

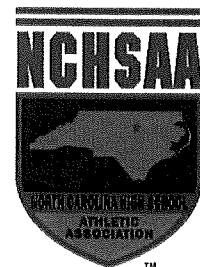
**NORTH CAROLINA HIGH SCHOOL
ATHLETIC ASSOCIATION, INC.**

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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, 2020 and 2019, 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 entities 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, 2020 and 2019 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 & Sleep

Chapel Hill, North Carolina
November 20, 2020

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NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

June 30, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
ASSETS:		
Cash and cash equivalents	\$ 9,786,220	\$ 9,517,967
Grant receivable	4,019	45,935
Corporate sponsors receivable	135,654	197,117
Other receivables	12,519	34,494
Prepaid expenses	67,237	98,102
Investments	30,460,992	29,893,458
Property and equipment, net	1,321,824	1,394,889
Restricted cash	77,999	59,931
TOTAL ASSETS	<u>\$ 41,866,464</u>	<u>\$ 41,241,893</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,011,131	\$ 1,282,277
Accrued vacation	37,357	22,643
Deferred revenue	23,150	304,262
Agency funds	77,999	59,931
Loans payable	186,200	-
TOTAL LIABILITIES	<u>1,335,837</u>	<u>1,669,113</u>
NET ASSETS:		
Without donor restrictions	24,663,304	24,166,258
With donor restrictions	15,867,323	15,406,522
TOTAL NET ASSETS	<u>40,530,627</u>	<u>39,572,780</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,866,464</u>	<u>\$ 41,241,893</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, 2020 and 2019

Page 1 of 2

	2020		Totals
	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE:			
Playoffs	\$ 1,255,908	\$ -	\$ 1,255,908
Contributions	1,540,617	471,788	2,012,405
In-kind contributions	95,663	-	95,663
Government grants and contracts	-	187,220	187,220
Officials' registrations	436,196	-	436,196
Membership dues	488,985	-	488,985
Fines, insurance administration, and other	676,722	-	676,722
Programs, books, and directories	23,682	-	23,682
Net investment return	807,018	26,133	833,151
	<u>5,324,791</u>	<u>685,141</u>	<u>6,009,932</u>
Net assets released from restrictions	<u>224,340</u>	<u>(224,340)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>5,549,131</u>	<u>460,801</u>	<u>6,009,932</u>
EXPENSES:			
Program services	3,966,377	-	3,966,377
Supporting services:			
General and administrative	623,628	-	623,628
Fundraising	298,124	-	298,124
Total functional expenses	<u>4,888,129</u>	<u>-</u>	<u>4,888,129</u>
Bad debt expense	<u>163,956</u>	<u>-</u>	<u>163,956</u>
TOTAL EXPENSES	<u>5,052,085</u>	<u>-</u>	<u>5,052,085</u>
CHANGES IN NET ASSETS	<u>497,046</u>	<u>460,801</u>	<u>957,847</u>
NET ASSETS - BEGINNING OF YEAR	<u>24,166,258</u>	<u>15,406,522</u>	<u>39,572,780</u>
NET ASSETS - END OF YEAR	<u>\$ 24,663,304</u>	<u>\$ 15,867,323</u>	<u>\$ 40,530,627</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, 2020 and 2019

Page 2 of 2

	2019		
	Without Donor Restrictions	With Donor Restrictions	Totals
SUPPORT AND REVENUE:			
Playoffs	\$ 1,623,016	\$ -	\$ 1,623,016
Contributions	1,402,348	683,249	2,085,597
In-kind contributions	91,313	-	91,313
Government grants and contracts	-	243,287	243,287
Officials' registrations	453,726	-	453,726
Membership dues	379,934	-	379,934
Fines, insurance administration, and other	691,458	-	691,458
Programs, books, and directories	27,217	-	27,217
Net investment return	1,677,577	46,272	1,723,849
Realized gains on sale of property and equipment	(283)	-	(283)
	<u>6,346,306</u>	<u>972,808</u>	<u>7,319,114</u>
Net assets released from restrictions	289,634	(289,634)	-
TOTAL SUPPORT AND REVENUE	<u>6,635,940</u>	<u>683,174</u>	<u>7,319,114</u>
EXPENSES:			
Program services	4,358,089	-	4,358,089
Supporting services:			
General and administrative	629,039	-	629,039
Fundraising	277,971	-	277,971
Total supporting services	907,010	-	907,010
TOTAL EXPENSES	<u>5,265,099</u>	<u>-</u>	<u>5,265,099</u>
CHANGES IN NET ASSETS	<u>1,370,841</u>	<u>683,174</u>	<u>2,054,015</u>
NET ASSETS - BEGINNING OF YEAR	<u>22,795,417</u>	<u>14,723,348</u>	<u>37,518,765</u>
NET ASSETS - END OF YEAR	<u>\$ 24,166,258</u>	<u>\$ 15,406,522</u>	<u>\$ 39,572,780</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, 2020 and 2019

