

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

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021



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INDEPENDENT AUDITOR'S REPORT

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Board of Directors
North Carolina High School Athletic Association, Inc.

Opinion

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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of North Carolina High School Athletic Association, Inc., and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about North Carolina High School Athletic Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

BLACKMAN & SLOOP, CPAS, P.A.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 North Carolina High School Athletic Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about North Carolina High School Athletic Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blackman & Sloop

Chapel Hill, North Carolina
December 7, 2022

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

June 30, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
ASSETS:		
Cash and cash equivalents	\$ 8,344,528	\$ 15,414,857
Corporate sponsors receivable	556,571	287,016
Other receivables	10,610	39,072
Prepaid expenses	53,290	67,450
Investments	27,658,747	27,653,503
Property and equipment, net	1,182,292	1,259,354
Restricted cash	<u>76,907</u>	<u>65,399</u>
TOTAL ASSETS	<u>\$ 37,882,945</u>	<u>\$ 44,786,651</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts payable and accrued expenses	\$ 1,435,259	\$ 2,119,971
Accrued vacation	22,017	29,953
Deferred revenue	1,068	24,168
Agency funds	<u>76,907</u>	<u>65,399</u>
TOTAL LIABILITIES	<u>1,535,251</u>	<u>2,239,491</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	14,065,327	15,534,985
Board designated	<u>6,373,801</u>	<u>10,961,171</u>
	<u>20,439,128</u>	<u>26,496,156</u>
With donor restrictions:		
Perpetuity restricted	15,771,091	15,737,008
Purpose and time restricted	<u>137,475</u>	<u>313,996</u>
	<u>15,908,566</u>	<u>16,051,004</u>
TOTAL NET ASSETS	<u>36,347,694</u>	<u>42,547,160</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 37,882,945</u>	<u>\$ 44,786,651</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, 2022 and 2021

EXHIBIT B

Page 1 of 2

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
SUPPORT AND REVENUE:				
Playoffs	\$ 1,705,401	\$ -	\$ 1,705,401	\$ 612,588
Contributions	1,294,291	34,083	1,328,374	932,496
Contribution of nonfinancial assets	163,118	-	163,118	103,776
Government grants and contracts	-	-	-	99,836
Officials' registrations	303,937	-	303,937	327,112
Membership dues	50,383	-	50,383	481,996
Insurance	-	-	-	570,379
Other income	93,103	-	93,103	2,751
Programs, books, and directories	1,940	-	1,940	5,687
Net investment return	(4,260,880)	(124,205)	(4,385,085)	8,197,000
Loss on sale of property and equipment	-	-	-	(2,899)
Loan forgiveness	-	-	-	186,200
	(648,707)	(90,122)	(738,829)	11,516,922
Net assets released from restrictions	52,316	(52,316)	-	-
TOTAL SUPPORT AND REVENUE	(596,391)	(142,438)	(738,829)	11,516,922
EXPENSES:				
Program services	4,454,130	-	4,454,130	8,586,509
Supporting services:				
General and administrative	786,633	-	786,633	643,169
Fundraising	219,873	-	219,873	270,711
TOTAL EXPENSES	5,460,636	-	5,460,636	9,500,389
CHANGES IN NET ASSETS	(6,057,027)	(142,438)	(6,199,465)	2,016,533
NET ASSETS - BEGINNING OF YEAR	26,496,156	16,051,004	42,547,160	40,530,627
NET ASSETS - END OF YEAR	\$ 20,439,128	\$ 15,908,566	\$ 36,347,694	\$ 42,547,160

