

NORTH CAROLINA STATE BOARD
OF EXAMINERS IN OPTOMETRY
WALLACE, NORTH CAROLINA

INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

BOARD MEMBERS

Dr. H. Mike Johnson, President

Dr. William B. Rafferty, Secretary/Treasurer

Dr. Andrew G. Cook, Jr.

Dr. Jerry N. Ellington

Dr. Scott L. Philippe

Mrs. Susan P. Watson

Mr. James E. Raynor

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October 31, 2016

INDEPENDENT AUDITORS' REPORT

Secretary of State
The Attorney General
North Carolina Office of State Budget and Management
North Carolina State Board of Examiners in Optometry
The Joint Legislative Administrative Procedure Oversight Committee

We have audited the accompanying financial statements of the North Carolina State Board of Examiners in Optometry as of and for the year ended June 30, 2016, and the related notes to the 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 our 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 Examiners in Optometry as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 historical 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 consist principally 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Waters & Matthis, CPAs, PLLC
Wallace, NC
October 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the North Carolina State Board of Examiners in Optometry's (*the Board*) financial report represents our discussion and analysis of the financial performance of the Board for the year ended June 30, 2016. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- Examination fees decreased by 33.71% from the same period last year—a \$20,650.00 decrease. The summer 2015 examination had very few applicants as compared with prior years.
- Net position decreased by 2.65%.
- Operating revenues decreased by \$22,735.00, but operating expenses also decreased by \$21,357.27. The notable decrease in operating expenses can mostly be attributed to a decrease of \$33,340.77 in exam development expense, a decrease of \$20,986.91 in equipment lease expense, and a decrease of \$15,344.25 in examination expense. These decreases were partially offset by an increase of \$49,797.47 in computer software and programmer fees expense.
- The Board's marketable investments at June 30, 2016 had no unrealized losses (i.e. the investment cost/basis exceeds the June 30, 2016 fair market value).

Overview of the Financial Statements

The audited financial statements of the Board consist of 2 components. They are as follows:

- *Management's Discussion and Analysis*
- *Basic Financial Statements*

The *Basic Financial Statements* are prepared using the accrual basis of accounting. They consist of three statements. The first statement is the **Statement of Net Position**. Assets and liabilities are classified between current and long-term. This statement provides a summary of the Board's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The next statement is the **Statement of Revenues, Expenses, and Changes in Fund Net Position**. This statement is used in evaluating whether the Board has recovered all of its costs through revenues. The information can be used in determining operating efficiency.

The final required statement is the **Statement of Cash Flows**. This statement reports cash inflows and outflows in the following categories: operating, investing, and financing. Based on this data, the user can determine the sources of cash, the uses of cash, and change in cash.

The notes to the financial statements provide more detailed information and should be read in conjunction with the statements.

Financial Analysis

Net position is an indicator of the fiscal health of the Board. Assets exceeded liabilities by \$997,186.49 for the year ended June 30, 2016. The largest component of net position was cash. It was 50 % of the total net position. The following is a summary of the Statement of Net Position:

	6/30/2016	6/30/2015	\$ Change	% Change
Current assets	\$ 1,064,075.92	\$ 1,050,500.00	\$ 13,575.92	1.29%
Non-current assets	41,849.57	59,897.47	(18,047.90)	-30.13%
Total assets	1,105,925.49	1,110,397.47	(4,471.98)	-0.40%
Current liabilities	\$ (108,739.00)	\$ (86,016.80)	\$ (22,722.20)	26.42%
Total net position	997,186.49	1,024,380.67	\$ (27,194.18)	-2.65%

Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position

	6/30/2016	6/30/2015	\$ Change	% Change
Operating revenues	\$ 619,175.00	\$ 641,910.00	\$ (22,735.00)	-3.54%
Operating expenses	(675,346.76)	(696,704.03)	21,357.27	-3.07%
Nonoperating revenues	28,977.58	26,358.45	2,619.13	9.94%
Change in net position	\$ (27,194.18)	\$ (28,435.58)	\$ 1,241.40	-4.37%
Ending net position	\$ 997,186.49	\$ 1,024,380.67	\$ (27,194.18)	-2.65%

