

NORTH CAROLINA STATE BOARD OF OPTICIANS

**Financial Statements for the
Year Ended June 30, 2016 and
Independent Auditor's Report**

NORTH CAROLINA STATE BOARD OF OPTICIANS

Financial Statements for the Year Ended June 30, 2016 and Independent Auditor's Report

BOARD MEMBERS (2016)

Debra N. Newell, Chairperson

Linda W. Miller, Vice-Chairperson

Carolyn W. Middlebrooks, Secretary-Treasurer

William T. Brock

Becky Johnson

Ian Radford

Vacant Position

EXECUTIVE OFFICER

Sue M. Hodgin, Director

LEGAL COUNSEL

M. Jackson Nichols

NORTH CAROLINA STATE BOARD OF OPTICIANS

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NORTH CAROLINA STATE BOARD OF OPTICIANS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Board's financial report represents Management's analysis of the Board's financial performance during the year ended June 30, 2016. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

During 2016, the Board's net position increased by \$19,068, or 908.9%, due primarily to a recurrence of revenues in excess of expenses.

During 2016, the operating revenues of the Board increased by \$5,565, or 3.4%, due primarily to an increase in examination fees.

During 2016, the non-operating revenues of the Board increased by \$4,882, or 295.3%, due to the receipt of noncapital gifts.

During 2016, the operating expenses of the Board increased by \$19,977, or 14.7%, due primarily to an increase in inspectors' transportation expenses, contracted temporary services, and telephone expenses.

Overview of the Financial Statements

This financial report consists of two primary sections: Management's Discussion and Analysis and the Financial Statements. Because the North Carolina State Treasurer allocated no proportionate share of the Teachers' and State Employees' Retirement System's net pension asset (liability), deferred outflows of resources, deferred inflows of resources, and pension expense (credit) to the Board, the Board has not presented other supplementary information required (when applicable) by GASB 68, as amended by GASB 71, which reports the Board's progress in funding pension benefits to its employees. The Financial Statements also include notes to the financial statements that provide detail of the information included in the financial statements.

Basic Financial Statements

The financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board.

The Statement of Net Position presents the current and long-term portions of assets, deferred outflows of resources, liabilities, and deferred inflows of resources separately.

The Statement of Revenues, Expenses, and Changes in Net Position presents information on how the Board's assets changed as a result of its operations.

The Statement of Cash Flows presents information on how the Board's cash changed as a result of its financial activities.

NORTH CAROLINA STATE BOARD OF OPTICIANS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The following presents condensed financial information on the operations of the Board:

	Current Year as of and for the year ended June 30, 2016	Current Year as of and for the year ended June 30, 2015 (as restated)
Current assets	\$ 108,341	\$ 87,183
Capital assets	269	390
Total assets	<u>\$ 108,610</u>	<u>\$ 87,573</u>
Deferred outflows	\$	\$
Total deferred outflows of resources	<u>\$ 0</u>	<u>\$ 0</u>
Current liabilities	\$ 87,444	\$ 85,475
Total liabilities	<u>\$ 87,444</u>	<u>\$ 85,475</u>
Deferred inflows	\$	\$
Total deferred inflows of resources	<u>\$ 0</u>	<u>\$ 0</u>
Net investment in capital assets	\$ 269	\$ 390
Unrestricted	20,897	1,708
Total net position	<u>\$ 21,166</u>	<u>\$ 2,098</u>
Operating revenues	\$ 168,315	\$ 162,750
Operating expenses	(155,782)	(135,805)
Operating income	\$ 12,533	\$ 26,945
Non-operating revenues	6,535	1,653
Change in net position	<u>\$ 19,068</u>	<u>\$ 28,598</u>

Events Affecting Future Operations

The Board has no significant events affecting future operations which are reportable pursuant to GASB 34.

Contacting the Board's Management

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional information, contact: North Carolina State Board of Opticians, PO Box 6758, Raleigh, NC 27628.

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Angier, North Carolina 27501-1545

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
North Carolina State Board of Opticians
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the North Carolina State Board of Opticians (the "Board"), an independent state agency which is a nonmajor enterprise fund of the primary government of the State of North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which comprise the Board's financial statements as listed in the table of contents.

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 the audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 judgement, 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 the North Carolina State Board of Opticians as of June 30, 2016, and the results of its operations, changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the supplementary information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance thereon.



