

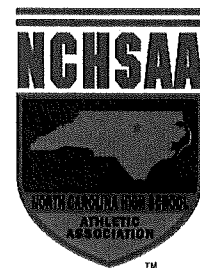
**NORTH CAROLINA HIGH SCHOOL  
ATHLETIC ASSOCIATION, INC.**

**Chapel Hill, North Carolina**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

CONFIDENTIAL



## CONTENTS

|                                                        | <u>PAGES</u> |
|--------------------------------------------------------|--------------|
| Independent Auditor's Report                           | 2-3          |
| Exhibits:                                              |              |
| "A" Statements of Financial Position                   | 4-5          |
| "B" Statements of Activities and Changes in Net Assets | 6-7          |
| "C" Statements of Functional Expenses                  | 8-9          |
| "D" Statements of Cash Flows                           | 10           |
| Notes to Financial Statements                          | 11-21        |

CONFIDENTIAL

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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 statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Blackman & Sloop*

Chapel Hill, North Carolina  
November 26, 2018

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## NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

## STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

June 30, 2018 and 2017

Page 1 of 2

ASSETS

|                                        | <u>2018</u>          | <u>2017</u>          |
|----------------------------------------|----------------------|----------------------|
| <b>CURRENT ASSETS:</b>                 |                      |                      |
| Cash and equivalents                   | \$ 12,055,606        | \$ 9,151,003         |
| Investments                            | 10,611,679           | 10,064,473           |
| Grant receivable                       | 55,938               | 95,373               |
| Corporate sponsors receivable          | 223,820              | 358,152              |
| Other receivables                      | 425,301              | 41,889               |
| Prepaid expenses                       | 82,079               | 77,777               |
| <b>TOTAL CURRENT ASSETS</b>            | <u>23,454,423</u>    | <u>19,788,667</u>    |
| <b>PROPERTY AND EQUIPMENT, NET</b>     | <u>1,442,167</u>     | <u>1,478,247</u>     |
| <b>OTHER ASSETS:</b>                   |                      |                      |
| Investments                            | 14,548,684           | 13,898,042           |
| Agency cash                            | 63,359               | 67,171               |
| Cash surrender values - life insurance | -                    | 2,326,811            |
| <b>TOTAL OTHER ASSETS</b>              | <u>14,612,043</u>    | <u>16,292,024</u>    |
| <b>TOTAL ASSETS</b>                    | <u>\$ 39,508,633</u> | <u>\$ 37,558,938</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, 2018 and 2017

Page 2 of 2

LIABILITIES AND NET ASSETS

|                                         | <u>2018</u>          | <u>2017</u>          |
|-----------------------------------------|----------------------|----------------------|
| <b>CURRENT LIABILITIES:</b>             |                      |                      |
| Accounts payable and accrued expenses   | \$ 1,229,539         | \$ 1,269,441         |
| Accrued vacation                        | 53,268               | 58,825               |
| Deferred revenue                        | 433,400              | 391,867              |
| Agency funds                            | 63,359               | 67,171               |
| Current portion of long-term debt       | <u>210,302</u>       | <u>205,432</u>       |
| <b>TOTAL CURRENT LIABILITIES</b>        | <u>1,989,868</u>     | <u>1,992,736</u>     |
| <b>LONG-TERM LIABILITIES:</b>           |                      |                      |
| Loan payable, net of current portion    | <u>-</u>             | <u>210,146</u>       |
| <b>TOTAL LIABILITIES</b>                | <u>1,989,868</u>     | <u>2,202,882</u>     |
| <b>NET ASSETS:</b>                      |                      |                      |
| Unrestricted:                           |                      |                      |
| Board designated                        | 9,919,872            | 9,804,975            |
| Undesignated                            | 12,913,018           | 11,541,807           |
| Temporarily restricted                  | 137,191              | 111,232              |
| Permanently restricted                  | <u>14,548,684</u>    | <u>13,898,042</u>    |
| <b>TOTAL NET ASSETS</b>                 | <u>37,518,765</u>    | <u>35,356,056</u>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u>\$ 39,508,633</u> | <u>\$ 37,558,938</u> |

