

NORTH CAROLINA STATE BOARD OF OPTICIANS

**Financial Statements and
Supplemental Schedules for the
Year Ended June 30, 2018 and
Independent Auditor's Report**

NORTH CAROLINA STATE BOARD OF OPTICIANS

Financial Statements and Supplemental Schedules for the Year Ended June 30, 2018 and Independent Auditor's Report

BOARD MEMBERS (2018)

Debra N. Newell, Chairperson

Ian Radford, Vice-Chairperson

Carolyn W. Middlebrooks, Secretary-Treasurer

Paul Brennan

Derrick Jordan

Michael McKinney

Linda W. Miller

EXECUTIVE OFFICER

Sue M. Hodgin, Director

LEGAL COUNSEL

Anna Baird Choi
Nichols, Choi & Lee, PLLC

NORTH CAROLINA STATE BOARD OF OPTICIANS

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NORTH CAROLINA STATE BOARD OF OPTICIANS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

This section of the Board's financial report represents Management's analysis of the Board's financial performance during the year ended June 30, 2018. Please read it in conjunction with the financial statements which follow this section.

Financial Highlights

During 2018, the Board's net position increased by \$56,613, or 60.40%, due primarily to a statutory increase in fee charges.

During 2018, the operating revenues of the Board increased by \$29,706, or 13.47%, due primarily to a statutory increase in fee charges.

During 2018, the non-operating revenues of the Board increased by \$1,709, or 87.33%, due to an increase in the cash on hand and an increase in interest earnings rates.

During 2018, the operating expenses of the Board increased by \$47,361, or 31.60%, due primarily to an increase in payroll and benefits expenses, computer support expenses, staff travel expenses, contracted temporary services and postage expense.

Overview of the Basic Financial Statements

This financial report consists of two primary sections: Management's Discussion and Analysis and the Financial Statements. The Board has also presented other supplementary information required by the Governmental Accounting Standards Board (GASB), which reports the Board's progress in funding pension benefits (TSERS) and other post employment benefits (OPEB) to its employees. The Financial Statements also include notes to the financial statements that provide detail of the information included in the 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, 2018	Current Year as of and for the year ended June 30, 2017
Current assets	\$ 272,398	\$ 208,165
Capital assets	3,680	215
Total assets	<u>\$ 276,078</u>	<u>\$ 208,380</u>
Deferred outflows	\$	\$
Total deferred outflows of resources	<u>\$ 0</u>	<u>\$ 0</u>
Current liabilities	\$ 123,077	\$ 113,582
Long-term liabilities	2,663	1,073
Total liabilities	<u>\$ 125,740</u>	<u>\$ 114,655</u>
Deferred inflows	\$	\$
Total deferred inflows of resources	<u>\$ 0</u>	<u>\$ 0</u>
Net investment in capital assets	\$ 3,680	\$ 215
Unrestricted	146,658	93,510
Total net position	<u><u>\$ 150,338</u></u>	<u><u>\$ 93,725</u></u>
Operating revenues	\$ 250,180	\$ 220,474
Operating expenses	(197,233)	(149,872)
Operating income	\$ 52,947	\$ 70,602
Non-operating revenues	3,666	1,957
Change in net position	<u><u>\$ 56,613</u></u>	<u><u>\$ 72,559</u></u>

NORTH CAROLINA STATE BOARD OF OPTICIANS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$150,338 for the year ended June 30 2018. The largest component of net position was cash and cash equivalents. The following is a summary of the Statements of Net Position.

	Current Year as of June 30, 2018	Current Year as of June 30 2017	Amount of Change	Percentage Change
Current assets	\$ 272,398	\$ 208,165	\$ 64,233	\$ 30.86%
Capital assets	3,680	215	3,465	1611.63%
Total assets	<u>\$ 276,078</u>	<u>\$ 208,380</u>	<u>\$ 67,698</u>	<u>\$ 32.49%</u>
Deferred outflows of resources	\$ 0	\$ 0	\$ 0	\$ 0.00%
Current liabilities	\$ 123,077	\$ 113,582	\$ 9,495	\$ 8.36%
Long term liabilities	2,663	1,073	1,590	148.18%
Total liabilities	<u>\$ 125,740</u>	<u>\$ 114,655</u>	<u>\$ 11,085</u>	<u>\$ 9.67%</u>
Deferred inflows of resources	\$ 0	\$ 0	\$ 0	\$ 0.00%
Invested in capital assets	\$ 3,680	\$ 215	\$ 3,465	\$ 1611.63%
Unrestricted	146,658	93,510	53,148	56.84%
Total net position	<u>\$ 150,338</u>	<u>\$ 93,725</u>	<u>\$ 56,613</u>	<u>\$ 60.40%</u>

The following is a summary of the Statements of Revenues, Expenses, and Changes in Net Position.

