Audit Report

Judges of the Probate Courts Retirement Fund of Georgia
Fiscal Year Ended June 30, 2016

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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GREG S. GRIFFIN
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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
Board of Commissioners of the Judges of the Probate Courts Retirement Fund of Georgia
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 (the Fund), a component unit of the State of Georgia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund'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 Fund as of June 30, 2016, 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 discussed in Note 2 to the basic financial statements, in 2016 the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. 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 Employers' and Nonemployers' Net Pension Liability, Schedule of Changes in 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 May 31, 2017 on our consideration of the Fund'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 Fund's internal control over financial reporting and compliance.

Respectfully submitted,

Greg S. Griffin
State Auditor

May 31, 2017

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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, 2016

Assets:			
Cash and cash equivalents			$ 8,372,166
Receivables:			
Due from brokers for securities sold			63,584
Investments - at fair value:			
Obligations:			
Municipal bonds	$ 86,501		
U.S. Treasury obligations	6,563,771		
U.S. Agency obligations	315,955		
Corporate bonds/notes/debentures			
Domestic	2,938,943		
International	377,750		
Asset-backed securities			
Domestic	644,179		
Mortgage investments	285,518	$ 11,212,617	
Equities:			
Stocks			
Domestic	45,677,058		
International	11,455,488	57,132,546	
Total investments			68,345,163
Total assets			76,780,913
Liabilities:			
Due to brokers for securities purchased		20,994	
Withholdings Payable		480	
Total liabilities			21,474
Net position restricted for pensions			$ 76,759,439

See accompanying notes to financial statements.

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

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2016

Additions:		
Contributions:		
Nonemployer		$ 1,419,750
Members		156,057
Net investment income:		
Net increase in fair value of investments	$ 369,247	
Interest, dividends, and other	1,559,140	
Less investment expense	(629,459)	1,298,928
Total additions		2,874,735
Deductions:		
Benefit payments		3,916,867
Refunds of member contributions		6,522
Administrative expenses, net		125,825
Total deductions		4,049,214
Net decrease in net position		(1,174,479)
Net position restricted for pensions:		
Beginning of year		77,933,918
End of year		$ 76,759,439

See accompanying notes to financial statements.

Note 1: Plan Description

The Judges of the Probate Courts Retirement Fund of Georgia (the Fund) was created in 1958 by the Georgia General Assembly to provide retirement benefits for judges of the probate courts 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 Fund is governed by its Board of Commissioners. The Board is comprised of the Governor of the State of Georgia or his designee; an appointee of the Governor other than the Attorney General; the Commissioner of Insurance or his designee; 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.

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 qualified and commissioned judges of the probate courts 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, 2016, participation in the Fund is as follows:

Inactive plan members and beneficiaries currently receiving benefits	148
Terminated members not yet receiving benefits, vested	6
Active plan members	149
Total	303

Participating Employers and Other Contributing Entities

At June 30, 2016, the active members of the Fund were employed by 149 employers. The Fund also had one nonemployer contributing entity, which is the State of Georgia.

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 General Assembly. Members prior to July 1, 1995, are eligible for retirement at age 60 and must have served at least four years in a position eligible for membership in the Fund. Members joining the Fund 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.

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 described above, to receive an actuarially reduced benefit in the form of a Joint and Survivor Annuity.

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.

If a member dies before retirement, the member's spouse may withdraw the dues paid into the Fund plus interest and thus waive any rights to any benefits through the Fund. The surviving spouse may also elect to receive benefits through an optional payment offered by the Fund. If a member who is receiving benefits dies, 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 member at the time of death. These benefits will be paid for the remainder of the surviving spouse's life.

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.

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.

Member Contributions: Member contribution requirements are set forth in O.C.G.A. 47-11-40 and are not actuarially determined. Each member must contribute $105 per month; however, the requirement to pay dues ceases after the member has paid dues for 20 years.