Page 1 of 2

	2020			Totals
	Program Services	General and Administrative	Fundraising	
Advertising	\$ 45,448	\$ -	\$ 6,495	\$ 51,943
Awards	100,218	-	-	100,218
Building and grounds maintenance	1,868	16,810	-	18,678
Contract services	14,049	-	-	14,049
Depreciation	40,610	40,611	-	81,221
Gate receipts distribution	213,435	-	-	213,435
Hall of Fame	22,178	-	-	22,178
Insurance	429,395	47,711	-	477,106
Meetings expense	64,026	16,006	463	80,495
Office expense and supplies	168,021	90,473	232	258,726
Other expenses	194,546	2,162	38,456	235,164
Payments to schools	921,230	-	-	921,230
Printing, publications, and programs	92,907	6,543	2,766	102,216
Professional services	20,913	62,741	-	83,654
Salaries and benefits	805,247	332,130	249,691	1,387,068
Team expenses	773,059	-	-	773,059
Telephone and utilities	23,197	4,094	-	27,291
Travel	6,519	4,347	21	10,887
Vehicle expense	3,004	-	-	3,004
Workshops	26,507	-	-	26,507
Total functional expenses	3,966,377	623,628	298,124	4,888,129
Bad debt expense	-	163,956	-	163,956
Total expenses	\$ 3,966,377	\$ 787,584	\$ 298,124	\$ 5,052,085

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, 2020 and 2019

Page 2 of 2

	2019			Totals
	Program Services	General and Administrative	Fundraising	
Advertising	\$ 25,057	\$ -	\$ 4,296	\$ 29,353
Awards	176,517	-	-	176,517
Building and grounds maintenance	2,272	20,452	-	22,724
Contract services	20,366	-	-	20,366
Depreciation	40,018	40,019	-	80,037
Gate receipts distribution	311,486	-	-	311,486
Hall of Fame	13,692	-	-	13,692
Insurance	422,657	46,962	-	469,619
Interest expense	2,758	307	-	3,065
Meetings expense	110,586	27,646	2,326	140,558
Office expense and supplies	151,193	81,412	229	232,834
Other expenses	41,552	54,313	28,836	124,701
Payments to schools	1,010,077	-	-	1,010,077
Printing, publications, and programs	110,053	6,033	5,297	121,383
Professional services	82,160	48,481	-	130,641
Salaries and benefits	691,488	292,856	236,969	1,221,313
Team expenses	1,016,120	-	-	1,016,120
Telephone and utilities	23,876	4,213	-	28,089
Travel	9,518	6,345	18	15,881
Vehicle expense	5,731	-	-	5,731
Workshops	90,912	-	-	90,912
Total expenses	<u>\$ 4,358,089</u>	<u>\$ 629,039</u>	<u>\$ 277,971</u>	<u>\$ 5,265,099</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, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 957,847	\$ 2,054,015
Adjustments to reconcile changes in net assets to net cash (used) provided by operations:		
Depreciation	81,221	80,037
Decrease (increase) in values of annuity investments	-	(162)
Contributions restricted in perpetuity	(471,788)	(683,249)
Realized and unrealized gains on investments	(248,055)	(1,036,150)
Realized loss (gain) on sale of property and equipment	-	283
Changes in assets and liabilities:		
Grant receivable	41,916	10,003
Corporate sponsors receivable	61,463	410,115
Other receivables	21,975	7,395
Prepaid expenses	30,865	(16,023)
Accounts payable and accrued expenses	(271,146)	52,738
Accrued vacation	14,714	(30,625)
Deferred revenue	(281,112)	(129,138)
Agency funds	18,068	(3,428)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(44,032)</u>	<u>715,811</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(8,156)	(33,042)
Proceeds from sale of investments	8,113,826	10,446,352
Purchase of investments	(8,433,305)	(14,143,135)
NET CASH USED BY INVESTING ACTIVITIES	<u>(327,635)</u>	<u>(3,729,825)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan	186,200	-
Payments on loan	-	(210,302)
Contributions restricted in perpetuity	471,788	683,249
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>657,988</u>	<u>472,947</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	286,321	(2,541,067)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>9,577,898</u>	<u>12,118,965</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 9,864,219</u>	<u>\$ 9,577,898</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents - undesignated	\$ 9,786,220	\$ 9,517,967
Restricted cash	77,999	59,931
Total cash and cash equivalents	<u>\$ 9,864,219</u>	<u>\$ 9,577,898</u>
Supplemental Cash Flow Information:		
Interest paid	\$ -	\$ 3,065
Non cash transactions:		
In-kind contributions	<u>\$ 95,663</u>	<u>\$ 91,313</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 13

