

Audit Report

Judges of the Probate Courts Retirement Fund of Georgia

Fiscal Year Ended June 30, 2014



The photograph on the cover was taken by Lacey Mitchell at Jekyll Island, Georgia.

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

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SECTION I - FINANCIAL

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DEPARTMENT OF AUDITS AND ACCOUNTS

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Independent Auditor's Report

The Honorable Nathan Deal, Governor of Georgia
Members of the General Assembly of the State of Georgia
Members of the Judges of the Probate Courts Retirement Fund of Georgia
and
Mr. Robert Carter, Secretary/Treasurer

Report on the Financial Statements

We have audited the accompanying financial statements of the Judges of the Probate Courts Retirement Fund of Georgia, a component unit of the State of Georgia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Judges of the Probate Courts Retirement Fund of Georgia's basic 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 fiduciary net position of the Judges of the Probate Courts Retirement Fund of Georgia, as of June 30, 2014, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2(a) to the financial statements, the Judges of the Probate Courts Retirement Fund of Georgia adopted in 2014 Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

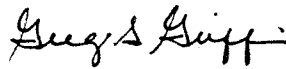
Accounting principles generally accepted in the United States of America require that the schedule of changes in employers' and nonemployers' net pension liability, schedule of employers' and nonemployers' net pension liability, schedule of employer and nonemployer contributions, and schedule of investment returns on pages 20 - 23 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 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2015 on our consideration of the Judges of the Probate Courts Retirement Fund of Georgia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Judges of the Probate Courts Retirement Fund of Georgia's internal control over financial reporting and compliance.

Respectfully submitted,



Greg S. Griffin
State Auditor

June 30, 2015

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BASIC FINANCIAL STATEMENTS

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Statement of Fiduciary Net Position

June 30, 2014

Assets:			\$ 3,180,219
Cash and cash equivalents			
Receivables:			
Due from brokers for securities sold			94,972
Investments - at fair value:			
Obligations:			
U.S. Treasury obligations	\$ 1,480,542		
U.S. Agency obligations	758,694		
Corporate bonds/notes/debentures			
Domestic	4,962,691		
International	779,355		
Asset-backed Securities			
Domestic	1,404,269		
Mortgage investments	<u>55,277</u>	\$ 9,440,828	
Equity Securities			
Stocks			
Domestic	48,917,091		
International	13,838,773		
Real estate investment trusts	<u>491,590</u>	<u>63,247,454</u>	
Total investments			<u>72,688,282</u>
Total assets			75,963,473
Liabilities:			
Due to brokers for securities purchased			<u>70,455</u>
Net position restricted for pensions			<u>\$ 75,893,018</u>

See accompanying notes to financial statements.

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
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Statement of Changes in Fiduciary Net Position

Year ended June 30, 2014

Additions:		
Contributions:		
Nonemployer		\$ 1,283,318
Members		161,527
Net investment income:		
Net increase in fair value of investments	\$ 11,303,183	
Interest, dividends, and other	1,540,725	
Less investment expense	<u>(503,082)</u>	<u>12,340,826</u>
Total additions		<u>13,785,671</u>
Deductions:		
Benefit payments		3,823,997
Administrative expenses, net		<u>78,625</u>
Total deductions		<u>3,902,622</u>
Net increase in net position		9,883,049
Net position restricted for pensions:		
Beginning of year		<u>66,009,969</u>
End of year		<u>\$ 75,893,018</u>

See accompanying notes to financial statements.

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
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Notes to Financial Statements

June 30, 2014

(1) Plan Description

The Judges of the Probate Courts Retirement Fund of Georgia (Fund) was created in 1958 by the General Assembly of Georgia for the purpose of paying retirement benefits to judges of the probate courts of the State of Georgia. The Fund administers a cost-sharing, multiple-employer defined benefit pension plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The Board of Commissioners is comprised of seven members and consists of the Governor or his designee, an appointee of the Governor other than the Attorney General, four judges of the probate courts who are members of the Fund and a retired judge of a probate court. The Board of Commissioners is ultimately responsible for the administration of the Fund.

(a) Eligibility and Membership

Individuals eligible to apply for membership in the Fund are defined in the *Official Code of Georgia Annotated* (O.C.G.A.) 47-11-40 and generally include all duly qualified and commissioned judges of the probate court of the counties of the State of Georgia, any person serving as secretary-treasurer of the Board of Commissioners and qualified employees of the Board of Commissioners.