Shelton L. Hawley, C.P.A., P.A.

Angier, North Carolina

October 12, 2016

NORTH CAROLINA STATE BOARD OF OPTICIANS
STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

	June 30, 2016
	Proprietary - Enterprise Fund
ASSETS	
Current assets:	
Cash in State Treasurer (Note 2)	\$ 107,500
Accrued interest receivable	63
Prepaid expense	778
Total current assets	<u>108,341</u>
Capital assets (Note 1)	
Furniture and office equipment	269
Total capital assets - net of depreciation	<u>269</u>
TOTAL ASSETS	<u>\$ 108,610</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows	\$
Total deferred outflows of resources	<u>\$ 0</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 5,711
Due to other state agencies	2,058
Unearned revenue (Note 3)	79,675
Total current liabilities	<u>87,444</u>
TOTAL LIABILITIES	<u>\$ 87,444</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows	\$
Total deferred inflows of resources	<u>\$ 0</u>
NET POSITION (NOTES 4 AND 10)	
Net investment in capital assets	\$ 269
Unrestricted net position	<u>20,897</u>
TOTAL NET POSITION	<u><u>\$ 21,166</u></u>

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF OPTICIANS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

	<u>2016</u>
	<u>Proprietary - Enterprise Fund</u>
OPERATING REVENUES:	
Individual renewals	\$ 108,200
Wall certificates - individual licenses and duplicates	3,550
Apprentice fees	4,875
Intern fees	900
Business registrations	22,750
Examination fees	19,800
Training establishment registration fees	5,325
Late fees, fines and penalties (net of forfeitures)	1,400
Miscellaneous income (including cost recovery revenue)	<u>1,515</u>
Total operating revenues	<u>\$ 168,315</u>
OPERATING EXPENSES:	
Board members expenses - per diem	\$ 2,800
Board members expenses - travel	1,565
Staff members and inspectors - travel, meals and lodging	12,035
Other contracted services - administrative	42,852
Other contracted services - temporary services	25,025
Other contracted services - inspectors and investigative	4,920
Continuing education costs - licensees	1,256
Office rent (Note 5)	20,843
Telephone (including internet and network costs)	5,003
Depreciation	121
Data processing - computer support	2,438
Software maintenance	3,400
Equipment rental and maintenance (Note 5)	6,203
Office and administrative supplies	2,422

See notes to financial statements

NORTH CAROLINA STATE BOARD OF OPTICIANS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016

	<u>2016</u>
	<u>Proprietary - Enterprise Fund</u>
OPERATING EXPENSES (CONTINUED):	
Building operating expenses	56
Postage	1,665
Printing	2,214
Insurance and bonding	295
Dues and subscriptions	872
Legal and audit fees	18,702
Miscellaneous expenses	<u>1,095</u>
Total operating expenses	<u>\$ 155,782</u>
Operating income	\$ 12,533
NON-OPERATING INCOME (EXPENSES):	\$
Noncapital gifts	5,865
Interest income	<u>670</u>
Total net non-operating revenues	<u>\$ 6,535</u>
Change in net position	<u>\$ 19,068</u>
Net position - beginning of year (Note 10)	<u>2,098</u>
Net position - end of year	<u><u>\$ 21,166</u></u>

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF OPTICIANS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

	<u>2016</u>
	<u>Proprietary - Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from fees and operating revenue	\$ 170,190
Cash payments for operating expenses	<u>(155,567)</u>
Net cash provided (used) by operating activities	\$ 14,623
Cash flows from non-capital and related financing activities:	
Noncapital gifts	<u>\$ 5,865</u>
Net cash provided (used) in non-capital and related financing activities:	\$ 5,865
Cash flows from investing activities:	
Interest on investments	<u>\$ 639</u>
Net cash provided (used) by investing activities	\$ 639
Net increase in cash	<u>\$ 21,127</u>
Cash - beginning of year	<u>86,373</u>
Cash - end of year	<u><u>\$ 107,500</u></u>

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF OPTICIANS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

	<u>2016</u>
	<u>Proprietary - Enterprise Fund</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 12,533
Adjustments to reconcile operating income	
To net cash provided by operating activities	
Depreciation	\$ 121
Changes in assets, deferred outflows of resources and liabilities:	
Accounts payable	94
Unearned revenue	1,875
Total adjustments	\$ 2,090
Net cash provided (used) by operating activities	\$ 14,623

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 1 - Nature of Activities and Significant Accounting Policies

Description of Organization

The North Carolina State Board of Opticians (the "Board") is an independent State agency. It is an occupational licensing board and is authorized by Chapter 90 of the North Carolina General Statutes. The Board is composed of seven members who are appointed by the Governor of the State of North Carolina. It is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's Comprehensive Annual Financial Report (CAFR).