Nonemployer Contributions: In accordance with O.C.G.A. 47-11-50 and 47-11-51, the State of Georgia provides nonemployer contributions to the Fund through the collection of court fines, forfeitures, and fees. For each criminal and quasi-criminal case involving the violation of State of Georgia traffic laws which is before a probate court and results in the collection of a fine or forfeiture of a bond, $3 is collected and paid to the Fund. For fees associated with various services, the following fees are collected and paid to the Fund:

For civil filings	$2
For marriage licenses	20% of fee
For pistol licenses	$1

The court fines, forfeitures, and fees are considered employer contributions for the purpose of determining whether the Fund has met minimum funding requirements specified in O.C.G.A. 47-20-10. 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, 2015, calculated the minimum employer contribution for the fiscal year ended June 30, 2016, as $213,330. The court fines, forfeitures and fees revenue of $1,419,750 for the fiscal year ended June 30, 2016, meets the minimum required fund contribution.

Administrative Expenses
Administrative expenses are generally funded from current member and court fines, forfeitures, and fees contributions. Investment earnings may be utilized to fund any expenses in excess of contributions.

Note 2: Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting
The Fund's financial statements are prepared on the accrual basis of accounting, except for the collection of contributions, which are recognized when collected from the members and the courts. Any accrual of these contributions would be immaterial to the Fund's financial statements. Retirement and refund payments are recognized as deductions when due and payable.

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.

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.

Investments
Investments are reported at fair value. Equity securities traded on a national or international exchange are valued at the last reported sales price. Fixed income securities are valued based primarily on quoted market prices provided by independent pricing sources. Global foreign exchange holdings are translated using a third party vendor. Investment income is recognized as earned by the Fund. 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 credit, interest rate, 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 State law. 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, 2016:

Asset Class	Target Allocation
Fixed income	0% - 100%
Equities	0% - 75%
Cash and cash equivalents	0% - 10%
Total	100%

Approximately 10.06% of the investments held in trust for pension benefits are invested in debt securities of the U.S. government and its instrumentalities, of which 9.6% are U.S. government debt securities and 0.46% are debt securities of the U.S. government instrumentalities. The Fund has no investments in any one 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, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.63%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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.

New Accounting Pronouncements
During fiscal year 2016, the Fund adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application.* This Statement addresses accounting and financial reporting issues related to fair value measurements and requires disclosures to be made about fair value measurements, the level of fair value hierarchy and valuation techniques. See note 3 for disclosures related to GASB Statement No. 72.

During fiscal year 2016, the Fund adopted the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The objective is to improve the usefulness of information about pensions included in external financial reports for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not impact the recorded amounts in the financial statements. However, this statement did provide additional clarification on the reporting requirements of the Fund's required supplementary information.

During fiscal year 2016, the Fund adopted the provisions of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* which supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP) used to prepare financial statements for the purpose of improving the usefulness and comparability of those statements among governments. The implementation of GASB Statement No. 76 did not impact the recorded amounts in the financial statements.

Note 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 law (O.C.G.A. 47-20-83) and the Fund's investment policy authorize the Fund to invest in a variety of short-term and long-term securities.

Cash and Cash Equivalents
The carrying amount of the Fund's operating account totaled $110,044 at June 30, 2016, which is also the bank account's balance. The Fund's cash balance is fully insured through the Federal Deposit Insurance Corporation, an independent agency of the U.S. Government.

The carrying amount of the Fund's cash balances maintained within an investment account is $461, which is also the investment account's balance. The Fund's cash balance is fully insured through the Securities Investors Protection Corporation, an independent agency of the U.S. Government.

The Fund's investment policy authorizes investment in short-term highly liquid financial securities. At June 30, 2016, the Fund held $8,261,661 in short term investment funds.

Investments
Fixed income investments are maintained in municipal bonds, U.S. Treasury obligations, obligations issued by agencies of the U.S. Government, investment-grade corporate bonds, asset-backed securities, and mortgage-related securities.

Equity investments are maintained in domestic equities and international equities. Domestic equities are those securities considered by the O.C.G.A. to be domiciled in the United States. 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.

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. State law limits the total investment in equity securities to 75% of the total invested assets calculated on a historical cost basis.

