

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

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020



CONTENTS

	<u>PAGES</u>
Independent Auditor's Report	2-3
Exhibits:	
"A" Statements of Financial Position	4
"B" Statements of Activities and Changes in Net Assets	5-6
"C" Statements of Functional Expenses	7-8
"D" Statements of Cash Flows	9
Notes to Financial Statements	10-23

Carla G. Daniel, EA
Andrea W. Eason, CPA, CGMA
Ben Johnson, CPA, MBA
Robin H. McDuffie, CPA, CGMA
M. Neely McLaughlin, CPA, MBA, CGMA
Deetra B. Watson, CPA, CGMA



MEMBERS:
American Institute of
Certified Public Accountants

North Carolina Association of
Certified Public Accountants

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, 2021 and 2020, 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.

Phone/919.942.8700 • Fax/919.968.4766 • Toll Free/877.854.7530
The Exchange West at Meadowmont • 1414 Raleigh Road, Suite 300 • Chapel Hill, North Carolina 27517
www.b-scpa.com • email:cpa@b-scpa.com

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, 2021 and 2020 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 5, 2021

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

June 30, 2021 and 2020

ASSETS

	<u>2021</u>	<u>2020</u>
ASSETS:		
Cash and cash equivalents	\$ 15,414,857	\$ 9,786,220
Grant receivable	-	4,019
Corporate sponsors receivable	287,016	135,654
Other receivables	39,072	12,519
Prepaid expenses	67,450	67,237
Investments	27,653,503	30,460,992
Property and equipment, net	1,259,354	1,321,824
Restricted cash	65,399	77,999
	<u>44,786,651</u>	<u>41,866,464</u>
TOTAL ASSETS	<u>\$ 44,786,651</u>	<u>\$ 41,866,464</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable and accrued expenses	\$ 2,119,971	\$ 1,011,131
Accrued vacation	29,953	37,357
Deferred revenue	24,168	23,150
Agency funds	65,399	77,999
Loans payable	-	186,200
	<u>2,239,491</u>	<u>1,335,837</u>
TOTAL LIABILITIES	<u>2,239,491</u>	<u>1,335,837</u>
NET ASSETS:		
Without donor restrictions	26,496,156	24,663,304
With donor restrictions	16,051,004	15,867,323
	<u>42,547,160</u>	<u>40,530,627</u>
TOTAL NET ASSETS	<u>42,547,160</u>	<u>40,530,627</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 44,786,651</u>	<u>\$ 41,866,464</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, 2021 and 2020

EXHIBIT B

Page 1 of 2

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
SUPPORT AND REVENUE:				
Playoffs	\$ 612,588	\$ -	\$ 612,588	\$ 1,255,908
Contributions	903,774	28,722	932,496	2,012,405
In-kind contributions	103,776	-	103,776	95,663
Government grants and contracts	-	99,836	99,836	187,220
Officials' registrations	327,112	-	327,112	436,196
Membership dues	481,996	-	481,996	488,985
Insurance	570,379	-	570,379	575,167
Other income	2,751	-	2,751	101,555
Programs, books, and directories	5,687	-	5,687	23,682
Net investment return	7,954,645	242,355	8,197,000	833,151
Loan forgiveness	186,200	-	186,200	-
	11,148,908	370,913	11,519,821	6,009,932
Net assets released from restrictions	187,232	(187,232)	-	-
TOTAL SUPPORT AND REVENUE	11,336,140	183,681	11,519,821	6,009,932
EXPENSES:				
Program services	8,603,349	-	8,603,349	3,966,377
Supporting services:				
General and administrative	626,329	-	626,329	623,628
Fundraising	270,711	-	270,711	298,124
Total functional expenses	9,500,389	-	9,500,389	4,888,129
Bad debt expense	-	-	-	163,956
Loss on sale of fixed assets	2,899	-	2,899	-
TOTAL EXPENSES	9,503,288	-	9,503,288	5,052,085
CHANGES IN NET ASSETS	1,832,852	183,681	2,016,533	957,847
NET ASSETS - BEGINNING OF YEAR	24,663,304	15,867,323	40,530,627	39,572,780
NET ASSETS - END OF YEAR	\$ 26,496,156	\$ 16,051,004	\$ 42,547,160	\$ 40,530,627