As of June 30, 2014, participation in the Fund is as follows:

Inactive members and beneficiaries currently receiving benefits	152
Terminated members not yet receiving benefits, vested	5
Active plan members	156
Total	313

(b) Participating Employers and Other Contributing Entities

At June 30, 2014, the active members of the Fund were employed by 153 employers. The Fund had one nonemployer contributing entity, the State of Georgia.

(c) Retirement Benefits

The Fund provides retirement as well as disability and death benefits. Title 47 of the O.C.G.A. assigns the authority to establish and amend the provisions of the Fund to the State Legislature. Members prior to July 1, 1995, are eligible for retirement at age 60 and must have served at least four years as a regularly qualified and commissioned probate judge, secretary-treasurer or qualified employee of the Board of Commissioners of the Fund. Members on or after July 1, 1995, are eligible for retirement at age 60 and must have served at least eight years. A member must have terminated his or her official capacity as a judge of a probate court or as an employee of the Board to receive benefits.

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
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June 30, 2014

Members approved for retirement benefits prior to July 1, 1996, are paid a monthly benefit equal to 5% of his or her average monthly net earnings (subject to a salary cap) for each year served up to, but not exceeding, a total of 20 years, with exceptions. The benefit for members approved for retirement benefits on or after July 1, 1996, is equal to 5% of his or her final monthly net earnings (subject to a salary cap) for each year served up to, but not exceeding, a total of 20 years with exceptions. The Board of Commissioners is authorized to provide for increases in benefits being paid up to 1.5% in a six month period and can increase the salary caps in effect up to 3% annually. These benefits are payable for the lifetime of the member. Members may elect, as an alternate to the benefit describe above, to receive an actuarially reduced benefit in the form of a Joint and Survivor Annuity.

(d) Death and Disability Benefits

Any member who becomes totally and permanently disabled after completing four years of creditable service is entitled to receive retirement benefits in the amount that the member would receive if their retirement were effective at the time the member became disabled.

In the event of the death of a member who has not commenced receiving any benefits, the spouse may elect to withdraw the dues paid into the Fund by the deceased plus interest, in which case the spouse will be deemed to have waived any rights to any benefits; or an optional payment plan may be chosen for which benefits will be paid according to the terms of the Plan. In the event of the death of a member who has commenced receiving benefits, the surviving spouse, upon reaching age 60, may elect to receive a benefit equal to 50% of the monthly retirement benefit being paid to the deceased spouse at the time of death. These benefits will be paid for the remainder of the surviving spouse's life.

(e) Terminations

In the event of termination, a member is entitled to any retirement benefits that may have been earned. However, the member may waive the right to these benefits and receive all dues paid plus interest.

(f) Contributions

The Fund is funded by member and nonemployer contributing entity (Nonemployer) contributions. Contribution provisions are established by statute and may be amended only by the General Assembly of Georgia.

Member Contributions: Member contribution requirements are set forth in O.C.G.A. 47-11-40 and are not actuarially determined. Members must contribute \$105 per month as dues; however, that requirement for such dues ceases after the member has paid such dues for a period of 20 years.

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Notes to Financial Statements

June 30, 2014

Probate Court Contributions: Nonemployer contributions consist of court fines, forfeitures and fees collected and remitted by the courts directly to the Fund in accordance with O.C.G.A. 47-11-50 and 47-11-51. These court fines, forfeitures and fees are considered to be made by the State of Georgia as the nonemployer contributing entity. For each criminal and quasi-criminal case involving the violation of State of Georgia traffic laws which is before a judge of the probate court and in which case a fine is collected or a bond is forfeited, \$3.00 is collected and paid to the Fund. For fees associated with various services, the applicable fees are collected and paid to the Fund:

For civil filings	\$2.00
For marriage licenses	20% of fee
For pistol licenses	\$1.00

In accordance with O.C.G.A. 47-20-10, the court fines, forfeitures, and fees are considered employer contributions for the purpose of determining whether the Fund has met minimum funding requirements. This statute also prohibits any action to grant a benefit increase until such time as the minimum annual contribution requirements meet or exceed legislative requirements. The actuarial valuation as of July 1, 2013, calculated the minimum employer contribution for the fiscal year ended June 30, 2014, as \$1,343,982. The court fines, forfeitures and fees revenue of \$1,283,318 for the fiscal year ended June 30, 2014, did not meet the minimum required fund contribution.