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

## NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2018 and 2017

EXHIBIT B

Page 1 of 2

|                                                 | 2018                 |                        |                        | Totals               |
|-------------------------------------------------|----------------------|------------------------|------------------------|----------------------|
|                                                 | Unrestricted         | Temporarily Restricted | Permanently Restricted |                      |
| <b>SUPPORT AND REVENUE:</b>                     |                      |                        |                        |                      |
| Playoffs                                        | \$ 1,412,221         | \$ -                   | \$ -                   | \$ 1,412,221         |
| Contributions                                   | 1,435,561            | 398                    | 650,642                | 2,086,601            |
| In-kind contributions                           | 103,443              | -                      | -                      | 103,443              |
| Government grants and contracts                 | -                    | 232,811                | -                      | 232,811              |
| Officials' registrations                        | 475,043              | -                      | -                      | 475,043              |
| Membership dues                                 | 384,898              | -                      | -                      | 384,898              |
| Fines, insurance administration, and other      | 815,951              | -                      | -                      | 815,951              |
| Programs, books, and directories                | 30,840               | -                      | -                      | 30,840               |
| Unrealized gains (losses) on investments        | 255,533              | (2,596)                | -                      | 252,937              |
| Realized gains                                  | 975,503              | 9,874                  | -                      | 985,377              |
| Investment income                               | 706,771              | 46,822                 | -                      | 753,593              |
| Change in cash surrender value - life insurance | (34)                 | -                      | -                      | (34)                 |
|                                                 | <u>6,595,730</u>     | <u>287,309</u>         | <u>650,642</u>         | <u>7,533,681</u>     |
| Net assets released from restrictions           | <u>261,350</u>       | <u>(261,350)</u>       | <u>-</u>               | <u>-</u>             |
| <b>TOTAL SUPPORT AND REVENUE</b>                | <u>6,857,080</u>     | <u>25,959</u>          | <u>650,642</u>         | <u>7,533,681</u>     |
| <b>EXPENSES:</b>                                |                      |                        |                        |                      |
| Program services                                | <u>4,255,383</u>     | <u>-</u>               | <u>-</u>               | <u>4,255,383</u>     |
| Supporting services:                            |                      |                        |                        |                      |
| General and administrative                      | 822,283              | -                      | -                      | 822,283              |
| Fundraising                                     | 293,306              | -                      | -                      | 293,306              |
| Total supporting services                       | <u>1,115,589</u>     | <u>-</u>               | <u>-</u>               | <u>1,115,589</u>     |
| <b>TOTAL EXPENSES</b>                           | <u>5,370,972</u>     | <u>-</u>               | <u>-</u>               | <u>5,370,972</u>     |
| <b>CHANGES IN NET ASSETS</b>                    | <u>1,486,108</u>     | <u>25,959</u>          | <u>650,642</u>         | <u>2,162,709</u>     |
| <b>NET ASSETS - BEGINNING OF YEAR</b>           | <u>21,346,782</u>    | <u>111,232</u>         | <u>13,898,042</u>      | <u>35,356,056</u>    |
| <b>NET ASSETS - END OF YEAR</b>                 | <u>\$ 22,832,890</u> | <u>\$ 137,191</u>      | <u>\$ 14,548,684</u>   | <u>\$ 37,518,765</u> |