	The year ended June 30, 2018	The year ended June 30, 2017	Amount of Change	Percentage Change
Operating revenues	\$ 250,180	\$ 220,474	\$ 29,706	\$ 13.47%
Operating expenses	(197,233)	(149,872)	(47,361)	31.60%
Non-operating revenues	3,666	1,957	1,709	87.33%
Change in net position	<u>\$ 56,613</u>	<u>\$ 72,559</u>	<u>\$ (15,946)</u>	<u>\$ -21.98%</u>
Ending net position	<u>\$ 150,338</u>	<u>\$ 93,725</u>	<u>\$ 56,613</u>	<u>\$ 60.40%</u>

NORTH CAROLINA STATE BOARD OF OPTICIANS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a breakdown of operating revenues by source.

	The year ended June 30, 2018	The year ended June 30, 2017	Amount of Change	Percentage Change
Individual renewals	\$ 162,200	\$ 135,850	\$ 26,350	\$ 19.40%
Wall certificates	6,000	7,200	(1,200)	-16.67%
Optician registration fees	24,000	16,050	7,950	49.53%
Apprentice fees	7,525	5,620	1,905	33.90%
Intern fees	1,420	970	450	46.39%
Business registrations	26,475	20,025	6,450	32.21%
Exam fees	11,000	24,500	(13,500)	-55.10%
Training establishment fees	8,190	5,990	2,200	36.73%
Late fees, fines and net penalties	1,800	2,525	(725)	-28.71%
Miscellaneous income	1,570	1,744	(174)	-9.98%
Total	<u>\$ 250,180</u>	<u>\$ 220,474</u>	<u>\$ 29,706</u>	<u>\$ 13.47%</u>

The following is a breakdown of non-operating revenues by source.

	The year ended June 30, 2018	The year ended June 30, 2017	Amount of Change	Percentage Change
Noncapital gifts	\$ 560	\$ 500	\$ 60	\$ 12.00%
Interest income	3,106	1,457	1,649	113.18%
Total	<u>\$ 3,666</u>	<u>\$ 1,957</u>	<u>\$ 1,709</u>	<u>\$ 87.33%</u>

Events Affecting Future Operations

A committee appointed by the North Carolina Legislature, The Joint Legislative Administrative Procedure Oversight Committee, has been performing a study concerning the deregulation, elimination and consolidation of occupational licensing boards in the State of North Carolina. The effect of any resulting legislation on the Board's operations in future years is not certain at this time.

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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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 board 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, 2018, 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2018, 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; the Schedule of the Proportionate Net Pension Liability; the Schedule of Board Contributions (including Notes to the Schedule of Board Contributions); the Schedule of the Proportionate Net OPEB Liability (Asset); and the Schedule of Board Contributions - OPEB (including Notes to the Schedule of Board Contributions - OPEB) 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 16, 2018

NORTH CAROLINA STATE BOARD OF OPTICIANS
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

	June 30, 2018
	Proprietary - Enterprise Fund
ASSETS	
Current assets:	
Cash in State Treasurer (Note 2)	\$ 271,240
Accrued interest receivable	321
Prepaid expense	837
Total current assets	<u>272,398</u>
Capital assets (Notes 1 and 3)	
Furniture and office equipment	3,680
Total capital assets - net of depreciation	<u>3,680</u>
TOTAL ASSETS	<u>\$ 276,078</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows for pensions (Note 7)	\$
Deferred outflows for other postemployment benefits (Note 8)	
Total deferred outflows of resources	<u>\$ 0</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 3,271
Due to other state agencies	3,023
Accrued vacation - current portion (Notes 1 and 5)	888
Unearned revenue (Note 4)	115,895
Total current liabilities	<u>123,077</u>
Long term liabilities:	
Accrued vacation - non-current portion (Notes 1 and 5)	2,663
Total non-current liabilities	<u>2,663</u>
TOTAL LIABILITIES	<u>\$ 125,740</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows for pensions (Note 7)	\$
Deferred inflows for other postemployment benefits (Note 8)	
Total deferred inflows of resources	<u>\$ 0</u>
NET POSITION (NOTE 1)	
Net investment in capital assets	\$ 3,680
Unrestricted net position	<u>146,658</u>
TOTAL NET POSITION	<u><u>\$ 150,338</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, 2018