The Board is established to maintain minimum standards for services provided by opticians.

The Board's operations are financed with self-generated revenues from fees charged to examinees and licensees.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards.

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The accompanying financial statements present all funds and activities for which the Board is responsible.

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is reported as such in the State's Comprehensive Annual Financial Report (CAFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Basis of Accounting

In accordance with *Statement of Governmental Accounting Standards 34*, the Board herewith presents a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

The Statement of Revenues, Expenses, and Changes in Net Position demonstrates the degree to which the direct expenses of the Board are offset by examination and license fees.

The financial statements report all activities of the North Carolina State Board of Opticians using the economic resource measurement focus and the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized when incurred, if measurable, regardless of the timing of cash flows.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of license fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Non-operating revenues and expenses consist of those revenues and expenses that are related to investing, capital, and non-capital financing activities; and are classified as non-operating in the financial statements.

Cash in State Treasurer

This classification consists of funds deposited by the Board with the cash accounts of the North Carolina State Treasurer. Because these funds are immediately available for expenditure they are considered a cash equivalent.

Fair Value of Financial instruments

The carrying amounts of the Board's financial instruments approximate their fair value.

Prepaid Expenses

This classification includes expenses which were prepaid at year end for an office equipment lease, for dues and for insurance.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Capital Assets

Capital assets are stated at cost and are being depreciated over their useful lives on a straight-line basis. The Board capitalizes assets that have a value or cost of \$200 or greater at the date of acquisition and an estimated useful life of more than one year. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets, generally estimated as follows: office furniture and equipment, 5 to 7 years. Summaries follow:

	Cost 06-30-15	Acquisitions	Disposals	Cost 06-30-16	Accumulated Depreciation	Net Amount
Furniture/Equipment	\$ 25,150	\$ -	\$ -	\$ 25,150	\$ 24,881	\$ 269
	\$ 25,150	\$ 0	\$ 0	\$ 25,150	\$ 24,881	\$ 269

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in earnings for the period. Depreciation expense was \$121 for the year ended June 30, 2016.

Vacation and Sick Leave

Board employees may accumulate up to thirty days earned vacation and such leave is fully vested when earned. At year end, accrued vacation in excess of the limits are transferred and added to sick leave balances. The Board had no accumulated earned vacation payable at June 30, 2016.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. Since the Board has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave is made. The Board had no contingent liability for sick leave at June 30, 2016.

Income Taxes

The Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and is exempt from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 2 - Deposits

Cash in State Treasurer

All of the Board's deposits are either insured, or are collateralized under the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's escrow agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Board, these deposits are considered to be held in the Board's name. The amount of pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Board or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. Custodial credit risk is the risk that in the event of a bank failure, the Board's funds may not be returned to it. The Board does not have a formal policy regarding custodial credit risk for its deposits.

Deposit and investments risks associated with the State Treasurer's Deposits and Investments are included in the State of North Carolina's Comprehensive Annual Financial Report. An electronic version of the financial report is available by accessing the North Carolina Office of the State Controller's internet home page, www.osc.state.nc.us, and clicking on "Financial Reports", or calling the State Controller's Financial Reporting Section at (919) 707-0500.

At June 30, 2016, the Board's deposits with the State Treasurer had a carrying value (including undeposited receipts) of \$107,500 and bank balance of \$107,500, which was covered by collateral held under the Pooling Method.

Note 3 - Unearned Revenue

The Board's fees are assessed and collected on an annual basis, some of which corresponds with the Board's accounting period and some of which correspond to the calendar year. License renewal fees received in the latter part of the fiscal year are deferred and recognized as revenue over the periods to which they relate.

Note 4 - Net Position

Investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation.