(g) Administrative Expenses:

Administrative expenses are generally paid from current member and court fine and fee contributions. Investment earnings may be utilized to pay any expenses in excess of contributions.

(2) Summary of Significant Accounting Policies and Plan Asset Matters

(a) Basis of Accounting

The Fund's financial statements are prepared on the accrual basis of accounting, except for the collection of court fines, forfeitures and fees which are recognized when collected from the courts. Any accrual of these court fines, forfeitures and fees would be immaterial to the Fund's financial statements. Contributions from members are recognized as additions in the period in which the members provide services. Retirement and refund payments are recognized as deductions when due and payable.

During fiscal year 2014, the Fund adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. This Statement establishes new financial reporting standards for state and local governmental pension plans that are administered through a trust or similar arrangement. This Statement resulted in changes to the actuarial calculation of total and net pension liability and the related noted disclosures and required supplementary information. The implementation of GASB Statement No. 67 did not impact the recorded amounts in the financial statements.

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Notes to Financial Statements

June 30, 2014

(b) Reporting Entity

The Fund is a component unit of the State of Georgia; however, it is accountable for its own fiscal matters and presentation of its separate financial statements. The Fund has considered potential component units under GASB Statements No. 61, *The Financial Reporting Entity's Omnibus – an amendment of GASB Statement No. 14 and No. 34*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and determined there were no component units of the Fund.

(c) Cash and Cash Equivalents

Cash and cash equivalents, reported at cost, include cash in banks, cash on deposit with the investment custodian earning a credit to offset fees, and short-term highly liquid financial securities with original maturities of three months or less from the date of acquisition.

(d) Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price. There are no investments in, loans to, or leases with parties related to the Fund.

The Fund utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The Fund maintains an investment policy that may be amended by its Board of Commissioners both upon its own initiative and upon consideration of the advice and recommendations of its investment managers. There were no significant changes in the investment policy for the Fund during the fiscal year.

The Fund's policy in regard to the allocation of invested assets is established on a cost basis in compliance with Georgia Statute. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following was the Fund's adopted asset allocation policy as of June 30, 2014:

<u>Asset class</u>	<u>Target allocation</u>
Fixed income	0%-100%
Equities	0%-75%
Cash and cash equivalents	1%-100%
Total	<u>100%</u>

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June 30, 2014

Approximately 3.0% of the investment held in trust for pension benefits are invested in debt securities of the U.S. government and its instrumentalities, of which 2.0% are U.S. government debt securities and 1.0% are debt securities of the U.S. government instrumentalities. The Fund has no investments in any organization, other than those issued by the U.S. government and its instrumentalities that represent 5% or more of the Fund's net position restricted for pensions.

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 19.89%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(e) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of fiduciary net position and changes therein. Actual results could differ from those estimates.

(3) Investment Program

The Fund maintains sufficient cash to meet its immediate liquidity needs. Cash not immediately needed is invested as directed by the investment policy of the Fund. All investments are held by agent custodial banks in the name of the Fund. State statutes and the Fund's investment policy authorize the Fund to invest in a variety of short-term and long-term securities as follows:

(a) Cash and Cash Equivalents

The carrying amount of the Fund's operating account totaled \$463,272 at June 30, 2014, with an actual bank balance of \$464,794. The Fund's bank balance of \$250,000 is fully insured through the Federal Deposit Insurance Corporation, an independent agency of the U.S. Government. The remaining balance of \$214,794 is uninsured and collateralized with securities held by the pledging financial institution, or by its trust department or agent, in the Fund's name.

The carrying amount of the Fund's cash balance maintained within an investment account is \$(317,559) at June 30, 2014, which is also the investment account's balance.

The Fund's investment policy authorizes investment in short-term highly liquid financial securities. At June 30, 2014, the Fund held \$3,034,506 in money market mutual funds. This investment is classified as a cash equivalent on the Fund's Statement of Fiduciary Net Position.

(b) Investments

Fixed income investments are maintained in the following instruments:

- U.S. Government obligations. At June 30, 2014, the Fund held U.S. Treasury bonds of \$1,408,542.

