,597</u>
PROPERTY AND EQUIPMENT, NET	<u>1,511,345</u>	<u>1,575,202</u>
OTHER ASSETS:		
Investments	13,187,968	12,439,511
Agency cash	62,668	62,668
Cash surrender values - life insurance	2,309,440	2,310,718
TOTAL OTHER ASSETS	<u>15,560,076</u>	<u>14,812,897</u>
TOTAL ASSETS	<u>\$ 34,780,024</u>	<u>\$ 34,771,696</u>

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

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

June 30, 2016 and 2015

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LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,299,463	\$ 1,409,334
Accrued vacation	57,106	83,335
Deferred revenue	312,504	236,955
Agency funds	62,668	62,668
Current portion of long-term debt	<u>200,085</u>	<u>195,242</u>
TOTAL CURRENT LIABILITIES	<u>1,931,826</u>	<u>1,987,534</u>
LONG-TERM LIABILITIES:		
Loan payable, net of current portion	<u>415,353</u>	<u>614,731</u>
TOTAL LIABILITIES	<u>2,347,179</u>	<u>2,602,265</u>
NET ASSETS:		
Unrestricted:		
Board designated	8,736,201	9,826,997
Undesignated	10,445,278	9,822,780
Temporarily restricted	63,398	80,143
Permanently restricted	<u>13,187,968</u>	<u>12,439,511</u>
TOTAL NET ASSETS	<u>32,432,845</u>	<u>32,169,431</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,780,024</u>	<u>\$ 34,771,696</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, 2016
 (With Comparative Totals for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Totals	2015 Totals
SUPPORT AND REVENUE:					
Playoffs	\$ 1,536,143	\$ -	\$ -	\$ 1,536,143	\$ 1,539,460
Contributions	1,496,170	3,536	748,457	2,248,163	2,226,551
In-kind contributions	62,934	-	-	62,934	112,493
Government grants and contracts	-	295,320	-	295,320	298,434
Officials' registrations	481,105	-	-	481,105	465,700
Membership dues	377,033	-	-	377,033	370,691
Fines, insurance administration, and other	697,311	-	-	697,311	636,565
Programs, books, and directories	33,873	-	-	33,873	45,822
Unrealized losses on investments	(1,115,572)	(2,046)	-	(1,117,618)	(1,081,268)
Realized gains	510,482	-	-	510,482	961,975
Investment income	527,118	-	-	527,118	744,220
Change in cash surrender value - life insurance	(1,278)	-	-	(1,278)	60,809
	4,605,319	296,810	748,457	5,650,586	6,381,452
Net assets released from restrictions	313,555	(313,555)	-	-	-
TOTAL SUPPORT AND REVENUE	4,918,874	(16,745)	748,457	5,650,586	6,381,452
EXPENSES:					
Program services	4,310,670	-	-	4,310,670	4,336,278
Supporting services:					
General and administrative	793,537	-	-	793,537	853,614
Fundraising	282,965	-	-	282,965	350,447
Total supporting services	1,076,502	-	-	1,076,502	1,204,061
TOTAL EXPENSES	5,387,172	-	-	5,387,172	5,540,339
CHANGES IN NET ASSETS	(468,298)	(16,745)	748,457	263,414	841,113
NET ASSETS - BEGINNING OF YEAR	19,649,777	80,143	12,439,511	32,169,431	31,328,318
NET ASSETS - END OF YEAR	\$ 19,181,479	\$ 63,398	\$ 13,187,968	\$ 32,432,845	\$ 32,169,431

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, 2016
 (With Comparative Totals for the Year Ended June 30, 2015)