Restricted net position - expendable - This component of net position consists of net position which the Board is legally or contractually obligated to spend in accordance with restrictions imposed by external parties. The Board had no restricted net position at year end.

Unrestricted net position - This component of net position consists of net position that does not meet the definition of *restricted or investment in capital assets*.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 5 - Operating Leases

The Board leases building space and office equipment under operating leases. Total rent expense charged to operations under the lease agreements was \$26,609 in 2016.

Rental commitments under noncancellable operating leases at June 30, 2016 are as follows:

Year Ended June 30,	
2017	\$ 23,567
2018	23,036
2019	6,085
	<hr/>
	\$ 52,688
	<hr/>

Note 6 - Pension Plans

The Board was ineligible to participate in the Teachers' and State Employees' Retirement System of North Carolina prior to October 1, 2000, except on behalf of one employee who was initially employed by the Board prior to July 1, 1983, and who retired during the year ended June 30, 1997. On behalf of those employees ineligible to participate in the State Retirement System prior to October 1, 2000, the Board participated in a Simplified Employee Pension Plan. On October 1, 2000, pursuant to General Statute 135-1(b), the Board elected back into the State Retirement System on behalf of its employees and terminated its Simplified Employee Pension Plan. The Board assumes no liability for retiree benefits provided by its retirement plans other than its required contributions.

Defined Benefit Plan - Teachers' and State Employees' Retirement System of North Carolina

Plan Administration: The State of North Carolina administers the Teachers' and State Employees' Retirement System (TSERS) plan. This plan is a cost-sharing, multiple-employer, defined benefit plan established by the State to provide pension benefits for general employees and law enforcement officers (LEOs) of the State, general employees and LEOs of its component units, and employees of Local Education Agencies (LEAs) and charter schools not in the reporting entity. Membership is comprised of employees of the State (state agencies and institutions), universities, community colleges, and certain proprietary component units along with the LEAs and charter schools. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

Benefits Provided: TSERS provides retirement and survivor benefits. Retirement benefits are determined as 1.82% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. General employee plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. General employee plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of general members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 6 - Pension Plans (Continued)

Contributions: Contribution provisions are established by General Statute 135-8 and may be amended only by the North Carolina General Assembly. Employees are required to contribute 6% of their compensation. The contribution rate for employers is set each year by the NC General Assembly in the Appropriations Act based on the actuarially-determined rate recommended by the actuary. The Board's contractually-required contribution rate for the year ended June 30, 2016 was 9.14% for the Retirement System Pension Fund (15.32% combined rate for the Retirement System Pension Fund, the Death Benefit Trust Fund, the Retiree Health Benefit Fund, and the Disability Income Plan) of covered payroll. The Board made no employer contributions to the pension plan and no employee contributions were made for the year ended June 30, 2016. The Board made no employer contributions to the pension plan and no employee contributions were made for the year ended June 30, 2015. The Board's contributions to the pension plan were \$2,542, and employee contributions were \$1,018 for the year ended June 30, 2014. (The Board had no payroll for employees for the year ended June 30, 2016 and consequently no employees' payroll was covered by the System for the year ended June 30, 2016. The Board had no payroll for employees for the year ended June 30, 2015 and consequently no employees' payroll was covered by the System for the year ended June 30, 2015. The Board's payroll for employees covered by the System for the year ended June 30, 2014 was \$16,974; the Board's total payroll was \$16,974.)

The TSERS Plan's financial information, including all information about the plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, is included in the State of North Carolina's fiscal year 2015 Comprehensive Annual Financial Report. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Reports" or by calling the State Controller's Financial Reporting Section at (919) 707-0500.

TSERS Basis of Accounting: The financial statements of the TSERS plan were prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. The plan's fiduciary net position was determined on the same basis used by the pension plan.

Methods Used to Value TSERS Investment: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the retirement systems. The State Treasurer maintains various investment portfolios in its Investment Pool. The pension trust funds are the primary participants in the Long-term Investment portfolio and the sole participants in the External Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Credit Investment, and Inflation Protection Investment portfolios. The investment balance of each pension trust fund represents its share of the fair market value of the net position of the various portfolios within the pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2015 Comprehensive Annual Financial Report.