	<u>2018</u>
	<u>Proprietary - Enterprise Fund</u>
OPERATING REVENUES:	
Fees, licenses and fines:	
Individual renewals	\$ 162,200
Wall certificates - individual licenses and duplicates	6,000
Optician in-charge registration fees	24,000
Apprentice fees	7,525
Intern fees	1,420
Business registrations	26,475
Exam application fees	11,000
Training establishment registration fees	8,190
Late fees, fines and penalties (net of forfeitures)	1,800
Miscellaneous income	<u>1,570</u>
Total operating revenues	<u>\$ 250,180</u>
OPERATING EXPENSES:	
Personal services (and board members expenses):	
Salaries (including accumulated leave)	\$ 32,704
Social security/medicare contributions	2,431
Retirement system contributions (Note 7)	5,611
Employee insurance	5,913
Board members expenses - per diem	700
Supplies and materials:	
Office and administrative supplies	4,412
Services:	
Legal and audit fees	22,407
Data processing - computer support	13,875
Board members expenses - transportation	173
Staff members and inspectors - travel, meals and lodging	21,304
Printing	1,433
Postage	7,954

See notes to financial statements

NORTH CAROLINA STATE BOARD OF OPTICIANS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

	<u>2018</u>
	<u>Proprietary - Enterprise Fund</u>
OPERATING EXPENSES (CONTINUED):	
Telephone (including internet and network costs)	2,885
Other contracted services - administrative	34,775
Other contracted services - temporary services	8,487
Other contracted services - inspectors and investigative	5,600
Continuing education costs - licensees	657
Depreciation	358
Insurance and bonding	166
Other expenses:	
Office rent (Note 6)	18,575
Equipment rental and maintenance (Note 6)	5,680
Dues and subscriptions	765
Miscellaneous expenses	368
	<u> </u>
Total operating expenses	<u>\$ 197,233</u>
Operating income	\$ 52,947
NON-OPERATING INCOME (EXPENSES):	
Noncapital gifts	\$ 560
Interest income	<u>3,106</u>
Total net non-operating revenues	<u>\$ 3,666</u>
Change in net position	<u>\$ 56,613</u>
Net position - beginning of year	<u>93,725</u>
Net position - end of year	<u><u>\$ 150,338</u></u>

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF OPTICIANS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

	<u>2018</u>
	<u>Proprietary - Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from fees and operating revenue	\$ 256,795
Cash payments to employees for services (including benefits)	(44,539)
Cash payments for operating expenses	<u>(147,925)</u>
Net cash provided (used) by operating activities	\$ 64,331
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>\$ (3,823)</u>
Net cash provided (used) in capital and related financing activities:	\$ (3,823)
Cash flows from non-capital and related financing activities:	
Noncapital gifts	<u>\$ 560</u>
Net cash provided (used) in non-capital and related financing activities:	\$ 560
Cash flows from investing activities:	
Interest earned	<u>\$ 2,959</u>
Net cash provided (used) by investing activities	\$ 2,959
Net increase in cash	<u>\$ 64,027</u>
Cash - beginning of year	<u>207,213</u>
Cash - end of year	<u><u>\$ 271,240</u></u>

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF OPTICIANS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

	<u>2018</u>
	<u>Proprietary - Enterprise Fund</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	\$ 52,947
Adjustments to reconcile operating income	
To net cash provided by operating activities	
Depreciation	\$ 358
Changes in assets, deferred outflows of resources and liabilities:	
Prepaid expense	(59)
Accounts payable	2,350
Other accrued liabilities	2,120
Unearned revenue	6,615
Total adjustments	\$ 11,384
Net cash provided (used) by operating activities	\$ 64,331

See notes to financial statements.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 1 - Nature of Activities and Significant Accounting Policies

Description of Organization and Purpose

The North Carolina State Board of Opticians (the "Board") is an independent State board. 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.

Financial 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.

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.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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

Basis of Accounting

The basic financial statements of the Board are prepared using the economic resource measurement focus and the accrual basis of accounting. The economic resource measurement focus measures all assets that are available to the entity, not only cash or soon to be assets. Both long-term assets and long-term liabilities are measured and depreciation is recorded as a cost of operations. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when a liability has been incurred, regardless of the timing of cash flows. Fees received for the various licenses are deemed earned when the license period begins.

The Statements of Revenues, Expenses, and Changes in Net Position classifies the Board's revenues as operating or non-operating revenues. 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 and includes activities that have characteristics of exchange transactions. 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.

Prepaid Expenses

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

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.