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, 2021 and 2020

EXHIBIT B

Page 2 of 2

	2020		
	Without Donor Restrictions	With Donor Restrictions	Totals
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
Insurance	575,167	-	575,167
Other income	101,555	-	101,555
Programs, books, and directories	23,682	-	23,682
Net investment return	807,018	26,133	833,151
	5,324,791	685,141	6,009,932
Net assets released from restrictions	224,340	(224,340)	-
TOTAL SUPPORT AND REVENUE	5,549,131	460,801	6,009,932
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	4,888,129	-	4,888,129
Bad debt expense	163,956	-	163,956
TOTAL EXPENSES	5,052,085	-	5,052,085
CHANGES IN NET ASSETS	497,046	460,801	957,847
NET ASSETS - BEGINNING OF YEAR	24,166,258	15,406,522	39,572,780
NET ASSETS - END OF YEAR	\$ 24,663,304	\$ 15,867,323	\$ 40,530,627

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, 2021 and 2020

Page 1 of 2

	2021			2020	
	Program Services	General and Administrative	Fundraising	Totals	Totals
Advertising	\$ 616	\$ -	\$ 537	\$ 1,153	\$ 51,943
Awards	176,861	-	-	176,861	100,218
Building and grounds maintenance	1,665	14,989	-	16,654	18,678
Contract services	9,000	-	-	9,000	14,049
Depreciation	40,697	40,697	-	81,394	81,221
Gate receipts distribution	226,121	-	-	226,121	213,435
Hall of Fame	18,893	-	-	18,893	22,178
Insurance	421,242	46,805	-	468,047	477,106
Meetings expense	19,829	4,957	194	24,980	80,495
Office expense and supplies	131,775	70,955	240	202,970	258,726
Other expenses	180,144	8,257	17,562	205,963	235,164
Payments to schools	5,724,559	-	-	5,724,559	921,230
Printing, publications, and programs	83,525	1,795	4,531	89,851	102,216
Professional services	31,498	94,494	-	125,992	83,654
Salaries and benefits	773,485	337,033	247,647	1,358,165	1,387,068
Team expenses	724,235	-	-	724,235	773,059
Telephone and utilities	24,677	4,355	-	29,032	27,291
Travel	2,987	1,992	-	4,979	10,887
Vehicle expense	5,089	-	-	5,089	3,004
Workshops	6,451	-	-	6,451	26,507
Total functional expenses	8,603,349	626,329	270,711	9,500,389	4,888,129
Bad debt	-	-	-	-	163,956
Loss on sale of fixed assets	2,899	-	-	2,899	-
Total expenses	<u>\$ 8,606,248</u>	<u>\$ 626,329</u>	<u>\$ 270,711</u>	<u>\$ 9,503,288</u>	<u>\$ 5,052,085</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, 2021 and 2020