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
Salaries and benefits	\$ 660,977	\$ 286,510	\$ 214,470	\$ 1,161,957	\$ 1,288,498
Payments to schools	1,050,761	-	-	1,050,761	969,133
Team expenses	876,211	-	-	876,211	951,910
Insurance	505,581	56,176	-	561,757	523,333
Gate receipts distribution	267,433	-	-	267,433	305,882
Office expense and supplies	137,150	73,850	1,218	212,218	203,205
Investment fees	-	178,666	-	178,666	199,483
Awards	158,855	-	4,000	162,855	163,167
Other expenses	58,561	46,462	57,089	162,112	158,712
Printing, publications, and programs	147,538	10,107	3,336	160,981	170,490
Meetings expense	102,182	25,545	2,676	130,403	116,442
Workshops	121,124	-	-	121,124	95,133
Depreciation	49,658	49,659	-	99,317	78,621
Contract services	51,000	-	-	51,000	50,000
Professional services	12,125	36,375	-	48,500	79,714
Advertising	46,784	-	106	46,890	45,000
Telephone and utilities	19,767	3,488	-	23,255	27,326
Building and grounds maintenance	1,953	17,574	-	19,527	10,289
Interest expense	17,432	1,937	-	19,369	22,558
Travel	10,782	7,188	70	18,040	13,466
Hall of Fame	8,693	-	-	8,693	22,944
Vehicle expense	6,103	-	-	6,103	9,299
Temporary office space	-	-	-	-	35,734
Total expenses	<u>\$ 4,310,670</u>	<u>\$ 793,537</u>	<u>\$ 282,965</u>	<u>\$ 5,387,172</u>	<u>\$ 5,540,339</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 263,414	\$ 841,113
Adjustments to reconcile changes in net assets to net cash provided by operations:		
Depreciation	99,317	78,621
Change in cash surrender values of life insurance	1,278	(60,809)
Decrease (increase) in values of annuity investments	42,665	(19,804)
Permanently restricted contributions	(748,457)	(659,655)
Realized gains on investments	(504,634)	(950,756)
Realized gain on sale of property and equipment	(5,848)	(11,219)
Unrealized losses on investments	1,117,618	1,081,268
Increase (decrease) in cash arising from changes in assets and liabilities:		
Grant receivable	1,397	(48,651)
Corporate sponsors receivable	29,521	100,814
Other receivables	71,195	(65,145)
Prepaid expenses	(34,959)	(10,470)
Accounts payable and accrued expenses	(109,871)	585,394
Accrued vacation	(26,229)	16,416
Deferred revenue	75,549	2,025
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>271,956</u>	<u>879,142</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(45,112)	(1,110,007)
Proceeds from sale of equipment	15,500	35,076
Proceeds from sale of investments	8,763,833	5,717,995
Purchase of investments	(9,662,935)	(6,845,387)
NET CASH USED BY INVESTING ACTIVITIES	<u>(928,714)</u>	<u>(2,202,323)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on loan	(194,535)	(190,027)
Permanently restricted contributions	748,457	659,655
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>553,922</u>	<u>469,628</u>
NET DECREASE IN CASH AND EQUIVALENTS	(102,836)	(853,553)
CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>9,035,241</u>	<u>9,888,794</u>
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 8,932,405</u>	<u>\$ 9,035,241</u>
Supplemental Cash Flow Information:		
Interest paid	<u>\$ 19,369</u>	<u>\$ 22,558</u>
Non cash transactions:		
In-kind contributions	<u>\$ 62,934</u>	<u>\$ 112,493</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. (the "Organization") 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 fair value. 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, 2016 and 2015, 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 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

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

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.

INVESTMENTS

Investments consist of the following at June 30, 2016:

	Cost	Market	Unrealized Gain
Mutual funds	\$ 9,733,975	\$ 9,925,701	\$ 191,726
Annuity contracts	1,676,403	1,676,403	-
Equity securities	8,996,315	9,556,605	560,290
ETFs and UITs	495,051	547,143	52,092
	<u>\$ 20,901,744</u>	<u>\$ 21,705,852</u>	<u>\$ 804,108</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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INVESTMENTS (CONTINUED)

Investments consist of the following at June 30, 2015:

	Cost	Market	Unrealized Gain
Mutual funds	\$ 9,189,547	\$ 9,598,025	\$ 408,478
Annuity contracts	1,719,068	1,719,068	-
Equity securities	8,060,428	9,559,429	1,499,001
ETFs and UITs	571,630	585,877	14,247
	<u>\$ 19,540,673</u>	<u>\$ 21,462,399</u>	<u>\$ 1,921,726</u>

FAIR VALUE OF ASSETS

U.S. GAAP 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).

U.S. GAAP 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:

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, 2016, to the Organization's valuation techniques used to measure asset values on a recurring basis.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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FAIR VALUE OF ASSETS (CONTINUED)

The following tables summarize the assets of the Foundation for which fair values are determined on a recurring basis as of June 30, 2016 and 2015. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets:	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 9,925,701	\$ -	\$ -	\$ 9,925,701
Annuity contracts	-	-	1,676,403	1,676,403
Equity securities	9,556,605	-	-	9,556,605
ETFs and UITs	547,143	-	-	547,143
	<u>\$ 20,029,449</u>	<u>\$ -</u>	<u>\$ 1,676,403</u>	<u>\$ 21,705,852</u>

Assets:	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 9,598,025	\$ -	\$ -	\$ 9,598,025
Annuity contracts	-	-	1,719,068	1,719,068
Equity securities	9,559,429	-	-	9,559,429
ETFs and UITs	585,877	-	-	585,877
	<u>\$ 19,743,331</u>	<u>\$ -</u>	<u>\$ 1,719,068</u>	<u>\$ 21,462,399</u>

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, 2016 and 2015:

	2016	2015
Investments, fair value beginning of year	\$ 1,719,068	\$ 1,699,264
Change in annuity valuation	(42,665)	19,804
Investments, fair value end of year	<u>\$ 1,676,403</u>	<u>\$ 1,719,068</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Furniture, fixtures, and equipment	\$ 506,872	\$ 500,209
Building and improvements	1,738,220	1,737,155
Vehicles	<u>124,121</u>	<u>121,366</u>
	2,369,213	2,358,730
Less: accumulated depreciation	<u>(857,868)</u>	<u>(783,528)</u>
	<u>\$ 1,511,345</u>	<u>\$ 1,575,202</u>