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 support with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. If contributions with donor restrictions are expended in the same period as when they were received, the support is classified as without donor restrictions.

B. Cash and Cash Equivalents.

Cash and cash 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. Net investment return includes interest and dividend income, realized and unrealized gains and losses, and investment fees.

D. Receivables.

Grants, corporate sponsors, 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, 2020 and 2019, based on management's estimated collectability of these receivables.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 2 of 13

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Property and Equipment.

Property and equipment are stated at cost when purchased and at fair 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.

Net assets, support and revenue, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions – Resources of the Organization that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations and undesignated gifts.

With Donor Restrictions – Resources that carry a donor-imposed restriction. Some donor restrictions allow the Organization to use or expend the donated assets for a specific purpose; those restrictions can be satisfied by the passage of time or by actions of the Organization. Other donor restrictions are perpetual in nature, where the donor stipulates that donated assets be maintained in perpetuity; those restrictions 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 support without donor restrictions 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 support with donor restrictions.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 3 of 13

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. New Accounting Pronouncements.

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. Management has implemented the provisions in the standard applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the Organization's implementation of ASU 2018-08.

CASH AND CASH 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 13

LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Liquid current assets:		
Cash and cash equivalents	\$ 9,786,220	\$ 9,517,967
Grant receivable	4,019	45,935
Corporate sponsors receivable	135,654	197,117
Other receivables	12,519	34,494
Investments	<u>30,460,992</u>	<u>29,893,458</u>
	40,399,404	39,688,971
Less amounts unavailable for general expenditures within one year, due to:		
Restrictions by donor and board for time or purpose	<u>(26,603,428)</u>	<u>(26,443,542)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 13,795,976</u>	<u>\$ 13,245,429</u>

The Organization's programs are supported by playoff revenues, as well as by contributions with and without donor restrictions. Donors include individuals, corporations, and foundations. Because these revenue streams require resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors and its member schools. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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INVESTMENTS

Investments consist of the following at June 30, 2020 and 2019:

	June 30, 2020		
	Cost	Fair Value	Unrealized Gain
Mutual funds	\$ 13,542,382	\$ 14,607,226	\$ 1,064,844
Annuity contracts	145,502	145,502	-
Equity securities	11,682,525	14,496,942	2,814,417
ETFs and UITs	1,170,035	1,211,322	41,287
	<u>\$ 26,540,444</u>	<u>\$ 30,460,992</u>	<u>\$ 3,920,548</u>

	June 30, 2019		
	Cost	Fair Value	Unrealized Gain
Mutual funds	\$ 13,489,072	\$ 14,366,366	\$ 877,294
Annuity contracts	168,839	168,839	-
Equity securities	11,519,723	13,868,051	2,348,328
ETFs and UITs	1,437,307	1,490,202	52,895
	<u>\$ 26,614,941</u>	<u>\$ 29,893,458</u>	<u>\$ 3,278,517</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.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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FAIR VALUE OF ASSETS (CONTINUED)

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, 2020 and 2019, to the Organization's valuation techniques used to measure asset values on a recurring basis. The following tables summarize the assets of the Organization for which fair values are determined on a recurring basis as of June 30, 2020 and 2019. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2020			
Assets:	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 14,607,226	\$ -	\$ -	\$ 14,607,226
Annuity contracts	-	-	145,502	145,502
Equity securities	14,496,942	-	-	14,496,942
ETFs and UITs	1,211,322	-	-	1,211,322
	<u>\$ 30,315,490</u>	<u>\$ -</u>	<u>\$ 145,502</u>	<u>\$ 30,460,992</u>