Noncurrent Long-Term Liabilities

Noncurrent long-term liabilities include net pension liability (when applicable), net other postemployment benefits (OPEB) liability (when applicable), and compensated absences that will not be paid within the next fiscal year.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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

The net pension liability represents the Board's proportionate share of the collective net pension liability reported in the 2017 State of North Carolina's Comprehensive Annual Financial Report (CAFR). This liability represents the Board's portion of the collective total pension liability less the fiduciary net position of the Teachers' and State Employees' Retirement System. See Note 7 for further information regarding the Board's policies for recognizing liabilities, expenses, and deferred outflows and inflows related to pensions.

The net OPEB liability represents the Board's proportionate share of the collective net OPEB liability reported in the State of North Carolina's 2017 Comprehensive Annual Financial Report. This liability represents the Board's portion of the collective total OPEB liability less the fiduciary net position of the Retiree Health Benefit Fund. See Note 8 for further information regarding the Board's policies for recognizing liabilities, expenses, deferred outflows of resources, and deferred inflows of resources related to OPEB.

Compensated Absences (Vacation and Sick Leave)

Board employee(s) 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. Accumulated earned vacation payable at June 30, 2018 consisted of the following:

	June 30, 2018
Current portion	\$ 888
Long-term	2,663
Total	<u>\$ 3,551</u>

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, or until retirement, no accrual for sick leave has been made. The Board had a contingent liability for sick leave in the amount of \$2,904 at June 30, 2018.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. When applicable, the Board has the following items that qualify for reporting in this category: deferred outflows related to pensions and deferred outflows related to other postemployment benefits.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (revenue) until then. When applicable, the Board has the following items that qualify for reporting in this category: deferred inflows related to pensions and deferred inflows related to other postemployment benefits.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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

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.

Net Position

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

Restricted net position - 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 has 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.

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.

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 written policy regarding custodial credit risk for its deposits.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 2 - Deposits (Continued)

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, 2018, the Board's deposits with the State Treasurer had a carrying value (including undeposited receipts) of \$271,240 and bank balance of \$255,565, which was covered by collateral held under the Pooling Method.

Note 3- Capital Assets

Changes in capital assets as of and for the year ended June 30, 2018 follows:

	Cost 06-30-17	Acquisitions	Disposals	Cost 06-30-18	Accumulated Depreciation	Net Amount
Furniture/Equipment	\$ 25,150	\$ 3,823	\$ -	\$ 28,973	\$ 25,293	\$ 3,680
	<u>\$ 25,150</u>	<u>\$ 3,823</u>	<u>\$ 0</u>	<u>\$ 28,973</u>	<u>\$ 25,293</u>	<u>\$ 3,680</u>

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 \$358 for the year ended June 30, 2018.

Note 4 - Accounts Payable

Accounts payable consists of amounts due to vendors in the ordinary operations of the Board. Accounts payable due in the ordinary operations of the Board which are due to other state agencies (if any) are reported separately.

	June 30, 2018
Due to Vendors	\$ 3,271
Due to Other State Agencies	3,023
Total Accounts Payable	<u>\$ 6,294</u>

Note 5 - Non-Current Liabilities

A summary of changes in non-current liabilities for the year ended June 30, 2018 follows:

	Balance 06-30-17	Additions	Deletions	Balance 06-30-18	Current	Non- Current
Compensated absences	\$ 1,431	\$ 2,120	\$ -	\$ 3,551	\$ 888	\$ 2,663
	<u>\$ 1,431</u>	<u>\$ 2,120</u>	<u>\$ 0</u>	<u>\$ 3,551</u>	<u>\$ 888</u>	<u>\$ 2,663</u>

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 6 - Operating Leases

The Board leases building space and office equipment under operating leases. Total rent expense charged to operations under the lease agreements was \$24,255 in 2018.

Rental commitments under noncancellable operating leases at June 30, 2018 are as follows:

Year Ended June 30,		
2019	\$	24,322
2020		24,360
2021		24,416
2022		7,518
2023		3,089
	\$	83,705

Note 7 - 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. 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 in current and future years.

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 that elect to join the Retirement System. Benefit provisions are established by General Statute 135-5 and may be amended only by the North Carolina General Assembly.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 7 - Pension Plans (Continued)

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.

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 North Carolina 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, 2018 was 10.78% for the Retirement System Pension Fund (17.13% combined average 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. For the year ended June 30, 2018, the Board's contributions to the retirement system pension fund were \$3,531, and employee contributions were \$1,962. The Board's payroll for employees covered by the System for the year ended June 30, 2018 was \$32,704; the Board's total payroll was \$32,704.