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
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Notes to Financial Statements

June 30, 2014

- Obligations unconditionally guaranteed by agencies of the U.S. Government. At June 30, 2014, the Fund held U.S. Government obligations of \$758,694.
- Corporate bonds that are rated as investment grade as defined by a nationally recognized rating agency. At June 30, 2014, the Fund held U.S. corporate bonds of \$4,962,691 and international corporate bonds of \$779,355.
- Asset-backed securities. At June 30, 2014, the Fund held U.S. asset-backed securities of \$1,404,269.
- Mortgage-related securities. At June 30, 2014, the Fund held mortgage-related securities of \$55,277.

Equity securities are also authorized by the Public Retirement System Investment Authority Law for investment as a complement to the Fund's fixed income portfolio and as a long-term inflation hedge. By statute, no more than 75% of the total invested assets on a historical cost basis may be placed in equities. Equity holdings in any one corporation may not exceed 5% of the total portfolio. The equity portfolio is managed by the Fund in conjunction with independent advisors. Buy/sell decisions are based on securities meeting rating criteria established by the investment policy of the Fund. Equity trades are approved and executed by the independent advisors. Common stocks eligible for investment must meet the Objectives and Guidelines of the Fund's investment policy. Equity investments are maintained in the following instruments:

- Domestic equities are those securities considered by the O.C.G.A. to be domiciled in the United States. At June 30, 2014, the Fund held domestic equities of \$48,917,091.
- International equities will be a diversified portfolio including both developed and emerging countries. These securities are not considered by the O.C.G.A. to be domiciled in the United States. At June 30, 2014, the Fund held international equities of \$13,838,773.
- Real Estate Investment Trusts (REIT). At June 30, 2014, the Fund held shares of REITs of \$491,590.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Fund. State law limits investments to investment grade securities. The Fund's investment policy requires that purchases of bonds be restricted to bonds rated as investment grade rated BAA (or equivalent) or better as defined by a nationally recognized rating agency. The quality ratings of investments in fixed income securities at June 30, 2014, as described by Standard & Poor's and by Moody's Investor Services, which are nationally recognized statistical rating organizations, are shown in the chart on the following page.

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Notes to Financial Statements

June 30, 2014

Quality Ratings of Fixed Income Investments
Held at June 30, 2014

<u>Investment type</u>	<u>Standard and Poor's/Moody's quality rating</u>	<u>June 30, 2014 fair value</u>
Money market mutual funds	Unrated	\$ <u>3,034,506</u>
U.S. Treasuries	*	<u>1,480,542</u>
U.S. Agencies	AA/Aaa	<u>758,694</u>
Corporates		
Domestic	AA/Aa	223,622
	AA/A	187,751
	A/A	1,327,489
	A/Baa	838,959
	BB/Baa	167,064
	BBB/Baa	2,167,346
	Unrated	<u>50,460</u>
Total corporates - domestic		<u>4,962,691</u>
International	AA/Aa	172,234
	A/Aa	54,616
	A/A	170,179
	BBB/A	43,942
	BBB/Baa	252,651
	Unrated	<u>85,733</u>
Total corporates - international		<u>779,355</u>
Asset-backed securities	AAA/Aaa	846,587
	AAA/Unrated	180,289
	Unrated/Aaa	<u>377,393</u>
Total asset-backed securities		<u>1,404,269</u>
Mortgages	AA/Unrated	<u>55,277</u>
Total fixed income investments		\$ <u>12,475,334</u>

* Obligations of the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality.

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Notes to Financial Statements

June 30, 2014

Concentration of Credit Risk: Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the Fund's investment in a single issue. The Fund's concentration of credit risk policy is that the securities of any one company or government agency should not exceed 5% of the total fund. On June 30, 2014, the Fund did not have any debt investments in any one organization, other than those issued or guaranteed by the U.S. government or its agencies, which represented greater than 5% of plan net position.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Fund does not address specific policies for managing interest rate risk. The following table provides information about the Fund's interest rate risk:

<u>Debt Security Type</u>	<u>Total Fair Value</u>	<u>Maturity Period</u>				
		<u>Less than 3 Months</u>	<u>4 - 12 Months</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>More than 10 Years</u>
Money market mutual funds	\$ 3,034,506	\$ 3,034,506	\$ -	\$ -	\$ -	\$ -
U.S. Treasury Obligations	1,480,542	-	110,137	992,274	378,131	-
U.S. Agency Obligations	758,694	-	-	574,911	-	183,783
Corporate Debt						
Domestic	4,962,691	-	552,919	2,619,509	1,790,263	-
International	779,355	-	115,545	446,151	217,659	-
Asset-backed Securities						
Domestic	1,404,269	-	-	1,203,286	200,983	-
Mortgage-backed Securities	55,277	-	-	-	55,277	-
Total Debt Securities	<u>\$12,475,334</u>	<u>\$ 3,034,506</u>	<u>\$ 778,601</u>	<u>\$ 5,836,131</u>	<u>\$ 2,642,313</u>	<u>\$ 183,783</u>

(4) Net Pension Liability of Employers and Nonemployers

The components of the net pension liability of the participating employers and nonemployers at June 30, 2014, were as follows:

Total pension liability	\$ 57,834,774
Plan fiduciary net position	<u>75,893,018</u>
Employers' and nonemployers' net pension liability (asset)	<u>\$ (18,058,244)</u>
Plan fiduciary net position as a percentage of the total pension liability	131.22%

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Notes to Financial Statements

June 30, 2014

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	N/A
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Mortality Table with generational mortality projection using Scale MP 2014 for healthy lives and the RP 2014 Disabled Retiree Mortality Table with generational mortality projection using Scale MP 2014 for disabled lives.

The long-term expected rate of return on pension plan investments was calculated by the Fund's investment manager as 6.66% using a Monte Carlo simulation in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges 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. The Fund's administrator determined that 7.00% was a reasonable assumption for the long-term rate of return on plan assets based on the calculation by the Fund's investment manager. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return*</u>
Domestic fixed income	20 %	2.7 %
International fixed income	5	4.0
Domestic large equities	35	7.5
Domestic mid equities	8	8.4
Domestic small equities	7	8.6
Global equities	10	8.2
International equity	10	8.8
Commodities	5	6.4
Total	<u>100</u>	

* Rates shown are net of the 2.50% assumed rate of inflation.

Discount Rate: The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumes revenues will remain level. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Notes to Financial Statements

June 30, 2014

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the net pension liability of the employers and nonemployers, calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current discount rate (7.00%)	1% Increase (8.00%)
Employers' and nonemployers' net pension liability (asset)	\$ (12,427,026)	(18,058,244)	(22,890,292)

Actuarial valuation date: The total pension liability is based on the actuarial assumptions and methods used in the June 30, 2014 actuarial valuation of the plan.

(5) Subsequent Event

Effective July 1, 2014, Chapter 11 of Title 47 of the O.C.G.A. was amended to eliminate the automatic cost-of-living adjustment that is awarded to retired members and surviving spouses.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA

(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedule of Changes in Employers' and Nonemployers' Net Pension Liability

For the year ended June 30

(Unaudited)

	<u>2014</u>
Total pension liability:	
Service cost	\$ 1,443,097
Interest	4,245,535
Changes of benefit terms	(8,646,082)
Differences between expected and actual experience	(296,440)
Changes of assumptions	3,793,266
Benefit payments	(3,823,997)
Refunds of member contributions	-
Net change in total pension liability	<u>(3,284,621)</u>
Total pension liability - beginning	<u>61,119,395</u>
Total pension liability - ending (a)	<u>57,834,774</u>
Plan fiduciary net position:	
Contributions - nonemployer	1,283,318
Contributions - member	161,527
Net investment income	12,340,826
Benefit payments	(3,823,997)
Refunds of member contributions	-
Administrative expense	<u>(78,625)</u>
Net change in plan fiduciary net position	9,883,049
Plan fiduciary net position - beginning	<u>66,009,969</u>
Plan fiduciary net position - ending (b)	<u>75,893,018</u>
Net pension liability (asset) - ending (a) - (b)	\$ <u><u>(18,058,244)</u></u>

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and accompanying independent auditor's report.