	June 30, 2019			
Assets:	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 14,366,366	\$ -	\$ -	\$ 14,366,366
Annuity contracts	-	-	168,839	168,839
Equity securities	13,868,051	-	-	13,868,051
ETFs and UITs	1,490,202	-	-	1,490,202
	<u>\$ 29,724,619</u>	<u>\$ -</u>	<u>\$ 168,839</u>	<u>\$ 29,893,458</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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FAIR VALUE OF ASSETS (CONTINUED)

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Investments, fair value beginning of year	\$ 168,839	\$ 186,333
Annuities matured and terminated	(23,337)	(17,656)
Change in annuity valuation	-	162
Investments, fair value end of year	<u>\$ 145,502</u>	<u>\$ 168,839</u>

PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Furniture, fixtures, and equipment	\$ 445,081	\$ 436,926
Building and improvements	1,767,037	1,767,036
Vehicles	113,307	113,307
	<u>2,325,425</u>	<u>2,317,269</u>
Less: accumulated depreciation	(1,003,601)	(922,380)
	<u>\$ 1,321,824</u>	<u>\$ 1,394,889</u>

CONDITIONAL PROMISES TO GIVE

Conditional promises to give at June 30, 2020 and 2019, total approximately \$2 million and \$3 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.

LOANS PAYABLE

In April 2020, the Organization was granted a loan (the "Loan") from a financial institution in the amount of \$176,200, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted in March 2020. The Loan, which was in the form of a Note, matures on April 2022 and bears interest at a rate of 1% per annum. The Note may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. The Note and accrued interest are forgivable after 24 weeks as long as the Organization uses the loan proceeds for qualifying expenses over the 24-week period. The amount of loan forgiveness may be reduced under certain circumstances as described in the loan agreement. The Organization intends to use the entire Loan amount for qualifying expenses. At June 30, 2020, the outstanding loan balance is \$176,200.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

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LOANS PAYABLE (CONTINUED)

Subsequent to signing the original loan agreement, the Small Business Administration (“SBA”) issued additional guidelines giving the Organization 10 months from the last day of the 24-week covered period to apply for loan forgiveness. Once the application is submitted, the lender has 60 days to act on the application and forward its recommendation to the SBA, who then has 90 days to act on that recommendation and remit the forgiveness proceeds to the lender, at which point the payments on the unforgiven balance, if any, of the loan would begin. If the Organization does not apply for loan forgiveness, the earliest date for commencement of payments of principal and interest is 10 months after the last day of the 24 week covered period.

The Organization also received an advance of \$10,000 under the Economic Injury Disaster Loan Program. This advance will be deducted from the forgivable portion of the PPP loan, and is required to be repaid when application is approved by the SBA.

NET ASSETS

Net assets at June 30, 2020 consist of the following:

	Purpose/Time Restricted	Perpetuity Restricted	Board Designated/ Undesignated	Totals	
Administrators Education Fund	\$ 5	\$ 300	\$ 1,100,546	\$ 1,100,851	
Charlie Adams Endowed Scholarship	14,729	97,535	77,038	189,302	
Clary Medal Awards	29,450	100,000	-	129,450	
Coaches Education Fund	8	350	588,793	589,151	
Dave Harris Athletic Director Award	10,879	18,936	-	29,815	
Gainey Student Scholarships	24,705	150,000	-	174,705	
General Endowment	-	14,967,246	8,081,307	23,048,553	
Hall of Fame Endowment	13,695	137,079	49,355	200,129	
Heads Up Football Coaches Training	16,676	-	-	16,676	
Health & Safety Fund	25	1,110	660,328	661,463	
Lacrosse Scholarship	468	9,040	11,155	20,663	
McGee Scholarship	1,652	37,906	88,044	127,602	
Tony Cullen Memorial Fund	11,621	41,192	9,485	62,298	
Tony Webb Coach of the Year Award	33,438	80,387	-	113,825	
Willie Bradshaw Scholarship	1,686	67,205	66,033	134,924	
	159,037	15,708,286	10,732,084	26,599,407	\$26,582,731.00
Undesignated	-	-	13,931,220	13,931,220	
Total net assets at June 30, 2020	\$ 159,037	\$ 15,708,286	\$ 24,663,304	\$ 40,530,627	