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 2017 Comprehensive Annual Financial Report. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://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 External Investment Pool. TSERS and other pension plans of the State of North Carolina are the sole participants in the Long-term Investment, Fixed Income Investment, Equity Investment, Real Estate Investment, Alternative Investment, Opportunistic Investment, and Inflation Sensitive Investment Portfolios. The Fixed Income Asset Class includes the Long-Term Investment and External Fixed Income Investment Portfolios. The Global Equity Asset Class includes the Equity Investment Portfolio. 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 External Investment Pool. Detailed descriptions of the methods and significant assumptions regarding investments of the State Treasurer are provided in the 2017 Comprehensive Annual Financial Report.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 7 - Pension Plans (Continued)

Net Pension Liability: At June 30, 2018, 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, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total pension liability to June 30, 2017. A board'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, 2017, the Board's proportion was zero, which effected no change from its proportion measured at June 30, 2016 (which was also zero).

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	12/31/2016
Inflation	3%
Salary Increases*	3.5% - 8.10%
Investment Rate of Return**	7.20%

* 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, 2016 valuations were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2017 (the valuation date) are summarized in the following table:

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
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Note 7 - Pension Plans (Continued)

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is a part of the 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Discount Rate: The discount rate used to measure the total pension liability was 7.25% to 7.20% for the December 31, 2016 valuation. This discount rate is in line with the long-term nominal expected return rate on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the contractually 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 at June 30, 2017 calculated using the discount rate of 7.20%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20%) or 1-percentage point higher (8.20%) than the current rate:

Net Pension Liability (Asset)		
<u>1% Decrease (6.20%)</u>	<u>Current Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
\$ 0	\$ 0	\$ 0

Deferred Inflows of Resources and Deferred Outflows of Resources Related to Pensions: For the year ended June 30, 2018, the Board recognized no pension expense other than its required annual contribution because the Board was allocated no liability for its proportionate share of the collective net pension liability of the State of North Carolina. Accordingly, at June 30, 2018, the Board reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 8 - Postemployment Benefits Other Than Pensions

The Board participates in two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina, that are administered by the State of North Carolina as pension and other employee benefit trust funds. Each plan's financial information, including all information about the plans' 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 2017 *Comprehensive Annual Financial Report*. An electronic version of this report is available on the North Carolina Office of the State Controller's website at <https://www.osc.nc.gov/> or by calling the State Controller's Financial Reporting Section at (919) 707-0500. The Board assumes no liability for other postemployment benefits provided by these programs other than its required contributions in current and future years.

Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting: The financial statements of these plans were prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan. The fiduciary net position of each plan was determined using the same basis as the other postemployment benefit (OPEB) plans.

Methods Used to Value Plan Investments: Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefits funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan of North Carolina is invested in the Short-Term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool. The investment balance of each other employee benefit 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 2017 *Comprehensive Annual Financial Report*.

Plan Descriptions

1) Health Benefits

Plan Administration: The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the State's financial reporting entity also participate. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Plan Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is established by General Statute 135-7, Article 1. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of eligible former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools, and some select local governments that are not part of the State's financial reporting entity also participate.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 8 - Postemployment Benefits Other Than Pensions (Continued)

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS). RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the Plan. The State Treasurer, with the approval of the Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the Plan.

Benefits Provided: Plan benefits received by retired employees and disabled employees from RHBF are OPEB. The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees. The plan options change when former employees become eligible for Medicare. Medicare retirees have the option of selecting one of two fully-insured Medicare Advantage/Prescription Drug Plan options or the self-funded Traditional 70/30 Preferred Provider Organization plan option that is also offered to non-Medicare members. If the Traditional 70/30 Plan is selected by a Medicare retiree, the self-funded State Health Plan coverage is secondary to Medicare. Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of TSERS, the Consolidated Judicial Retirement System, the Legislative Retirement System, the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a non-contributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total non-contributory premium.

The Plan's and RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

Contributions: Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. The Board's contractually-required contribution rate for the year ended June 30, 2018 was 6.05% of covered payroll. The Board's contributions to the RHBF were \$1,982 for the year ended June 30, 2018. The Board assumes no liability for retiree health care benefits provided by the programs other than its required current and future years' contributions.

2) Disability Income

Plan Administration: Short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of TSERS which includes employees of the State, the University of North Carolina system, community colleges, certain participating component units, LEAs which are not part of the reporting entity, and the University Employees' ORP. By statute, DIPNC is administered by the Department of State Treasurer and the Board of Trustees of TSERS.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 8 - Postemployment Benefits Other Than Pensions (Continued)

Benefits Provided: Long-term disability benefits are payable as an OPEB from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in TSERS or the University Employees' ORP, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under TSERS or the University Employees' ORP.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 8 - Postemployment Benefits Other Than Pensions (Continued)

Contributions: Although DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the State's fiscal year. The Board's contractually-required contribution rate for the year ended June 30, 2018 was 0.14% of covered payroll. The Board's contributions to DIPNC were \$46 for the year ended June 30, 2018. The Board assumes no liability for long-term disability benefits under the Plan other than its required current and future years' contributions.