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, 2022 and 2021

EXHIBIT B

Page 2 of 2

	2021		Totals
	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE:			
Playoffs	\$ 612,588	\$ -	\$ 612,588
Contributions	903,774	28,722	932,496
Contribution of nonfinancial assets	103,776	-	103,776
Government grants and contracts	-	99,836	99,836
Officials' registrations	327,112	-	327,112
Membership dues	481,996	-	481,996
Insurance	570,379	-	570,379
Other income	2,751	-	2,751
Programs, books, and directories	5,687	-	5,687
Net investment return	7,954,645	242,355	8,197,000
Loss on sale of property and equipment	(2,899)	-	(2,899)
Loan Forgiveness	186,200	-	186,200
	11,146,009	370,913	11,516,922
Net assets released from restrictions	187,232	(187,232)	-
TOTAL SUPPORT AND REVENUE	11,333,241	183,681	11,516,922
EXPENSES:			
Program services	8,586,509	-	8,586,509
Supporting services:			
General and administrative	643,169	-	643,169
Fundraising	270,711	-	270,711
TOTAL EXPENSES	9,500,389	-	9,500,389
CHANGES IN NET ASSETS	1,832,852	183,681	2,016,533
NET ASSETS - BEGINNING OF YEAR	24,663,304	15,867,323	40,530,627
NET ASSETS - END OF YEAR	\$ 26,496,156	\$ 16,051,004	\$ 42,547,160

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, 2022 and 2021

Page 1 of 2

	2022			2021	
	Program Services	General and Administrative	Fundraising	Totals	Totals
Advertising	\$ 735	\$ -	\$ 5,970	\$ 6,705	\$ 1,153
Awards	178,930	-	-	178,930	176,861
Building and grounds maintenance	1,577	14,189	-	15,766	16,654
Contract services	-	-	-	-	9,000
Depreciation	38,531	38,531	-	77,062	81,394
Gate receipts distribution	288,739	-	-	288,739	226,121
Insurance	433,390	48,155	-	481,545	468,047
Meetings expense	54,270	13,568	-	67,838	24,980
Office expense and supplies	144,807	77,973	40	222,820	160,870
Other expenses	211,235	32,826	18,239	262,300	211,356
Payments to schools	1,125,571	-	-	1,125,571	5,724,559
Printing, publications, and programs	92,756	1,536	2,488	96,780	89,851
Professional services	62,216	186,650	-	248,866	168,092
Salaries and benefits	723,315	367,226	193,136	1,283,677	1,358,165
Team expenses	1,044,514	-	-	1,044,514	737,735
Telephone and utilities	19,519	3,445	-	22,964	29,032
Travel	3,800	2,534	-	6,334	4,979
Vehicle expense	5,851	-	-	5,851	5,089
Workshops	24,374	-	-	24,374	6,451
Total expenses	<u>\$ 4,454,130</u>	<u>\$ 786,633</u>	<u>\$ 219,873</u>	<u>\$ 5,460,636</u>	<u>\$ 9,500,389</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, 2022 and 2021

Page 2 of 2

	2021			Totals
	Program Services	General and Administrative	Fundraising	
Advertising	\$ 616	\$ -	\$ 537	\$ 1,153
Awards	176,861	-	-	176,861
Building and grounds maintenance	1,665	14,989	-	16,654
Contract services	9,000	-	-	9,000
Depreciation	40,697	40,697	-	81,394
Gate receipts distribution	226,121	-	-	226,121
Hall of Fame	-	-	-	-
Insurance	421,242	46,805	-	468,047
Meetings expense	19,829	4,957	194	24,980
Office expense and supplies	104,410	56,220	240	160,870
Other expenses	185,537	8,257	17,562	211,356
Payments to schools	5,724,559	-	-	5,724,559
Printing, publications, and programs	83,525	1,795	4,531	89,851
Professional services	42,023	126,069	-	168,092
Salaries and benefits	773,485	337,033	247,647	1,358,165
Team expenses	737,735	-	-	737,735
Telephone and utilities	24,677	4,355	-	29,032
Travel	2,987	1,992	-	4,979
Vehicle expense	5,089	-	-	5,089
Workshops	6,451	-	-	6,451
Total expenses	<u>\$ 8,586,509</u>	<u>\$ 643,169</u>	<u>\$ 270,711</u>	<u>\$ 9,500,389</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (6,199,465)	\$ 2,016,533
Adjustments to reconcile changes in net assets to net cash used by operations:		
Depreciation	77,062	81,394
Decrease (increase) in values of annuity investments	42,055	(19,994)
Contributions restricted in perpetuity	(34,083)	(28,722)
Loan forgiveness	-	(186,200)
Realized and unrealized (gains) losses on investments	4,851,569	(7,541,006)
Loss on disposal of property and equipment	-	2,898
Changes in assets and liabilities:		
Grant receivable	-	4,019
Corporate sponsors receivable	(269,555)	(151,362)
Other receivables	28,462	(26,553)
Prepaid expenses	14,160	(213)
Accounts payable and accrued expenses	(684,712)	1,108,840
Accrued vacation	(7,936)	(7,404)
Deferred revenue	(23,100)	1,018
Agency funds	11,508	(12,600)
NET CASH USED BY OPERATING ACTIVITIES	<u>(2,194,035)</u>	<u>(4,759,352)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(41,622)
Proceeds from sale of property and equipment	-	19,800
Proceeds from sale of investments	13,784,643	23,477,989
Purchase of investments	(18,683,511)	(13,109,500)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(4,898,868)</u>	<u>10,346,667</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted in perpetuity	34,083	28,722
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(7,058,820)</u>	<u>5,616,037</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>15,480,256</u>	<u>9,864,219</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 8,421,435</u>	<u>\$ 15,480,256</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents - undesignated	\$ 8,344,528	\$ 15,414,857
Restricted cash	76,907	65,399
Total cash and cash equivalents	<u>\$ 8,421,435</u>	<u>\$ 15,480,256</u>
Supplemental Cash Flow Information:		
Non cash transactions:		
Contribution of nonfinancial assets	<u>\$ 163,118</u>	<u>\$ 103,776</u>