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

## NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

EXHIBIT B

For the Years Ended June 30, 2018 and 2017

Page 2 of 2

|                                                 | 2017                 |                        |                        | Totals               |
|-------------------------------------------------|----------------------|------------------------|------------------------|----------------------|
|                                                 | Unrestricted         | Temporarily Restricted | Permanently Restricted |                      |
| <b>SUPPORT AND REVENUE:</b>                     |                      |                        |                        |                      |
| Playoffs                                        | \$ 1,444,727         | \$ -                   | \$ -                   | \$ 1,444,727         |
| Contributions                                   | 1,520,305            | 800                    | 710,074                | 2,231,179            |
| In-kind contributions                           | 120,122              | -                      | -                      | 120,122              |
| Government grants and contracts                 | -                    | 227,556                | -                      | 227,556              |
| Officials' registrations                        | 471,033              | -                      | -                      | 471,033              |
| Membership dues                                 | 382,454              | -                      | -                      | 382,454              |
| Fines, insurance administration, and other      | 692,150              | -                      | -                      | 692,150              |
| Programs, books, and directories                | 29,518               | -                      | -                      | 29,518               |
| Unrealized gains (losses) on investments        | 1,584,235            | 65,819                 | -                      | 1,650,054            |
| Realized gains                                  | 381,333              | 570                    | -                      | 381,903              |
| Investment income                               | 644,607              | 10,119                 | -                      | 654,726              |
| Change in cash surrender value - life insurance | 46,927               | -                      | -                      | 46,927               |
|                                                 | <u>7,317,411</u>     | <u>304,864</u>         | <u>710,074</u>         | <u>8,332,349</u>     |
| Net assets released from restrictions           | 257,030              | (257,030)              | -                      | -                    |
| <b>TOTAL SUPPORT AND REVENUE</b>                | <u>7,574,441</u>     | <u>47,834</u>          | <u>710,074</u>         | <u>8,332,349</u>     |
| <b>EXPENSES:</b>                                |                      |                        |                        |                      |
| Program services                                | <u>4,282,322</u>     | <u>-</u>               | <u>-</u>               | <u>4,282,322</u>     |
| Supporting services:                            |                      |                        |                        |                      |
| General and administrative                      | 850,780              | -                      | -                      | 850,780              |
| Fundraising                                     | 276,036              | -                      | -                      | 276,036              |
| Total supporting services                       | <u>1,126,816</u>     | <u>-</u>               | <u>-</u>               | <u>1,126,816</u>     |
| <b>TOTAL EXPENSES</b>                           | <u>5,409,138</u>     | <u>-</u>               | <u>-</u>               | <u>5,409,138</u>     |
| <b>CHANGES IN NET ASSETS</b>                    | 2,165,303            | 47,834                 | 710,074                | 2,923,211            |
| <b>NET ASSETS - BEGINNING OF YEAR</b>           | <u>19,181,479</u>    | <u>63,398</u>          | <u>13,187,968</u>      | <u>32,432,845</u>    |
| <b>NET ASSETS - END OF YEAR</b>                 | <u>\$ 21,346,782</u> | <u>\$ 111,232</u>      | <u>\$ 13,898,042</u>   | <u>\$ 35,356,056</u> |

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



## NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

EXHIBIT C

For the Years Ended June 30, 2018 and 2017

Page 1 of 2

|                                      | 2018             |                            |             | Totals       |
|--------------------------------------|------------------|----------------------------|-------------|--------------|
|                                      | Program Services | General and Administrative | Fundraising |              |
| Advertising                          | \$ 22,213        | \$ -                       | \$ 18       | \$ 22,231    |
| Awards                               | 162,326          | -                          | 500         | 162,826      |
| Building and grounds maintenance     | 1,605            | 14,448                     | -           | 16,053       |
| Contract services                    | 47,500           | -                          | -           | 47,500       |
| Depreciation                         | 39,089           | 39,089                     | -           | 78,178       |
| Gate receipts distribution           | 245,547          | -                          | -           | 245,547      |
| Hall of Fame                         | 12,003           | -                          | -           | 12,003       |
| Insurance                            | 434,361          | 48,262                     | -           | 482,623      |
| Interest expense                     | 7,765            | 863                        | -           | 8,628        |
| Investment fees                      | -                | 220,016                    | -           | 220,016      |
| Meetings expense                     | 87,219           | 21,732                     | 299         | 109,250      |
| Office expense and supplies          | 127,397          | 68,598                     | 500         | 196,495      |
| Other expenses                       | 56,673           | 51,442                     | 46,106      | 154,221      |
| Payments to schools                  | 1,026,313        | -                          | -           | 1,026,313    |
| Printing, publications, and programs | 145,342          | 9,691                      | 3,690       | 158,723      |
| Professional services                | 11,629           | 34,886                     | -           | 46,515       |
| Salaries and benefits                | 706,606          | 303,158                    | 242,184     | 1,251,948    |
| Team expenses                        | 1,011,262        | -                          | -           | 1,011,262    |
| Telephone and utilities              | 25,593           | 4,517                      | -           | 30,110       |
| Travel                               | 8,370            | 5,581                      | 9           | 13,960       |
| Vehicle expense                      | 6,671            | -                          | -           | 6,671        |
| Workshops                            | 69,899           | -                          | -           | 69,899       |
| Total expenses                       | \$ 4,255,383     | \$ 822,283                 | \$ 293,306  | \$ 5,370,972 |