3) Net OPEB Liability (Asset)

Net OPEB Liability: At June 30, 2018 the Board was allocated no liability for its proportionate share of the collective net OPEB liability for RHBF. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB liability to June 30, 2017. The Board's proportion of the net OPEB liability was based on the present value of future salaries for the Board's relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the Board's proportion was zero, which effected no change from its proportion measured as of June 30, 2016, which was also zero.

Net OPEB Asset: At June 30, 2018, the Board reported no asset balance for its proportionate share of the collective net OPEB asset for DIPNC. The net OPEB asset was measured as of June 30, 2017. The total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016, and update procedures were used to roll forward the total OPEB asset to June 30, 2017. The Board's proportion of the net OPEB asset was based on the present value of future salaries for the Board's relative to the present value of future salaries for all participating employers, actuarially-determined. As of June 30, 2017, the Board's proportion was zero, which effected no change from its proportion measured as of June 30, 2016, which was also zero.

Actuarial Assumptions: The total OPEB liabilities (assets) for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities (assets) were then rolled forward to June 30, 2017 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Valuation Date	12/31/2016	12/31/2016
Inflation	2.75%	3%
Salary Increases*	3.5%-8.10%	3.5% - 8.10%
Investment Rate of Return**	7.20%	3.75%
Healthcare Cost Trend Rate - Medical	5.00%-6.50%	N/A
Healthcare Cost Trend Rate - Prescription Drug	5.00%-7.25%	N/A
Healthcare Cost Trend Rate - Medicare Advantage	4.00%-5.00%	N/A
Healthcare Cost Trend Rate - Administrative	3.00%	N/A

* Salary increases include 3.5% inflation and productivity factor.

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

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 8 - Postemployment Benefits Other Than Pensions (Continued)

The OPEB plans currently use 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 studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through a 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 projects 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. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2017.

Best estimates of real rates of return for each major asset class included in RHBF's target allocation as of June 30, 2017 (the valuation date) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

The information in the preceding table is based on 30-year expectations developed with the consulting actuary and is a part of the 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 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2017 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 8 - Postemployment Benefits Other Than Pensions (Continued)

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2016 valuations were based on the results of an actuarial experience study prepared as of December 31, 2014.

Discount Rate: The discount rate used to measure the total OPEB liability for RHBF was 3.58%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments of current plan members. As a result, a municipal bond rate of 3.58% was used as the discount rate used to measure the total OPEB liability. The 3.58% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2017.

The discount rate used to measure the total OPEB asset for DIPNC was 3.75%. 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 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 plan investments was applied to all periods of projected benefit payments to determine the total OPEB asset.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate: The following presents the Board's proportionate share of the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate:

RHBF		
Net OPEB Liability (Asset)		
1% Decrease (2.58%)	Current Discount Rate (3.58)	1% Increase (4.58%)
\$ 0	\$ 0	\$ 0
DIPNC		
Net OPEB Liability (Asset)		
1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
\$ 0	\$ 0	\$ 0

NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Note 8 - Postemployment Benefits Other Than Pensions (Continued)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates: The following presents the net OPEB liability (asset) of the plans, as well as what the plans' net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
	Healthcare Cost Trend Rates	Healthcare Cost Trend Rates	Healthcare Cost Trend Rates
	(Medical - 4.00-5.50%)	(Medical - 5.00-6.50%)	(Medical - 6.00-7.50%)
	(Pharmacy - 4.00-6.25%)	(Pharmacy - 5.00-7.25%)	(Pharmacy - 6.00-8.25%)
	Med.Advantage - 3.00-4.00%	Med.Advantage - 4.00-5.00%	Med.Advantage -5.00-6.00%
	Administrative - 2.00%)	Administrative - 3.00%)	Administrative - 4.00%)
RHBF Net OPEB Liability	\$ 0	\$ 0	\$ 0
DIPNC Net OPEB Asset	N/A	N/A	N/A

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2018, the Board reported no OPEB expense. Accordingly, at June 30, 2018, the Board reported no deferred outflows of resources and no deferred inflows of resources related to other postemployment benefits.

Note 9 - 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. There have been no significant reductions in insurance coverage from coverage in the prior year, and no insurance claims were filed during any of the last three fiscal years.

Note 10 - 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 11- Changes in Financial Accounting and Reporting

For the fiscal year ended June 30, 2018, the Board implemented GASB 75, Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions, issued by the Governmental Accounting Standards Board (GASB).