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, and is secured by investments maintained by the lender. 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 principal payments as of June 30, 2016, are as follows:

<u>June 30,</u>	
2017	\$ 200,085
2018	205,432
2019	<u>209,921</u>
	<u>\$ 615,438</u>

CONDITIONAL PROMISES TO GIVE

Conditional promises to give at June 30, 2016 and 2015, total approximately \$2.2 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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TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets:		
Charlie Adams Endowed Scholarship	\$ 3,653	\$ 6,912
Clary Medal Awards	12,510	16,970
Dave Harris Athletic Director Award	5,399	5,486
Gainey Student Scholarships	12,510	18,970
McGee Expendable	891	5
McGee Scholarship	-	119
Mylan Grant	10,170	10,170
Willie Bradshaw Scholarship	978	2,758
Tony Cullen Expendable	2,310	2,310
Tony Cullen Memorial Fund	4,573	5,676
Tony Webb Coach of the Year Award	10,404	10,767
Temporarily restricted net assets	<u>\$ 63,398</u>	<u>\$ 80,143</u>
Permanently restricted net assets:		
Endowment	\$ 12,606,777	\$ 11,874,499
Charlie Adams Endowed Scholarship	58,230	56,280
Clary Medal Awards	100,000	100,000
Dave Harris Athletic Director Award	18,936	18,936
Gainey Student Scholarships	100,000	100,000
Hall of Fame Endowment	125,035	120,165
Lacrosse Scholarship	3,090	-
McGee Scholarship	7,914	7,320
Tony Cullen Memorial Fund	22,927	22,397
Tony Webb Coach of the Year Award	79,220	78,970
Willie Bradshaw Scholarship	65,839	60,944
Permanently restricted net assets	<u>\$ 13,187,968</u>	<u>\$ 12,439,511</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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ENDOWMENTS

The Organization's endowments were established for a variety of purposes. The endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by 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.

Interpretation of Relevant Law

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

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

Return Objectives and Risk Parameters

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

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

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ENDOWMENTS (CONTINUED)*Strategies Employed For Achieving Objectives*

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

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.

The changes in endowment net assets for the year ended June 30, 2016, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 9,826,997	\$ 67,658	\$ 12,439,511	\$ 22,334,166
Investment return:				
Income (loss)	633,740	-	-	633,740
Net depreciation	(873,143)	(2,046)	-	(875,189)
Total investment return	<u>(239,403)</u>	<u>(2,046)</u>	<u>-</u>	<u>(241,449)</u>
Contributions/other revenue	444,192	-	748,457	1,192,649
Appropriation for expenditure	(1,295,585)	(24,750)	-	(1,320,335)
Transfers	-	9,165	-	9,165
Endowment net assets, end of year	<u>\$ 8,736,201</u>	<u>\$ 50,027</u>	<u>\$ 13,187,968</u>	<u>\$ 21,974,196</u>

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ENDOWMENTS (CONTINUED)

The changes in endowment net assets for the year ended June 30, 2015, were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 10,379,210	\$ 80,796	\$ 11,779,856	\$ 22,239,862
Investment return:				
Income	(556,611)	9,112	-	(547,499)
Net appreciation	880,735	-	-	880,735
Total investment return	<u>324,124</u>	<u>9,112</u>	<u>-</u>	<u>333,236</u>
Contributions/other revenue	392,814	-	659,655	1,052,469
Appropriation for expenditure	(1,269,151)	(22,250)	-	(1,291,401)
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 9,826,997</u>	<u>\$ 67,658</u>	<u>\$ 12,439,511</u>	<u>\$ 22,334,166</u>

PROGRAM SERVICES

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

	<u>2016</u>	<u>2015</u>
Administration of the state's athletic program for its member schools, including the education and training of officials.	\$ 4,015,350	\$ 4,037,844
Administration of chemical awareness and substance abuse education programs for high school students, teachers, and administration.	<u>295,320</u>	<u>298,434</u>
	<u>\$ 4,310,670</u>	<u>\$ 4,336,278</u>

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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 \$64,479 and \$77,832, for the years ended June 30, 2016 and 2015, respectively. This includes a 2% additional discretionary matching contribution, and a 2% profit sharing contribution for each year.

OPERATING LEASES

The Organization is obligated under an operating lease agreement for office equipment. The monthly payment is \$3,001, and the lease expires in 2019. Total rental expense for the operating lease amounted to \$36,009 for each year ended June 30, 2016 and 2015. Minimum future rental payments are as follows:

<u>Year Ending June 30,</u>		
2017	\$	36,009
2018		36,009
2019		36,009
2020		3,001
	<u>\$</u>	<u>111,028</u>

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 \$62,934 and \$112,493, have been recognized as contributions for the years ended June 30, 2016 and 2015, respectively.

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RECLASSIFICATIONS

Certain reclassifications have been made to the 2015 financial statements in order to conform to 2016 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, 2015, from which the summarized information was derived.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through November 21, 2016, which was the date that the financial statements were available to be issued, and determined there are no events that require disclosure.

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