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

## NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

EXHIBIT C

For the Years Ended June 30, 2018 and 2017

Page 2 of 2

|                                      | 2017             |                            |             | Totals       |
|--------------------------------------|------------------|----------------------------|-------------|--------------|
|                                      | Program Services | General and Administrative | Fundraising |              |
| Advertising                          | \$ 45,000        | \$ -                       | \$ -        | \$ 45,000    |
| Awards                               | 137,708          | -                          | 4,000       | 141,708      |
| Building and grounds maintenance     | 1,740            | 15,657                     | -           | 17,397       |
| Contract services                    | 43,000           | -                          | -           | 43,000       |
| Depreciation                         | 43,233           | 43,234                     | -           | 86,467       |
| Gate receipts distribution           | 246,436          | -                          | -           | 246,436      |
| Hall of Fame                         | 6,830            | -                          | -           | 6,830        |
| Insurance                            | 468,112          | 52,013                     | -           | 520,125      |
| Interest expense                     | 12,640           | 1,405                      | -           | 14,045       |
| Investment fees                      | -                | 188,167                    | -           | 188,167      |
| Meetings expense                     | 137,818          | 34,455                     | 169         | 172,442      |
| Office expense and supplies          | 128,836          | 69,373                     | 500         | 198,709      |
| Other expenses                       | 99,419           | 78,079                     | 35,362      | 212,860      |
| Payments to schools                  | 1,024,373        | -                          | -           | 1,024,373    |
| Printing, publications, and programs | 111,938          | 7,247                      | 6,147       | 125,332      |
| Professional services                | 14,755           | 44,267                     | -           | 59,022       |
| Salaries and benefits                | 710,014          | 308,252                    | 229,619     | 1,247,885    |
| Team expenses                        | 949,343          | -                          | -           | 949,343      |
| Telephone and utilities              | 24,133           | 4,259                      | -           | 28,392       |
| Travel                               | 6,558            | 4,372                      | 239         | 11,169       |
| Vehicle expense                      | 6,204            | -                          | -           | 6,204        |
| Workshops                            | 64,232           | -                          | -           | 64,232       |
| Total expenses                       | \$ 4,282,322     | \$ 850,780                 | \$ 276,036  | \$ 5,409,138 |

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, 2018 and 2017

|                                                                                           | <u>2018</u>          | <u>2017</u>         |
|-------------------------------------------------------------------------------------------|----------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                              |                      |                     |
| Changes in net assets                                                                     | \$ 2,162,709         | \$ 2,923,211        |
| Adjustments to reconcile changes in net assets to net cash (used) provided by operations: |                      |                     |
| Depreciation                                                                              | 78,178               | 86,467              |
| Change in cash surrender values of life insurance                                         | 34                   | (46,927)            |
| Decrease (increase) in values of annuity investments                                      | (8,088)              | (168,471)           |
| Permanently restricted contributions                                                      | (650,642)            | (710,074)           |
| Realized gains on investments                                                             | (984,886)            | (366,452)           |
| Realized gain on sale of property and equipment                                           | (491)                | (15,451)            |
| Unrealized gains on investments                                                           | (252,937)            | (1,650,054)         |
| Increase (decrease) in cash arising from changes in assets and liabilities:               |                      |                     |
| Grant receivable                                                                          | 39,435               | (28,448)            |
| Corporate sponsors receivable                                                             | 134,332              | (283,626)           |
| Other receivables                                                                         | (383,412)            | (18,556)            |
| Prepaid expenses                                                                          | (4,302)              | 15,753              |
| Accounts payable and accrued expenses                                                     | (39,902)             | (30,022)            |
| Accrued vacation                                                                          | (5,557)              | 1,719               |
| Deferred revenue                                                                          | 41,533               | 79,363              |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>                                   | <u>126,004</u>       | <u>(211,568)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                              |                      |                     |
| Purchase of property and equipment                                                        | (73,108)             | (80,618)            |
| Proceeds from sale of equipment                                                           | 31,500               | 42,700              |
| Proceeds from sale of investments                                                         | 11,558,405           | 5,681,750           |
| Purchase of investments                                                                   | <u>(9,183,564)</u>   | <u>(5,723,880)</u>  |
| <b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>                                   | <u>2,333,233</u>     | <u>(80,048)</u>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                              |                      |                     |
| Payments on loan                                                                          | (205,276)            | (199,860)           |
| Permanently restricted contributions                                                      | <u>650,642</u>       | <u>710,074</u>      |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                                          | <u>445,366</u>       | <u>510,214</u>      |
| <b>NET INCREASE IN CASH AND EQUIVALENTS</b>                                               | 2,904,603            | 218,598             |
| <b>CASH AND EQUIVALENTS - BEGINNING OF YEAR</b>                                           | <u>9,151,003</u>     | <u>8,932,405</u>    |
| <b>CASH AND EQUIVALENTS - END OF YEAR</b>                                                 | <u>\$ 12,055,606</u> | <u>\$ 9,151,003</u> |
| <b>Supplemental Cash Flow Information:</b>                                                |                      |                     |
| Interest paid                                                                             | <u>\$ 8,628</u>      | <u>\$ 14,045</u>    |
| Non cash transactions:                                                                    |                      |                     |
| In-kind contributions                                                                     | <u>\$ 103,443</u>    | <u>\$ 120,122</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 11