Net Pension Liability: At June 30, 2016, the Board was allocated no liability for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. An agency's proportion of the net pension liability is based on the present value of future salaries for the Board relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2015, the Board's proportion was zero as calculated by the State Treasurer.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Note 6 - Pension Plans (Continued)

Actuarial Assumptions: The following table presents the actuarial assumptions used to determine the total pension liability for the TSERS plan at the actuarial valuation date:

Valuation Date	12/31/2014
Inflation	3%
Salary Increases*	4.25% - 9.10%
Investment Rate of Return**	7.25%

* Salary increases include 3.5% inflation and productivity factor.

** Investment rate of return is net of pension plan investment expense, including inflation.

TSERS currently uses mortality tables that vary by age, gender, employee group (i.e. teacher, general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc Cost of Living Adjustment (COLA) amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	2.2%
Global Equity	5.8%
Real Estate	5.2%
Alternatives	9.8%
Credit	6.8%
Inflation Protection	3.4%

The information above is based on 30-year expectations developed with the consulting actuary for the 2014 asset, liability and investment policy study for the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

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YEAR ENDED JUNE 30, 2016

Note 6 - Pension Plans (Continued)

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the plan calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the current rate:

Net Pension Liability (Asset)		
<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
\$ 0	\$ 0	\$ 0

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2016, the Board recognized no pension expense. At June 30, 2016, the Board reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Note 7 - Postemployment Benefits Other Than Pensions

The Board participates in state administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135 of the North Carolina General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefits for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The Board's contribution for postemployment health care benefits is included in its retirement contribution (5.6 % of the 15.32% total contribution rate) to the Teachers' and State Employees' Retirement System.

The Board participates in the Disability Income Plan of North Carolina (DIPNC) established by Chapter 135 of the North Carolina General Statutes. DIPNC provides short-term and long-term disability to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advanced on an actuarially determined basis using the one-year term cost method. The Board's contribution for postemployment disability benefits is included in its retirement contribution (.41 % of the 15.32% total contribution rate) to the Teachers' and State Employees' Retirement System.

The Board participates in the Death Benefit Trust Fund of North Carolina. The Board's contribution for the Death Benefit Trust Fund is included in its retirement contribution (.16 % of the 15.32% total contribution rate) to the Teachers' and State Employees' Retirement System.

The Board assumes no liability for retiree health care or disability benefits or death benefits provided by these programs other than its required contribution. Additional detailed information about these programs can be located in the State of North Carolina's Comprehensive Annual Financial Report.

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Note 8 - Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled by participation in state-administered risk programs and self retention of certain risks. Additionally, the Board protects itself from exposure to loss through the purchase of limited commercial insurance coverage.

Note 9 - Contingencies

The Board is involved in a number of disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management of the Board, the results of such actions during the years under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the years herein ended.

Note 10- Restatement of Net Position

The Board restated its beginning net position as of July 1, 2015 related to the implementation of GASB Statement No. 68, as amended by GASB Statement No. 71. With this new reporting change, the Board was allocated a proportionate share of the Teachers' and State Employees' Retirement System's net pension asset (liability), deferred outflows of resources, deferred inflows of resources, and pension expense (credit) for the year ended June 30, 2015 and for preceding years (retroactively). Due to a change in the methodology of calculating the proportionate shares (for state agencies) of the retirement system's net pension asset (liability), deferred outflows of resources, deferred inflows of resources, and pension expense (credit) by the administrators of the pension plan of the State of North Carolina, no allocation was made to the North Carolina State Board of Opticians for the year ended June 30, 2016. This change in allocation methodology had a current year effect and a retroactive years' effect on the Board's financial statements. For all periods affected, decisions regarding the allocation of the entries to record this restatement were made by the administrators of the pension plan and the North Carolina Office of the State Controller, not by the Board's management.

In connection with these changes, the beginning net position (for 2016) has been restated as follows:

Net Position at July 1, 2015, as previously reported	\$	(17,667)
Remove the Board's net pension liability and pension related deferred outflows of resources per GASB 68 re-allocation by State Treasurer pension administrators		19,765
Net Position at July 1, 2015, as restated	\$	<u>2,098</u>

Note 11- Subsequent Events

Subsequent events have been evaluated through October 12, 2016, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Note 12 - North Carolina Legislative Statutory Disclosure Requirement Concerning Audit Fees

This audit required 70 audit hours at a cost of \$5,995.