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA

(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedule of Employers' and Nonemployers' Net Pension Liability

For the year ended June 30

(Unaudited)

	<u>2014</u>
Total pension liability	\$ 57,834,774
Plan fiduciary net position	75,893,018
Employers' and nonemployers' net pension liability (asset)	<u>\$ (18,058,244)</u>
Plan fiduciary net position as a percentage of the total pension liability	131.22%
Covered-employee payroll	N/A
Employers' and nonemployers' net pension liability as a percentage of covered-employee payroll	N/A

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and accompanying independent auditor's report.

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedule of Employer and Nonemployer Contributions

For the year ended June 30

(Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined employer and nonemployer contribution	\$ 1,343,982	\$ 1,291,074	\$ 1,180,024	\$ 1,186,191	\$ 1,047,068	\$ 841,975	\$ 623,378	\$ 746,002	\$ 537,992	\$ 497,774
Contributions in relation to the actuarially determined contribution	1,283,318	1,289,959	1,118,766	1,147,752	1,133,220	1,212,372	1,195,045	1,241,677	1,132,978	839,806
Contribution deficiency (excess)	\$ 60,664	\$ 1,115	\$ 61,258	\$ 38,439	\$ (86,152)	\$ (370,397)	\$ (571,667)	\$ (495,675)	\$ (594,986)	\$ (342,032)
Covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

See accompanying notes to required supplementary information and accompanying independent auditor's report.

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedule of Investment Returns

For the year ended June 30

(Unaudited)

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	19.89%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying notes to required supplementary information and accompanying independent auditor's report.

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Required Supplementary Information

June 30, 2014

(Unaudited)

(1) Schedule of Changes in Net Pension Liability

The total pension liability contained in this schedule was provided by the Fund's actuary, Buck Consultants, LLC. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Fund.

(2) Schedule of Employer and Nonemployer Contributions

The required employer and nonemployer contributions and percentage of those contributions actually made are presented in the schedule.

(3) Actuarial Methods and Assumptions

Benefit changes: Effective July 1, 2014, automatic cost-of-living adjustments for retirees and surviving spouses have been eliminated.

Changes of assumptions: The mortality table for healthy lives was changed from the IRS 2013 Static Mortality Table (separate for annuitants and non-annuitants) to the RP 2014 Healthy Mortality Table with generational mortality projection using Scale MP 2014. The mortality table for disabled lives was changed to the RP 2014 Disabled Retiree Mortality Table with generational mortality projection using Scale MP 2014. The load for administrative expenses was changed from \$50,000 per annum to \$80,000 per annum to better reflect the actual administrative expenses expected to be paid from the Fund.

Methods and assumptions used in calculations of actuarially determined contributions: The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Valuation date	July 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Actuarial value
Inflation rate	3.0%
Salary increases	N/A
Investment rate of return	7.0%, net of pension plan investment expense, including inflation.
Automatic cost-of-living adjustments	2.0% per year
Mortality	IRS 2013 Static Mortality Table (separate for annuitants and non-annuitants) for healthy lives. Mortality rates based on NYC Teacher's Disability table for disabled lives.

**SECTION II – REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156

Atlanta, Georgia 30334-8400

GREG S. GRIFFIN
STATE AUDITOR
(404) 656-2174

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

The Honorable Nathan Deal, Governor of Georgia
Members of the General Assembly of the State of Georgia
Members of the Judges of the Probate Courts Retirement Fund of Georgia
and
Mr. Robert Carter, Secretary/Treasurer

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Judges of the Probate Courts Retirement Fund of Georgia, a component unit of the State of Georgia, which include the statement of fiduciary net position as of June 30, 2014, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise Judges of the Probate Courts Retirement Fund of Georgia's basic financial statements, and have issued our report thereon dated June 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Judges of the Probate Courts Retirement Fund of Georgia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Judges of the Probate Courts Retirement Fund of Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of Judges of the Probate Courts Retirement Fund of Georgia's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

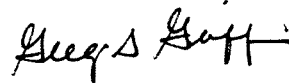
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Judges of the Probate Courts Retirement Fund of Georgia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Greg S. Griffin
State Auditor

June 30, 2015

GSG:rmm

SECTION III – SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Schedule of Prior Year Findings and Questioned Costs

For the Year Ended June 30, 2014

FS-949-13-01 Forms Submitted Late to the State Accounting Office

Control Category:	Accounting Controls (Overall)
Internal Control Impact:	Financial Reporting and Disclosure
Status:	Significant Deficiency
	Significantly Differing Corrective Action Implemented

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