**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 and changes in net assets 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 fair value at the date of gift.

**D. Receivables.**

Grants, corporate sponsorships, 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, 2018 and 2017, based on management's estimated collectability of these receivables.

## NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

Page 2 of 11

**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 11

**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, 2018:

|                   | <u>Cost</u>          | <u>Market</u>        | <u>Unrealized</u>   |
|-------------------|----------------------|----------------------|---------------------|
| Mutual funds      | \$ 11,472,094        | \$ 11,958,359        | \$ 486,265          |
| Annuity contracts | 186,333              | 186,333              | -                   |
| Equity securities | 10,289,409           | 12,476,034           | 2,186,625           |
| ETFs and UITs     | 505,428              | 539,637              | 34,209              |
|                   | <u>\$ 22,453,264</u> | <u>\$ 25,160,363</u> | <u>\$ 2,707,099</u> |

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

**NOTES TO FINANCIAL STATEMENTS**

Page 4 of 11

**INVESTMENTS (CONTINUED)**

Investments consist of the following at June 30, 2017:

|                   | <u>Cost</u>          | <u>Market</u>        | <u>Unrealized</u>   |
|-------------------|----------------------|----------------------|---------------------|
| Mutual funds      | \$ 10,059,190        | \$ 10,702,939        | \$ 643,749          |
| Annuity contracts | 1,844,874            | 1,844,874            | -                   |
| Equity securities | 9,101,622            | 10,876,339           | 1,774,717           |
| ETFs and UITs     | 502,667              | 538,363              | 35,696              |
|                   | <u>\$ 21,508,353</u> | <u>\$ 23,962,515</u> | <u>\$ 2,454,162</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 years ended June 30, 2018 and 2017, 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

Page 5 of 11

**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, 2018 and 2017. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| Assets:           | June 30, 2018        |             |                   |                      |
|-------------------|----------------------|-------------|-------------------|----------------------|
|                   | Level 1              | Level 2     | Level 3           | Total                |
| Mutual funds      | \$ 11,958,359        | \$ -        | \$ -              | \$ 11,958,359        |
| Annuity contracts | -                    | -           | 186,333           | 186,333              |
| Equity securities | 12,476,034           | -           | -                 | 12,476,034           |
| ETFs and UITs     | 539,637              | -           | -                 | 539,637              |
|                   | <u>\$ 24,974,030</u> | <u>\$ -</u> | <u>\$ 186,333</u> | <u>\$ 25,160,363</u> |

| Assets:           | June 30, 2017        |             |                     |                      |
|-------------------|----------------------|-------------|---------------------|----------------------|
|                   | Level 1              | Level 2     | Level 3             | Total                |
| Mutual funds      | \$ 10,702,939        | \$ -        | \$ -                | \$ 10,702,939        |
| Annuity contracts | -                    | -           | 1,844,874           | 1,844,874            |
| Equity securities | 10,876,339           | -           | -                   | 10,876,339           |
| ETFs and UITs     | 538,363              | -           | -                   | 538,363              |
|                   | <u>\$ 22,117,641</u> | <u>\$ -</u> | <u>\$ 1,844,874</u> | <u>\$ 23,962,515</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, 2018 and 2017:

|                                           | 2018              | 2017                |
|-------------------------------------------|-------------------|---------------------|
| Investments, fair value beginning of year | \$ 1,844,874      | \$ 1,676,403        |
| Annuities matured and terminated          | (1,666,629)       | -                   |
| Change in annuity valuation               | 8,088             | 168,471             |
| Investments, fair value end of year       | <u>\$ 186,333</u> | <u>\$ 1,844,874</u> |



## NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

Page 6 of 11

**PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30, 2018 and 2017:

|                                    | 2018                | 2017                |
|------------------------------------|---------------------|---------------------|
| Furniture, fixtures, and equipment | \$ 539,711          | \$ 525,429          |
| Building and improvements          | 1,745,800           | 1,745,800           |
| Vehicles                           | 113,307             | 115,389             |
|                                    | <u>2,398,818</u>    | <u>2,386,618</u>    |
| Less: accumulated depreciation     | (956,651)           | (908,371)           |
|                                    | <u>\$ 1,442,167</u> | <u>\$ 1,478,247</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. The outstanding balance at June 30, 2018 and 2017 was \$210,302 and \$415,578, respectively.

**CONDITIONAL PROMISES TO GIVE**

Conditional promises to give at June 30, 2018 and 2017, total approximately \$1.8 million and \$1.6 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

Page 7 of 11

**TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS**

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

|                                     | <u>2018</u>          | <u>2017</u>          |
|-------------------------------------|----------------------|----------------------|
| Temporarily restricted net assets:  |                      |                      |
| Charlie Adams Endowed Scholarship   | \$ 10,422            | \$ 7,297             |
| Clary Medal Awards                  | 23,580               | 19,920               |
| Dave Harris Athletic Director Award | 9,010                | 7,560                |
| Gainey Student Scholarships         | 23,580               | 19,920               |
| Hall of Fame Endowment              | 21,658               | 17,629               |
| Lacrosse Scholarship                | 560                  | -                    |
| McGee Scholarship                   | 3,214                | 794                  |
| Mylan Grant                         | 10,170               | 10,170               |
| Tony Cullen Expendable              | 310                  | 1,310                |
| Tony Cullen Memorial Fund           | 9,157                | 7,189                |
| Tony Webb Coach of the Year Award   | 25,530               | 19,443               |
| Willie Bradshaw Scholarship         | -                    | -                    |
|                                     | <u>\$ 137,191</u>    | <u>\$ 111,232</u>    |
| Permanently restricted net assets:  |                      |                      |
| General Endowment                   | \$ 13,902,127        | \$ 13,295,078        |
| Charlie Adams Endowed Scholarship   | 88,062               | 60,380               |
| 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              | 133,160              | 129,430              |
| Lacrosse Scholarship                | 6,990                | 5,390                |
| McGee Scholarship                   | 22,338               | 17,157               |
| Tony Cullen Memorial Fund           | 30,337               | 25,687               |
| Tony Webb Coach of the Year Award   | 80,070               | 79,470               |
| Willie Bradshaw Scholarship         | 66,664               | 66,514               |
|                                     | <u>\$ 14,548,684</u> | <u>\$ 13,898,042</u> |

## NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

Page 8 of 11

**ENDOWMENTS**

The Organization's endowments were established for a variety of purposes. 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.

## NOTES TO FINANCIAL STATEMENTS

Page 9 of 11

**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, 2018, were as follows:

|                                            | <u>Unrestricted</u> | <u>Temporarily</u> | <u>Permanently</u>   | <u>Totals</u>        |
|--------------------------------------------|---------------------|--------------------|----------------------|----------------------|
| Endowment net assets,<br>beginning of year | \$ 9,804,975        | \$ 99,752          | \$ 13,898,042        | \$ 23,802,769        |
| Investment return:                         |                     |                    |                      |                      |
| Income                                     | 1,090,593           | 54,900             | -                    | 1,145,493            |
| Net appreciation (depreciation)            | 202,636             | (2,596)            | -                    | 200,040              |
| Total investment return                    | <u>1,293,229</u>    | <u>52,304</u>      | <u>-</u>             | <u>1,345,533</u>     |
| Contributions/other revenue                | 366,546             | 12,453             | 650,642              | 1,029,641            |
| Appropriation for expenditure              | (1,544,878)         | (37,798)           | -                    | (1,582,676)          |
| Endowment net assets,<br>end of year       | <u>\$ 9,919,872</u> | <u>\$ 126,711</u>  | <u>\$ 14,548,684</u> | <u>\$ 24,595,267</u> |

## NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

Page 10 of 11

**ENDOWMENTS (CONTINUED)**

The changes in endowment net assets for the year ended June 30, 2017, were as follows:

|                                            | <u>Unrestricted</u> | <u>Temporarily</u> | <u>Permanently</u>   | <u>Totals</u>        |
|--------------------------------------------|---------------------|--------------------|----------------------|----------------------|
| Endowment net assets,<br>beginning of year | \$ 8,736,201        | \$ 50,027          | \$ 13,187,968        | \$ 21,974,196        |
| Investment return:                         |                     |                    |                      |                      |
| Income                                     | 660,467             | 62,737             | -                    | 723,204              |
| Net appreciation                           | 1,241,783           | 13,771             | -                    | 1,255,554            |
| Total investment return                    | <u>1,902,250</u>    | <u>76,508</u>      | <u>-</u>             | <u>1,978,758</u>     |
| Contributions/other revenue                | 390,364             | 9,850              | 710,074              | 1,110,288            |
| Appropriation for expenditure              | <u>(1,223,840)</u>  | <u>(36,633)</u>    | <u>-</u>             | <u>(1,260,473)</u>   |
| Endowment net assets,<br>end of year       | <u>\$ 9,804,975</u> | <u>\$ 99,752</u>   | <u>\$ 13,898,042</u> | <u>\$ 23,802,769</u> |

**PROGRAM SERVICES**

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

|                                                                                                                                     | <u>2018</u>         | <u>2017</u>         |
|-------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Administration of the state's athletic program for its member schools, including the education and training of officials.           | \$ 4,022,572        | \$ 4,054,766        |
| Administration of chemical awareness and substance abuse education programs for high school students, teachers, and administration. | <u>232,811</u>      | <u>227,556</u>      |
|                                                                                                                                     | <u>\$ 4,255,383</u> | <u>\$ 4,282,322</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 \$103,443 and \$120,122, have been recognized as contributions for the years ended June 30, 2018 and 2017, respectively.

## NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

## NOTES TO FINANCIAL STATEMENTS

Page 11 of 11

**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 \$75,571 and \$70,494, for the years ended June 30, 2018 and 2017, respectively. This includes a 2% additional discretionary matching contribution, and a 2% profit sharing contribution for each year.

**OPERATING LEASES**

Prior to March 2017, the Organization was obligated under an operating lease agreement for office equipment. The monthly payment was \$3,001, and the lease expires in April 2020. In March 2017, the Organization signed another lease agreement for office equipment with a different lessor. The monthly payment is \$3,235, and the lease expires in May 2022. The Organization received \$93,548 from the new lessor to fund the remaining lease payments on the old lease agreement. The Organization is obligated to pay the required amounts under both leases. The amount received from the new lessor is recorded as deferred revenue, and is being amortized as the payments on the old lease become due and payable. Total rental expense for the operating leases, net of the amount funded by the new lessor, amounted to \$38,820 and \$39,271 for the years ended June 30, 2018 and 2017, respectively. Minimum future rental payments are as follows:

| <u>Year Ending June 30,</u> |    |                |
|-----------------------------|----|----------------|
| 2019                        | \$ | 74,828         |
| 2020                        |    | 41,820         |
| 2021                        |    | 38,820         |
| 2022                        |    | 35,585         |
|                             |    | <u>191,053</u> |
|                             | \$ | <u>191,053</u> |

At June 30, 2018, deferred revenue in the amount of \$44,228 is available to offset these minimum rental payments.

**SUBSEQUENT EVENTS**

Management has evaluated subsequent events for recognition or disclosure through November 26, 2018, which was the date that the financial statements were available to be issued, and determined there are no events that require disclosure.