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NET ASSETS (CONTINUED)

Net assets at June 30, 2019 consist of the following:

	Purpose/Time	Perpetuity	Board	Totals
	Restricted	Restricted	Designated/ Undesignated	
Administrators Education Fund	\$ -	\$ 200	\$ 1,073,600	\$ 1,073,800
Charlie Adams Endowed Scholarship	12,402	92,708	75,152	180,262
Clary Medal Awards	26,940	100,000	-	126,940
Coaches Education Fund	-	300	574,376	574,676
Dave Harris Athletic Director Award	10,404	18,936	-	29,340
Gainey Student Scholarships	20,940	150,000	-	170,940
General Endowment	-	14,508,988	8,405,211	22,914,199
Hall of Fame Endowment	16,454	135,485	48,147	200,086
Heads Up Football Coaches Training	40,014	-	-	40,014
Health & Safety Fund	-	1,010	644,160	645,170
Lacrosse Scholarship	-	8,690	10,882	19,572
McGee Scholarship	747	36,064	85,888	122,699
Tony Cullen Memorial Fund	10,700	36,692	9,253	56,645
Tony Webb Coach of the Year Award	31,423	80,270	-	111,693
Willie Bradshaw Scholarship	-	67,155	64,416	131,571
	170,024	15,236,498	10,991,085	26,397,607
Undesignated	-	-	13,175,173	13,175,173
Total net assets at June 30, 2018	\$ 170,024	\$ 15,236,498	\$ 24,166,258	\$ 39,572,780

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 net assets restricted in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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ENDOWMENTS (CONTINUED)

The remaining portion of the endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets with or without donor restrictions 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.

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ENDOWMENTS (CONTINUED)

The changes in endowment net assets for the year ended June 30, 2020 were as follows:

	Board Designated	With Donor Restrictions	Totals
Endowment net assets, beginning of year	\$ 8,405,211	\$ 15,366,508	\$ 23,771,719
Net investment return	553,919	26,133	580,052
Contributions/other revenue	363,522	471,788	835,310
Appropriation for expenditure	(1,241,345)	(22,179)	(1,263,524)
Transfers	-	8,397	8,397
Endowment net assets, end of year	<u>\$ 8,081,307</u>	<u>\$ 15,850,647</u>	<u>\$ 23,931,954</u>

The changes in endowment net assets for the year ended June 30, 2019 were as follows:

	Board Designated	With Donor Restrictions	Totals
Endowment net assets, beginning of year	\$ 10,516,549	\$ 14,678,443	\$ 25,194,992
Net investment return	1,175,170	46,272	1,221,442
Contributions/other revenue	321,450	701,542	1,022,992
Appropriation for expenditure	(1,204,203)	(59,749)	(1,263,952)
Transfers	(2,403,755)	-	(2,403,755)
Endowment net assets, end of year	<u>\$ 8,405,211</u>	<u>\$ 15,366,508</u>	<u>\$ 23,771,719</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 \$82,108 and \$74,264, for the years ended June 30, 2020 and 2019, respectively. This includes a 2% additional discretionary matching contribution, and a 2% profit sharing contribution for each year.

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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 \$95,663 and \$91,313, have been recognized as contributions for the years ended June 30, 2020 and 2019, respectively.

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 expired 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 for each year ended June 30, 2020 and 2019. Minimum future rental payments are as follows:

<u>Year Ending June 30,</u>	
2021	38,820
2022	<u>35,585</u>
	<u>\$ 74,405</u>

At June 30, 2020, deferred revenue has been fully amortized to offset these minimum rental payments.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and functional expenses. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates. The expenses that are allocated include building and grounds maintenance, depreciation, insurance, interest, meetings, office expense and supplies, other, printing, professional services, telephone and utilities, and travels, which are allocated on the basis of estimates from a historical review of the purposes of the expenses, as well as salaries and benefits, which are allocated on the basis of estimates of time and effort.

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CONTINGENCY

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity going forward.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through November 20, 2020, which was the date that the financial statements were available to be issued, and determined there are no events that require disclosure.