The following is a breakdown of operating revenues by source:

	6/30/2016	6/30/2015	\$ Change	% Change
Examination fees	\$ 40,600.00	\$ 61,250.00	\$ (20,650.00)	-33.71%
Regular license renewal fees	401,400.00	396,800.00	4,600.00	1.16%
Professional incorporation fees	1,450.00	1,750.00	(300.00)	-17.14%
Professional incorporation renewal fees	11,075.00	10,275.00	800.00	7.79%
Branch office fees	55,000.00	66,900.00	(11,900.00)	-17.79%
Branch office renewal fees	101,000.00	94,400.00	6,600.00	6.99%
Renewal penalties	3,325.00	4,265.00	(940.00)	-22.04%
Other income	5,325.00	6,270.00	(945.00)	-15.07%
Total	<u>\$ 619,175.00</u>	<u>\$ 641,910.00</u>	<u>\$ (22,735.00)</u>	<u>-3.54%</u>

The following is a breakdown of nonoperating revenues by source:

	6/30/2016	6/30/2015	\$ Change	% Change
Interest income	5,205.86	1,745.82	3,460.04	198.19%
Dividend income	3,245.12	3,972.29	(727.17)	-18.31%
Gain (Loss) on investments	20,526.60	20,640.34	(113.74)	-0.55%
Total	<u>\$ 28,977.58</u>	<u>\$ 26,358.45</u>	<u>\$ 2,619.13</u>	<u>9.94%</u>

Economic Factors

The Board anticipates no significant changes in any economic factors that would materially effect the Board's operations.

Requests for Information

This report is intended to provide a summary of the financial condition of the Board. Questions or requests for additional information should be addressed to:

Janice K. Peterson
Executive Administrator
North Carolina State Board of Examiners in Optometry
109 North Graham Street
Wallace, NC 28466

NORTH CAROLINA STATE BOARD OF EXAMINERS IN OPTOMETRY
STATEMENT OF NET POSITION
June 30, 2016

ASSETS

Current assets:

Cash and cash equivalents	
Checking	\$ 137,141.04
Certificate of deposit	188,181.32
Escrow account	151,296.74
Money market accounts	21,057.85
Total cash and cash equivalents	<u>497,676.95</u>
Investments	<u>546,398.97</u>
Other current assets	
Accounts receivable - investigative and legal fee reimbursements	<u>20,000.00</u>
Total other current assets	<u>20,000.00</u>
Total current assets	<u>1,064,075.92</u>

Non-current assets:

Furniture and equipment (less accumulated depreciation of \$54,594.07)	41,789.57
Deposits	<u>60.00</u>
Total non-current assets	<u>41,849.57</u>
Total assets	<u><u>\$ 1,105,925.49</u></u>

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	\$ 17,216.82
Payroll taxes payable	2,071.32
Accrued vacation and sick pay	58,317.54
Accrued expense	483.32
Deferred revenue	<u>30,650.00</u>
Total current liabilities	<u>108,739.00</u>

Net position	<u>997,186.49</u>
Total liabilities and net position	<u><u>\$ 1,105,925.49</u></u>

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA STATE BOARD OF EXAMINERS IN OPTOMETRY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2016

Operating revenues:

Examination fees	\$ 40,600.00
Regular license renewal fees	401,400.00
Professional incorporation fees	1,450.00
Professional incorporation renewal fees	11,075.00
Branch office fees	55,000.00
Branch office renewal fees	101,000.00
Renewal penalties	3,325.00
Other income	5,325.00
Total operating revenues	<u>619,175.00</u>

Operating expenses:

Salaries	187,163.84
Clerical fees	2,800.00
Printing and copying	561.40
Office supplies	4,325.38
Telephone	7,692.06
Equipment lease	903.59
Utilities	4,683.96
Postage	3,671.14
Office rent	14,529.18
Legal and investigative fees	127,178.46
Retirement	16,945.12
Payroll taxes	13,896.58
Health insurance	35,435.52
Life insurance	2,359.46
Hearing expense	1,448.80
Dental plan	676.00
Dues/registration	1,475.00
Audit cost	6,610.00
Budget/accounting fees	5,575.00
Regular meeting expense	41,465.67
Special meeting expense	10,555.65
Examination expense	77,004.45
Exam development	21,672.96
Depreciation expense	5,155.20
Maintenance	5,729.11
Insurance	1,587.00

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA STATE BOARD OF EXAMINERS IN OPTOMETRY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
(CONTINUED)
For the Year Ended June 30, 2016

Late payment penalties	2.66
Interest expense	0.11
Contract services	79.18
Loss on disposal of fixed assets	14,346.81
Computer software and programmer fees	59,817.47
Total operating expenses	<u>675,346.76</u>
Income (loss) from operations	<u>(56,171.76)</u>
Nonoperating revenues:	
Interest income	5,205.86
Dividend income	3,245.12
Gain on investments	20,526.60
Total nonoperating revenues	<u>28,977.58</u>
Change in net position	<u>(27,194.18)</u>
Net position, beginning of year	<u>1,024,380.67</u>
Net position, end of year	<u><u>\$ 997,186.49</u></u>

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA STATE BOARD OF EXAMINERS IN OPTOMETRY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Cash received from optometrists	617,225.00
Payments for operating expenses	<u>(633,557.52)</u>
Net cash used by operating activities	<u>(16,332.52)</u>
Cash flows from investing activities:	
Interest, dividends, and gains on investments	28,977.58
Acquisition of investment through dividend reinvestments	<u>(29,335.35)</u>
Net cash from investing activities	<u>(357.77)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(1,454.11)</u>
Net cash used by capital and related financing activity	<u>(1,454.11)</u>
Net increase (decrease) in cash and cash equivalents	(18,144.40)
Cash and cash equivalents at beginning of year	<u>515,821.35</u>
Cash and cash equivalents at end of year	<u><u>497,676.95</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Income (loss) from operations	<u>(56,171.76)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation & loss on fixed asset disposals	19,502.01
Changes in assets and liabilities:	
(Increase) decrease in receivables	(5,000.00)
(Increase) decrease in prepaid expenses	1,157.63
Increase (decrease) in accounts payable	15,943.39
Increase (decrease) in accrued salaries	5,858.33
Increase (decrease) in accrued expenses	(672.12)
Increase (decrease) in deferred revenue	<u>3,050.00</u>
Total adjustments	<u>39,839.24</u>
Net cash used by operating activities	<u><u>(16,332.52)</u></u>

The accompanying notes are an integral part of the financial statements.

NORTH CAROLINA STATE BOARD OF EXAMINERS IN OPTOMETRY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organizational Purpose

The North Carolina State Board of Examiners in Optometry is an independent state agency established for the purpose of regulating the practice of optometry in the State of North Carolina through the enforcement of North Carolina laws and regulations. Therefore, the North Carolina State Board of Examiners in Optometry is reported as a discretely presented component unit in the State of North Carolina's financial statements.

B. Basis of Presentation

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) 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; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or the change in net position is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

The financial statements are presented using the accrual basis of accounting, which is in accordance with generally accepted accounting principles for an enterprise fund, required by State law of occupational licensing boards. Under this basis, costs of providing services, including capital costs, must be recovered with fees and charges, rather than with taxes or similar revenues.

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.

The Board has implemented GASB Statement No. 34, *Basis Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and related standards. These new standards provide for significant changes in terminology and for the inclusion of Management's Discussion and Analysis as required supplementary information.

NORTH CAROLINA STATE BOARD OF EXAMINERS IN OPTOMETRY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

D. Investments

At June 30, 2016, the Board's investments consist of the following:

Brokerage money market accounts	\$ 46,223.63
Mutual funds (stated at cost)	332,172.63
US government mortgage-backed securities (stated at cost)	168,002.71
Total	<u>\$ 546,398.97</u>

The U.S. government mortgage-backed securities consist of Government National Mortgage Association and Federal National Mortgage Association security obligations as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Mortgage-backed securities	<u>\$168,002.71</u>	<u>\$7,356.05</u>	<u>\$0.00</u>	<u>\$175,358.76</u>

All securities held by the Board are available for sale. During the year that ended June 30, 2016, the Board earned interest of \$4,105.90 on these investments. The Board realized no gains on sales or redemptions of like investments.