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

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

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ORGANIZATION

The North Carolina High School Athletic Association, Inc. (the “Organization”) was organized in 1913 and incorporated pursuant to the laws of the state of North Carolina. The Organization’s programs consist of administering the state’s interscholastic programs for its member high schools in North Carolina; the education and training of officials of high school athletic events; and the administration of chemical awareness and substance abuse education programs for high school students, teachers, and administrators.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Basis of Accounting.**

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

The Organization reports gifts of cash and other assets as 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, 2022 and 2021, based on management’s estimated collectability of these receivables.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Property and Equipment.

Property and equipment are stated at cost when purchased and at fair 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 \$2,500. 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

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Estimates.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates, and those differences can be material.

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 Pronouncement.

In September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The main provision of ASU 2020-07 is to increase transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The Organization adopted ASU 2020-07 effective July 1, 2021, on a retrospective basis. There were no changes to previously issued financial statements due to the adoption of this standard.

L. Consideration of Future Accounting Principle Changes.

In February 2016, FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over twelve months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. This standard will be effective for the fiscal year ending June 30, 2023. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

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

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LIQUIDITY AND AVAILABILITY

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

	<u>2022</u>	<u>2021</u>
Liquid current assets:		
Cash and cash equivalents	\$ 8,344,528	\$ 15,414,857
Corporate sponsors receivable	556,571	287,016
Other receivables	10,610	39,072
Investments	<u>27,658,747</u>	<u>27,653,503</u>
	36,570,456	43,394,448
Less amounts unavailable for general expenditures within one year, due to:		
Restrictions by donor and board for time or purpose	<u>(22,282,367)</u>	<u>(27,012,175)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,288,089</u>	<u>\$ 16,382,273</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.

INVESTMENTS

Investments consist of the following at June 30:

	<u>June 30, 2022</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (loss)</u>
Mutual funds	\$ 9,168,697	\$ 8,117,709	\$ (1,050,988)
Annuity contracts	123,441	123,441	-
Equity securities	11,993,002	14,301,359	2,308,357
Fixed income	4,461,367	4,031,537	(429,830)
Private equity	1,010,000	1,010,000	-
ETFs	<u>78,776</u>	<u>74,701</u>	<u>(4,075)</u>
	<u>\$ 26,835,283</u>	<u>\$ 27,658,747</u>	<u>\$ 823,464</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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INVESTMENTS (CONTINUED)