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. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The quality ratings of investments in fixed income securities at June 30, 2016, as described by Standard & Poor's, which is a nationally recognized statistical rating organization, are shown in the following table:

Quality Ratings of Fixed Income Investments
Held at June 30, 2016

Investment Type	Total Fair Value	AAA	AA	A	BBB	BB	Unrated
Cash and Cash Equivalents Subject to Credit Risk:							
Short term investment funds	$ 8,261,661	-	-	-	-	-	8,261,661
Debt Securities Subject to Credit Risk:							
Municipal bonds	$ 86,501	-	86,501	-	-	-	-
U.S. Agency obligations	315,955		315,955				
Corporate debt							
Domestic	2,938,943	-	185,005	960,329	1,717,571	76,038	-
International	377,750		32,204	95,742	249,804	-	-
Asset-backed securities	644,179	543,941	-	-	-	-	100,238
Mortgage-backed securities	285,518	-	29,023	-	-	-	256,495
Total Debt Securities Subject to Credit Risk	4,648,846	543,941	648,688	1,056,071	1,967,375	76,038	356,733
Debt Securities Not Subject to Credit Risk:							
U.S. Treasury obligations	6,563,771						
Total Debt Securities	$ 11,212,617						

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund does not have a formal policy for managing interest rate risk. The following table provides information about the Fund's interest rate risk:

		Maturity Period				
Investment type	Total Fair Value	Less than 3 Months	4 - 12 Months	1 - 5 Years	6 - 10 Years	More than 10 Years
Cash and Cash Equivalents Subject to Interest Rate Risk						
Short term investment funds	$ 8,261,661	8,261,661	-	-	-	-
Debt Securities Subject to Interest Rate Risk						
Municipal bonds	$ 86,501	-	-	86,501	-	-
U.S. Treasury obligations	6,563,771			5,380,523	1,183,248	-
U.S. Agency obligations	315,955	-	-	315,955	-	-
Corporate debt						
Domestic	2,938,943	-	227,582	940,888	1,596,783	173,690
International	377,750	75,130	-	209,212	93,408	-
Asset-backed securities	644,179	-	-	456,479	187,700	-
Mortgage-backed securities	285,518	-	-	-	285,518	-
Total Debt Securities Subject to Interest Rate Risk	$ 11,212,617	75,130	227,582	7,389,558	3,346,657	173,690

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, 2016, the Fund did not have 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 the plan's total investments.

Fair Value Measurement
The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs. These guidelines recognize a three-tiered hierarchy, as follows:

Level 1 – Valuations based on unadjusted quoted prices for identical instruments in active markets that the Fund has the ability to access.

Level 2 – Valuations based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instrument in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Fund's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each investment. The following table shows the fair value leveling of the Fund's investments.

Investments by fair value level	Total	Fair value measures using: Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Cash and Cash Equivalents by fair value level				
Short term investment funds	$ 8,261,661		8,261,661	
Debt Securities:				
Municipal bonds	$ 86,501		86,501	
U.S. Treasury obligations	6,563,771		6,563,771	
U.S. Agency obligations	315,955		315,955	
Corporate debt				
Domestic	2,938,943		2,938,943	
International	377,750		377,750	
Asset-backed securities	644,179		644,179	
Mortgage-backed securities	285,518		285,518	
Equities:				
Stocks				
Domestic	45,677,058	45,677,058		
International	11,455,488	11,455,488		
Total Investments by fair value level	$ 68,345,163	57,132,546	11,212,617	

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 1 are valued using prices quoted in active markets. Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. These securities have nonproprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

Short term investment funds classified in Level 2 are valued using observable underlying inputs that are market corroborated.

The Fund did not have any Net Asset Value (NAV) investments at June 30, 2016.

Note 4: Net Pension Liability of Employers and Nonemployers

The components of the collective net pension liability of the participating employers and nonemployers at June 30, 2016, were as follows:

Total pension liability	$	66,303,982
Plan fiduciary net position		(76,759,439)
Net pension liability (asset)	$	(10,455,457)

Plan fiduciary net position as a percentage of total pension liability	115.77%

Actuarial assumptions
The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	N/A
Investment rate of return	6.50%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP 2014 Healthy Mortality Table with generational mortality projection using the Buck modified MP-2016 scale for healthy lives and the RP 2014 Disabled Retiree Mortality Table with generational mortality projection using the Buck modified MP-2016 scale for disabled lives.