Note 12- Subsequent Events

Subsequent events have been evaluated through October 16, 2018, 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 13 - North Carolina Legislative Statutory Disclosure Requirement Concerning Audit Fees

This audit required 111 audit hours at a cost of \$9,995.

**NORTH CAROLINA STATE BOARD OF OPTICIANS
SCHEDULE OF THE PROPORTIONATE NET PENSION LIABILITY
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
LAST FIVE FISCAL YEARS**

	2017	2016	2015	2014	2013
(1) Proportionate share percentage of collective net pension liability	N/A	N/A	N/A	.00018%	.00040%
(2) Proportionate Share of TSERS collective net pension liability	\$ N/A	\$ N/A	\$ N/A	\$ 2,110	\$ 24,284
(3) Covered-employee payroll	\$ N/A	\$ N/A	\$ N/A	\$ 16,974	\$ 85,669
(4) Net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A	12.43%	28.35%
(5) Plan fiduciary net position as a percentage of the total pension liability	89.51%	87.32%	94.64%	98.24%	90.60%

**NORTH CAROLINA STATE BOARD OF OPTICIANS
SCHEDULE OF BOARD CONTRIBUTIONS
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS**

	2018	2017	2016	2015	2014
(1) Contractually required contribution	\$ 3,531	\$ 620	\$ -	\$ -	\$ 1,475
(2) Contributions in relation to the contractually determined contribution	3,531	620	-	-	1,475
(3) Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(4) Covered-employee payroll	\$ 32,704	\$ 6,218	\$ -	\$ -	\$ 16,974
(5) Contributions as a percentage of covered-employee payroll	10.78%	9.98%	9.15%	9.15%	8.69%
	2013	2012	2011	2010	2009
(1) Contractually required contribution	\$ 7,136	\$ 6,470	\$ 3,131	\$ 3,127	\$ 2,911
(2) Contributions in relation to the actuarially determined contribution	7,136	6,470	3,131	3,127	2,911
(3) Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(4) Covered-employee payroll	\$ 85,669	\$ 86,963	\$ 87,698	\$ 87,585	\$ 86,651
(5) Contributions as a percentage of covered-employee payroll	8.33%	7.44%	3.57%	3.57%	3.36%

**NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BOARD CONTRIBUTIONS
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
LAST TEN FISCAL YEARS**

Changes of Benefit Terms:

Cost of Living Increase

2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
N/A	N/A	N/A	1.00%	N/A	N/A	N/A	2.20%	2.20%	3.00%

Changes of assumptions. In 2015, the actuarial assumptions were updated to more closely reflect actual experience. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine the plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience. This discount rate for Teachers' and State Employees' Retirement System was lowered from 7.25% to 7.20% for the December 31, 2016 valuation.

The Board of Trustees also adopted a new asset valuation method for the Teachers' and State Employees' Retirement System. For determining plan funding requirements, these plans now use a five-year smoothing method with a reset of the actuarial value of assets to market value as of December 31, 2014.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*.

**NORTH CAROLINA STATE BOARD OF OPTICIANS
SCHEDULE OF THE PROPORTIONATE NET OPEB LIABILITY (ASSET)
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS
LAST TWO FISCAL YEARS**

	2017	2016
Retiree Health Benefit Fund		
(1) Proportionate share percentage of collective net OPEB liability (asset)	N/A	N/A
(2) Proportionate Share of collective net OPEB liability (asset)	\$ N/A	\$ N/A
(3) Covered-employee payroll	\$ N/A	\$ N/A
(4) Net OPEB liability as a percentage of covered-employee payroll	0.00%	0.00%
(5) Plan fiduciary net position as a percentage of the total OPEB liability (asset)	3.52%	2.41%
Disability Income Plan of North Carolina		
(1) Proportionate share percentage of collective net OPEB liability (asset)	N/A	N/A
(2) Proportionate Share of collective net OPEB liability (asset)	\$ N/A	\$ N/A
(3) Covered-employee payroll	\$ N/A	\$ N/A
(4) Net OPEB liability as a percentage of covered-employee payroll	0.00%	0.00%
(5) Plan fiduciary net position as a percentage	116.23%	116.06%

Note: Information is presented for all years that were measured in accordance with the requirements of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