	June 30, 2021		
	Cost	Fair Value	Unrealized Gain
Mutual funds	\$ 7,052,669	\$ 7,677,638	\$ 624,969
Annuity contracts	165,496	165,496	-
Equity securities	9,377,742	15,430,074	6,052,332
Fixed income	3,715,290	4,005,734	290,444
ETFs	197,754	374,561	176,807
	<u>\$ 20,508,951</u>	<u>\$ 27,653,503</u>	<u>\$ 7,144,552</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.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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FAIR VALUE OF ASSETS (CONTINUED)

The Organization follows the practical expedient provision for valuation in ASC 820, *Fair Value Measurement*, which permits the measurement of fair value based on the net asset value of the investment, without further adjustment, unless it is probable that the investment will be sold at a value significantly less than the net asset value. In using net asset value as a practical expedient, certain attributes of the investment that may affect the fair value of the investment are not considered in measuring fair value. Attributes of those investments include the investment strategies of the investees and may also include, but are not limited to restrictions on the investor's ability to redeem its investments at the measurement date.

There were no changes during the years ended June 30, 2022 and 2021, 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, 2022 and 2021. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets:	June 30, 2022				
	Level 1	Level 2	Level 3	Held at NAV	Total
Mutual funds	\$ 8,117,709	\$ -	\$ -	\$ -	\$ 8,117,709
Annuity contracts	-	-	123,441	-	123,441
Equity securities	14,301,359	-	-	-	14,301,359
Fixed income	4,031,537	-	-	-	4,031,537
Private equity	-	-	-	1,010,000	1,010,000
ETFs	74,701	-	-	-	74,701
	<u>\$ 26,525,306</u>	<u>\$ -</u>	<u>\$ 123,441</u>	<u>\$ 1,010,000</u>	<u>\$ 27,658,747</u>

Assets:	June 30, 2021				
	Level 1	Level 2	Level 3	Held at NAV	Total
Mutual funds	\$ 7,677,638	\$ -	\$ -	\$ -	\$ 7,677,638
Annuity contracts	-	-	165,496	-	165,496
Equity securities	15,430,074	-	-	-	15,430,074
Fixed income	4,005,734	-	-	-	4,005,734
ETFs	374,561	-	-	-	374,561
	<u>\$ 27,488,007</u>	<u>\$ -</u>	<u>\$ 165,496</u>	<u>\$ -</u>	<u>\$ 27,653,503</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

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PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Furniture, fixtures, and equipment	\$ 383,684	\$ 383,684
Building and improvements	1,767,037	1,767,037
Vehicles	114,817	114,817
	<u>2,265,538</u>	<u>2,265,538</u>
Less: accumulated depreciation	<u>(1,083,246)</u>	<u>(1,006,184)</u>
	<u>\$ 1,182,292</u>	<u>\$ 1,259,354</u>

CONDITIONAL PROMISES TO GIVE

Conditional promises to give at June 30, 2022 and 2021, total approximately \$2.6 million each year. 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.

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.

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.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

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REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

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. Effective July 1, 2021, the Organization is no longer collecting these insurance fees from member schools.

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, 2022 and 2021, deferred revenue related to contracts with customers amounted to \$1,068 and \$24,168, 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 in the prior year has had a significant impact on the Organization's revenues.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

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NET ASSETS

Net assets at June 30, 2022, consist of the following:

	Purpose/Time Restricted	Perpetuity Restricted	Board Designated/ Undesignated	Totals
Administrators Education Fund	\$ (187)	\$ 2,300	\$ 1,225,846	\$ 1,227,959
Alford Family Golf Scholarship	1,025	12,421	-	13,446
Charlie Adams Endowed Scholarship	12,468	103,320	85,809	201,597
Clary Medal Awards	31,950	100,000	-	131,950
Coaches Education Fund	59	350	655,828	656,237
Dave Harris Athletic Director Award	13,625	18,936	-	32,561
Gainey Student Scholarships	26,449	150,050	-	176,499
General Endowment	-	14,983,065	3,556,267	18,539,332
Hall of Fame Endowment	19,366	138,824	54,974	213,164
Heads Up Football Coaches Training	16,550	-	-	16,550
Health & Safety Fund	174	1,560	607,407	609,141
Lacrosse Scholarship	(2,221)	11,040	12,425	21,244
McGee Scholarship	(6,607)	40,741	98,068	132,202
Student Services	-	250	-	250
Tony Cullen Memorial Fund	7,766	59,292	10,565	77,623
Tony Webb Coach of the Year Award	36,041	80,962	-	117,003
Willie Bradshaw Scholarship	(18,983)	67,980	66,612	115,609
	<u>137,475</u>	<u>15,771,091</u>	<u>6,373,801</u>	<u>22,282,367</u>
Undesignated	-	-	14,065,327	14,065,327
Total net assets at June 30, 2022	<u>\$ 137,475</u>	<u>\$ 15,771,091</u>	<u>\$ 20,439,128</u>	<u>\$ 36,347,694</u>