The mutual funds consist of marketable funds available for sale with a current market value of \$376,984.64. During the year that ended June 30, 2016, the Board earned dividends of \$3,245.12.

E. Fixed Assets

The fixed assets owned by the Board are reflected in the accompanying financial statements at cost. Applicable depreciation expense is calculated using the straight-line method.

F. Accounts Receivable - Investigative and Legal Fee Reimbursements

At June 30, 2016, licensees' accounts receivable for investigative and legal fee reimbursements were as follows:

	Amount of Reimbursement	Received by June 30, 2016	Receivable at June 30, 2016
Non-Public Letter of Concern	\$ 22,500.00	\$ 7,500.00	\$ 15,000.00
Non-Public Letter of Concern	\$ 5,000.00	\$ -	\$ 5,000.00
	<u>\$ 27,500.00</u>	<u>\$ 7,500.00</u>	<u>\$ 20,000.00</u>

NORTH CAROLINA STATE BOARD OF EXAMINERS IN OPTOMETRY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

G. Deferred Revenue

Deferred revenue represents examination fees collected during the current year for the exams to be given in July, 2016.

H. Estimates

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

NOTE 2 – RELATED PARTY – OFFICE LEASE

The Board leases from the Executive Administrator an office building located at 109 North Graham Street, Wallace, NC 28466. Specifically, the building contains an estimated 1500 square feet of heated and cooled space with a paved drive located on a lot that is 150 feet wide facing North Graham Street and 150 feet deep. The annual lease agreement for the year ending June 30, 2016 was approved on April 30, 2014 with a 5% increase annually. The monthly rental for the fiscal year ending June 30, 2016 was \$1,215.51 (\$14,586.08 annually). This was the second year of this three year lease agreement, which will terminate on June 30, 2017.

NOTE 3 – PENSION PLAN

On January 25, 1991, the Board adopted a Simplified Employee Pension Plan, as defined by the Internal Revenue Service. Each year the Board, at its discretion, determines contributions. For the year that ended June 30, 2016, the Board contributed 10% of each employee's compensation, which totaled \$16,945.12.

NOTE 4 – DENTAL PLAN

On July 25, 1991, the Board approved a self-insured dental plan for full-time employees at a rate of \$25.00 per month, retroactive to July 1, 1990. Benefits are only payable for actual dental work performed during the time the employee is employed by the Board and is subject to an unlimited carry-over. The maximum dental benefit available at June 30, 2016 was \$3,591.45.

NOTE 5 – CONCENTRATION OF CREDIT RISKS

All deposits of the Board are made in board-designated official depositories and are collateralized as required by State law (G.S. 159-31.) The Board may designate as an official depository any bank or savings association whose principal office is located in North Carolina. Also, the Board may establish time deposit accounts such as NOW accounts, money market accounts, and certificates of deposit.

NORTH CAROLINA STATE BOARD OF EXAMINERS IN OPTOMETRY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
June 30, 2016

All of the Board's deposits are insured or collateralized by using the Pooling Method. Under this method, a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's 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 by the Board agent in the Board's name. The amount of the 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 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.

The Board maintains cash balances at two financial institutions, Four Oaks Bank and Trust, and First Bank. Both financial institutions are members of the Federal Deposit Insurance Corporation. Deposits at FDIC-insured institutions are insured up to at least \$250,000 per depositor. The total cash held by the Board at June 30, 2016 not covered by insurance was \$96,380.21.

NOTE 6 – 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. The Board has employee surety bond, comprehensive liability and employee health insurance.

There have been no significant reductions in insurance coverage from coverage in the prior year. No insurance claims were filed during the year that ended June 30, 2016