Page 2 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	<u>\$ 3,966,377</u>	<u>\$ 787,584</u>	<u>\$ 298,124</u>	<u>\$ 5,052,085</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,016,533	\$ 957,847
Adjustments to reconcile changes in net assets to net cash used by operations:		
Depreciation	81,394	81,221
Increase in values of annuity investments	(19,994)	-
Contributions restricted in perpetuity	(28,722)	(471,788)
Loan forgiveness	(186,200)	-
Realized and unrealized gains on investments	(7,541,006)	(248,055)
Loss on disposal of property and equipment	2,898	-
Changes in assets and liabilities:		
Grant receivable	4,019	41,916
Corporate sponsors receivable	(151,362)	61,463
Other receivables	(26,553)	21,975
Prepaid expenses	(213)	30,865
Accounts payable and accrued expenses	1,108,840	(271,146)
Accrued vacation	(7,404)	14,714
Deferred revenue	1,018	(281,112)
Agency funds	(12,600)	18,068
NET CASH USED BY OPERATING ACTIVITIES	<u>(4,759,352)</u>	<u>(44,032)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(41,622)	(8,156)
Proceeds from sale of property and equipment	19,800	-
Proceeds from sale of investments	23,477,989	8,113,826
Purchase of investments	(13,109,500)	(8,433,305)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>10,346,667</u>	<u>(327,635)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan	-	186,200
Contributions restricted in perpetuity	28,722	471,788
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>28,722</u>	<u>657,988</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,616,037	286,321
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>9,864,219</u>	<u>9,577,898</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 15,480,256</u>	<u>\$ 9,864,219</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents - undesignated	\$ 15,414,857	\$ 9,786,220
Restricted cash	65,399	77,999
Total cash and cash equivalents	<u>\$ 15,480,256</u>	<u>\$ 9,864,219</u>
Supplemental Cash Flow Information:		
Non cash transactions:		
In-kind contributions	<u>\$ 103,776</u>	<u>\$ 95,663</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 14

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, 2021 and 2020, based on management’s estimated collectability of these receivables.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 2 of 14

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 14

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 August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”). ASU 2018-13 impacts the fair value disclosures of both public and private companies by removing, modifying, and adding disclosure requirements concerning fair value measurement. Specifically, the guidance for private companies (i) removes the disclosure requirement related to transfers between Level 1 and Level 2 for recurring investments, (ii) removes the disclosure requirement related to the valuation processes for Level 3 fair value measurements, (iii) modifies the disclosure requirement related to timing of liquidation of investee assets, (iv) modifies the disclosure requirement related to measurement uncertainty by specifying that measurement uncertainty at the reporting date, not the sensitivity to future changes should be addressed, (v) removes the disclosure requirement related to changes in unrealized gains and losses included in income for recurring Level 3 investments, and (vi) modifies the disclosure requirement related to the Level 3 rollforward for recurring investments. ASU 2018-13 was adopted by the Organization during the year ended June 30, 2021.

In May 2014, the FASB issued ASU 2014-09 - *Revenue from Contracts with Customers*. The Company adopted the requirements of the new standard effective July 1, 2020. For further information, see the note disclosure regarding the Company’s revenue from contracts with customers.

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 14

LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets at June 30:

	<u>2021</u>	<u>2020</u>
Liquid current assets:		
Cash and cash equivalents	\$ 15,414,857	\$ 9,786,220
Grant receivable	-	4,019
Corporate sponsors receivable	287,016	135,654
Other receivables	39,072	12,519
Investments	<u>27,653,503</u>	<u>30,460,992</u>
	43,394,448	40,399,404
Less amounts unavailable for general expenditures within one year, due to:		
Restrictions by donor and board for time or purpose	<u>(27,014,043)</u>	<u>(26,603,428)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 16,380,405</u>	<u>\$ 13,795,976</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

Page 5 of 14

INVESTMENTS

Investments consist of the following at June 30:

	June 30, 2021		
	Cost	Fair Value	Unrealized Gain
Mutual funds	\$ 10,767,959	\$ 11,683,372	\$ 915,413
Annuity contracts	165,496	165,496	-
Equity securities	9,377,742	15,430,074	6,052,332
ETFs and UITs	197,754	374,561	176,807
	<u>\$ 20,508,951</u>	<u>\$ 27,653,503</u>	<u>\$ 7,144,552</u>
	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>

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

Page 6 of 14

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, 2021 and 2020, 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, 2021 and 2020. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2021			
Assets:	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 11,683,372	\$ -	\$ -	\$ 11,683,372
Annuity contracts	-	-	165,496	165,496
Equity securities	15,430,074	-	-	15,430,074
ETFs and UITs	374,561	-	-	374,561
	<u>\$ 27,488,007</u>	<u>\$ -</u>	<u>\$ 165,496</u>	<u>\$ 27,653,503</u>

	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>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 7 of 14

PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Furniture, fixtures, and equipment	\$ 383,684	\$ 445,081
Building and improvements	1,767,037	1,767,037
Vehicles	<u>114,817</u>	<u>113,307</u>
	2,265,538	2,325,425
Less: accumulated depreciation	<u>(1,006,184)</u>	<u>(1,003,601)</u>
	<u>\$ 1,259,354</u>	<u>\$ 1,321,824</u>

CONDITIONAL PROMISES TO GIVE

Conditional promises to give at June 30, 2021 and 2020, total approximately \$2.6 million and \$2.1 million, respectively. These conditional promises to give, which are predominantly for specific championship events and all-star games, are not recognized in the accompanying financial statements. They will be recognized when the conditions upon which they depend are substantially met.

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. The Organization also received an advance of \$10,000 under the Economic Injury Disaster Loan Program. Both loan were forgiven during the year ended June 30, 2021.

REVENUE FROM CONTRACTS WITH CUSTOMERS*Performance Obligations*

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in the new revenue standard. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Organization's contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 8 of 14

REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)*Performance Obligations Satisfied at a Point in Time*

Publication Sales: The Organization sells various publications, such as handbooks, rule books, and programs. Revenue is recognized when the products are shipped to or picked up by the customers.

Playoff Revenues: For each sport during the playoffs, the Organization receives a certain percentage of the ticket sales. The amount varies by sport and varies by each round of the playoffs. Since the revenue is for a specific game, the Organization believes that point in time recognition remains appropriate for this type of revenue.

Performance Obligations Satisfied Over Time

Membership Dues: The Organization receives dues revenue from all member schools. Membership is recognized on an annual basis over the school year. Dues are assessed based on attendance numbers, and payment is due by December 1st each year.

Catastrophic Insurance Revenue: The Organization provides catastrophic insurance coverage for all student athletes, coaches, and related personnel. A fee is charged to member schools based on the number of individuals covered, and payment is due September 30th each year. The revenue is recognized on an annual basis over the school year.

Officials Revenue: Officials used during high school sports are required to pay a registration fee each year. Registration opens in May each year, and revenue is recognized on an annual basis over the school year.

Contract Balances

The timing of revenue recognition and cash collections may result in deferred revenue recorded on the statements of financial position. At June 30, 2021 and 2020, deferred revenue related to contracts with customers amounted to \$24,168 and \$23,150, respectively.

General

The Organization assesses certain economic factors, and the potential for significant changes in those economic factors, and its impact on the nature, amount, timing, and uncertainty of revenue and cash flows. Common factors ordinarily impacting the Organization, especially in regards to playoff revenue, would be which schools are in the playoffs, and location of games. These factors have been assessed and management feels they have limited impact on the Organization's overall performance. However, other factors have been assessed, and management feels the impact of the COVID-19 pandemic has had a significant impact on the Organization's revenues.

Transition

The Organization applied ASU 2014-09 to contracts not complete as of the date of adoption, July 1, 2020, using the modified retrospective approach. No cumulative effect adjustment to opening net assets was required.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 9 of 14

NET ASSETS

Net assets at June 30, 2021 consist of the following:

	Purpose/Time Restricted	Perpetuity Restricted	Board Designated/ Undesignated	Totals
Administrators Education Fund	\$ 84	\$ 2,300	\$ 1,390,321	\$ 1,392,705
Alford Family Golf Scholarship	-	3,775	-	3,775
Charlie Adams Endowed Scholarship	34,411	100,945	97,322	232,678
Clary Medal Awards	49,780	100,000	-	149,780
Coaches Education Fund	100	350	743,822	744,272
Dave Harris Athletic Director Award	15,865	18,936	-	34,801
Gainey Student Scholarships	44,200	150,050	-	194,250
General Endowment	-	14,975,503	7,620,314	22,595,817
Hall of Fame Endowment	78,637	138,324	62,350	279,311
Heads Up Football Coaches Training	16,550	-	-	16,550
Health & Safety Fund	317	1,210	834,192	835,719
Lacrosse Scholarship	848	9,040	14,092	23,980
McGee Scholarship	4,133	40,066	111,226	155,425
Tony Cullen Memorial Fund	18,467	48,192	11,982	78,641
Tony Webb Coach of the Year Award	50,604	80,837	-	131,441
Willie Bradshaw Scholarship	-	67,480	75,550	143,030
	<u>313,996</u>	<u>15,737,008</u>	<u>10,961,171</u>	<u>27,012,175</u>
Undesignated	-	-	15,534,985	15,534,985
Total net assets at June 30, 2021	<u>\$ 313,996</u>	<u>\$ 15,737,008</u>	<u>\$ 26,496,156</u>	<u>\$ 42,547,160</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 10 of 14