NORTH CAROLINA STATE BOARD OF OPTICIANS
SCHEDULE OF BOARD CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS
LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>RETIREE HEALTH BENEFIT FUND</u>					
(1) Contractually required contribution	\$ 1,982	\$ 347	\$ -	\$ -	\$ 916
(2) Contributions in relation to the contractually determined contribution	1,982	347	-	-	916
(3) Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(4) Covered-employee payroll	\$ 32,704	\$ 6,218	\$ -	\$ -	\$ 16,974
(5) Contributions as a percentage of covered-employee payroll	6.05%	5.60%	5.60%	5.49%	5.40%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
(1) Contractually required contribution	\$ 4,540	\$ 4,348	\$ 4,297	\$ 3,942	\$ 3,552
(2) Contributions in relation to the actuarially determined contribution	4,540	4,348	4,297	3,942	3,552
(3) Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(4) Covered-employee payroll	\$ 85,669	\$ 86,963	\$ 87,698	\$ 87,585	\$ 86,651
(5) Contributions as a percentage of covered-employee payroll	5.30%	5.00%	4.90%	4.50%	4.10%

Note- Changes in benefit terms, methods and assumptions are presented in the Notes to Required Supplementary Information (RS) schedule following the OPEB RSI tables

NORTH CAROLINA STATE BOARD OF OPTICIANS
SCHEDULE OF BOARD CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS
LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>DISABILITY INCOME PLAN OF NC</u>					
(1) Contractually required contribution	\$ 46	\$ 24	\$ -	\$ -	\$ 75
(2) Contributions in relation to the contractually determined contribution	46	24	-	-	75
(3) Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(4) Covered-employee payroll	\$ 32,704	\$ 6,218	\$ -	\$ -	\$ 16,974
(5) Contributions as a percentage of covered-employee payroll	0.14%	0.38%	0.38%	0.41%	0.44%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
(1) Contractually required contribution	\$ 377	\$ 452	\$ 456	\$ 455	\$ 451
(2) Contributions in relation to the actuarially determined contribution	377	452	456	455	451
(3) Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
(4) Covered-employee payroll	\$ 85,669	\$ 86,963	\$ 87,698	\$ 87,585	\$ 86,651
(5) Contributions as a percentage of covered-employee payroll	.44%	.52%	.52%	.52%	.52%

Note- Changes in benefit terms, methods and assumptions are presented in the Notes to Required Supplementary Information (RS) schedule following the OPEB RSI tables

**NORTH CAROLINA STATE BOARD OF OPTICIANS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BOARD CONTRIBUTIONS
COST-SHARING, MULTIPLE-EMPLOYER, DEFINED BENEFIT OPEB PLANS
LAST TEN FISCAL YEARS**

Changes of Benefit Terms: Effective January 1, 2016, benefits related to copays, out-of-pocket maximums and deductibles were changed for three of our options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Effective January 1, 2017, benefit terms related to copays, coinsurance maximums, out-of-pocket maximums, and deductibles were changed for two of four options of the Retiree Health Benefit Fund. Most of the changes were an increase in the amount from the previous year.

Method and assumptions Used in Calculations of Actuarially Determined Contributions. An actuarial valuation is performed for each plan each year. The actuarially determined contribution rates in the Schedule of Employee Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning six months following the date of the valuation results for the Retiree Health Benefit Fund. The actuarially determined contribution rate in the Schedule of employer Contributions are calculated by the actuary as a projection of the required employer contribution for the fiscal year beginning 18 months following the date of the valuation results for the Disability Income Plan of North Carolina. See Note 8 for more information on the specific assumptions for each plan. The actuarially determined contributions for those items with covered payroll were determined using the actuarially determined contribution rate from the actuary and covered payroll as adjusted for timing differences and other factors such as differences in employee class. Other actuarially determined contributions are disclosed in the schedule as expressed by the actuary in reports to the plans

Changes of assumptions. In 2015, the North Carolina Retirement Systems' consulting actuaries performed the quinquennial investigation of each retirement systems' actual demographic and economic experience (known as the "Experience Review"). The Experience Review provides the basis for selecting the actuarial assumptions and methods used to determine the plan liabilities and funding requirements. The most recent Experience Review examined each plan's experience during the period between January 1, 2010, and December 31, 2014. Based on the findings, the Board of Trustees of the Teachers' and State Employees' Retirement System adopted a number of new actuarial assumptions and methods. The most notable changes to the assumptions include updates to the mortality tables and the mortality improvement projection scales to reflect reduced rates of mortality and significant increases in mortality improvements. These assumptions were adjusted to reflect the mortality projection scale MP-2015, released by the Society of Actuaries in 2015. In addition, the assumed rates of retirement, salary increases, and rates of termination from active employment were reduced to more closely reflect actual experience.

In 2017, the medical and prescription health trend rates used in the December 31, 2016 actuarial valuation of the Retiree Health Benefit Fund were reduced based upon the plan's most recent experience.

The Notes to Required Supplementary Information reflect the most recent available information included in the State of North Carolina's 2017 *Comprehensive Annual Financial Report*.