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NET ASSETS (CONTINUED)

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>

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. At June 30, 2022, there were four endowment funds below the required amounts by approximately \$28,000.

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

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ENDOWMENTS (CONTINUED)

The changes in endowment net assets for the year ended June 30, 2022 were as follows:

	Board Designated	With Donor Restrictions	Totals
Endowment net assets, beginning of year	\$ 7,620,314	\$ 16,034,453	\$ 23,654,767
Net investment return	(2,732,338)	(124,205)	(2,856,543)
Contributions/other revenue	13,953	38,356	52,309
Appropriation for expenditure	(1,345,662)	(56,588)	(1,402,250)
Endowment net assets, end of year	<u>\$ 3,556,267</u>	<u>\$ 15,892,016</u>	<u>\$ 19,448,283</u>

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	242,355	5,783,949
Contributions/other revenue	1,680	28,722	30,402
Appropriation for expenditure	(6,004,267)	(87,271)	(6,091,538)
Endowment net assets, end of year	<u>\$ 7,620,314</u>	<u>\$ 16,034,453</u>	<u>\$ 23,654,767</u>

NORTH CAROLINA HIGH SCHOOL ATHLETIC ASSOCIATION, INC.

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CONTRIBUTION OF NONFINANCIAL ASSETS

The Organization recognizes contributions that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the statements of activities and changes in net assets included:

	<u>2022</u>	<u>2021</u>
On-site medical services	\$ 26,885	\$ 3,570
Advertising	25,530	-
Apparel	5,000	5,000
Graphic design services	3,500	-
Hotel rooms	1,050	676
On-line track registration services	20,000	-
Game balls, equipment, and management services	58,200	55,337
Miscellaneous items	22,953	12,790
PPE supplies	-	26,403
	<u>\$ 163,118</u>	<u>\$ 103,776</u>

All contributed nonfinancial assets were utilized during the year they were received for program, management and general, and fundraising purposes. There were no donor-imposed restrictions associated with the contributed nonfinancial assets. The fair value for items was based on current rates for similar products and services. During the years ended June 30, 2022 and 2021, the Organization received amounts of personal services from volunteers that did not meet the requirements above for recognition in the financial statements.

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 \$82,240 and \$81,000, for the years ended June 30, 2022 and 2021, respectively. This includes a 2% additional discretionary matching contribution, and a 2% profit sharing contribution for each year.

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OPERATING LEASES

In March 2017, the Organization entered into a lease agreement for office equipment. The monthly payment was \$3,235, and the lease expired in May 2022. The Organization is also obligated under three equipment leases for office equipment. The combined monthly payments total \$4,402, and the leases expire in February 2024 through January 2027. Total rental expense for the operating leases amounted to \$88,188 and \$90,768, for the years ended June 30, 2022 and 2021, respectively. Minimum future rental payments for the year ended June 30, 2022, are as follows:

<u>Year Ending June 30,</u>	
2023	\$ 52,822
2024	49,506
2025	39,374
2026	874
2027	364
	<u>\$ 142,940</u>

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.

COMMITMENT

The Organization has entered into a memorandum of understanding with the North Carolina State Board of Education ("State Board") for the administration of interscholastic high school athletic activities in the state of North Carolina. The memorandum is effective July 1, 2022, through June 30, 2026. If the State Board determines that the Organization has failed to comply with the requirements of the memorandum, the State Board may terminate the memorandum upon written notice to the Organization.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through December 7, 2022, which was the date that the financial statements were available to be issued, and determined there are no events that require disclosure.