NET ASSETS (CONTINUED)

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
	<u>159,037</u>	<u>15,708,286</u>	<u>10,732,084</u>	<u>26,599,407</u>
Undesignated	-	-	13,931,220	13,931,220
Total net assets at June 30, 2020	<u>\$ 159,037</u>	<u>\$ 15,708,286</u>	<u>\$ 24,663,304</u>	<u>\$ 40,530,627</u>

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.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 11 of 14

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.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

Page 12 of 14

ENDOWMENTS (CONTINUED)

The changes in endowment net assets for the year ended June 30, 2021 were as follows:

	Board Designated	With Donor Restrictions	Totals
Endowment net assets, beginning of year	\$ 8,081,307	\$ 15,850,647	\$ 23,931,954
Net investment return	5,541,594	242,305	5,783,899
Contributions/other revenue	1,680	28,772	30,452
Appropriation for expenditure	<u>(6,004,267)</u>	<u>(87,271)</u>	<u>(6,091,538)</u>
Endowment net assets, end of year	<u>\$ 7,620,314</u>	<u>\$ 16,034,453</u>	<u>\$ 23,654,767</u>

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	<u>-</u>	<u>8,397</u>	<u>8,397</u>
Endowment net assets, end of year	<u>\$ 8,081,307</u>	<u>\$ 15,850,647</u>	<u>\$ 23,931,954</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 \$81,000 and \$82,108, for the years ended June 30, 2021 and 2020, respectively. This includes a 2% additional discretionary matching contribution, and a 2% profit sharing contribution for each year.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.**NOTES TO FINANCIAL STATEMENTS**

Page 13 of 14

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 \$103,776 and \$95,663, have been recognized as contributions for the years ended June 30, 2021 and 2020, respectively.

OPERATING LEASES

In March 2017, the Organization entered into a lease agreement for office equipment. 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 an 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, 2021 and 2020. Minimum future rental payments for the year ended June 30, 2022 total \$35,585. At June 30, 2021, 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.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.**NOTES TO FINANCIAL STATEMENTS**

Page 14 of 14

CONTINGENCY

The ongoing novel coronavirus (“COVID-19”) pandemic and restrictions on non-essential businesses have caused disruption in the U.S. and global economies. Despite significant market rebounds across many asset classes, the continued rapid development of this situation and uncertainty regarding potential economic recovery precludes any prediction as to the ultimate adverse impact of COVID-19 on the financial market and economic conditions. The estimates and assumptions underlying these financial statements are based on the information available as of June 30, 2021, including judgments about the financial market and economic conditions which may change over time.

The Organization is the subject of North Carolina proposed legislation House Bill 91 (“HB91”), *Accountability and Fair Play in Athletics*. The Organization is currently allowed to administer high school athletics in North Carolina by the North Carolina State Board of Education (“SBE”). HB91 serves to create a memorandum of understanding (“MOU”) between SBE and the Organization regarding the administering of high school athletics in North Carolina. This MOU contains significant changes to current operations of the Organization as it relates to procedures and policies in administering high school athletics in North Carolina. HB91 would allow SBE to either enter into a MOU with the Organization, a different nonprofit organization, or could assign the duties to the North Carolina Department of Public Instruction. At this time it is uncertain of any possible outcome regarding the final provisions of HB91, and when, and if, the legislation will be passed.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through November 5, 2021, which was the date that the financial statements were available to be issued, and determined there are no events that require disclosure.