The long-term expected rate of return on pension plan investments was calculated by the Fund's investment manager as 6.60% using a building block approach. Capital market and asset class assumptions are estimates of how asset classes and combinations of classes may respond during various market environments. A building block approach develops an arithmetic mean expected return for each asset class, the return being the simple average which typically represents performance for a single period. Once an arithmetic mean is developed, it is converted to a geometric mean that expresses the arithmetic mean over a long time horizon. The geometric mean return is used because it captures changes in portfolio performance over multiple years and is generally lower than the arithmetic mean, thus providing a more conservative estimate for return assumptions. 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:

Asset class	Target allocation	Long term expected real rate of return *
U.S. Large Cap Equities	60 %	7.7 %
Developed Market Ex U.S. Equities	10	7.5
Emerging Market Equities	5	9.0
U.S. Intermediate Taxable Fixed Income	25	3.1
	100 %	

* Rates shown are net of the 2.50% assumed rate of inflation used by the investment manager

Discount Rate

The discount rate used to measure the total pension liability was 6.50%, based on the expected long-term rate of return on pension investments of 6.60%, but assuming an annual rate of inflation of 3.0%. 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.

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the net pension liability of the Fund, calculated using the discount rate of 6.50%, as well as what the Fund's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Current discount rate (6.50%)	1% Increase (7.50%)
Employers' and nonemployers' net pension liability (asset)	$ (3,836,533)	(10,455,457)	(16,132,881)

Note 5: Subsequent Event

Effective July 1, 2016, Chapter 20 of Title 47 of the O.C.G.A. was amended to increase the maximum number of years used to calculate retirement benefits from 20 to 30. The maximum number of years that a member would be required to pay dues also was increased from 20 to 30. Finally, individuals who were members of the Fund on July 1, 2016, were allowed to obtain credit for actual service between 20 and 30 years by applying for the service and paying the full actuarial cost of the service to the Fund by December 31, 2016. The effect of these changes to benefits has been included in the calculation of total pension liability as measured on June 30, 2016.

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 Employers' and Nonemployers' Net Pension Liability

For the year ended June 30

(Unaudited)

	2016	2015	2014
Total pension liability	$ 66,303,982	60,621,555	57,834,774
Plan fiduciary net position	76,759,439	77,933,918	75,893,018
Employers' and nonemployers' net pension liability (asset)	$ (10,455,457)	(17,312,363)	(18,058,244)
Plan fiduciary net position as a percentage of the total pension liability	115.77%	128.56%	131.22%
Covered-employee payroll	N/A	N/A	N/A
Employers' and nonemployers' net pension liability as a percentage of covered-employee payroll	N/A	N/A	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 Changes in Employers' and Nonemployers' Net Pension Liability

For the year ended June 30

(Unaudited)

	2016	2015	2014
Total pension liability:			
Service cost	$ 1,434,313	1,360,365	1,443,097
Interest	4,206,592	4,008,009	4,245,535
Changes of benefit terms	4,210,396	1,910,093	(8,646,082)
Differences between expected and actual experience	(914,191)	(615,948)	(296,440)
Changes of assumptions	668,706	0	3,793,266
Benefit payments	(3,916,867)	(3,863,303)	(3,823,997)
Refunds of member contributions	(6,522)	(12,435)	0
Net change in total pension liability	5,682,427	2,786,781	(3,284,621)
Total pension liability - beginning	60,621,555	57,834,774	61,119,395
Total pension liability - ending (a)	66,303,982	60,621,555	57,834,774
Plan fiduciary net position:			
Contributions - nonemployer	1,419,750	1,317,037	1,283,318
Contributions - member	156,057	156,534	161,527
Net investment income	1,298,928	4,546,559	12,340,826
Miscellaneous	0	0	0
Benefit payments	(3,916,867)	(3,863,303)	(3,823,997)
Refund of member contributions	(6,522)	(12,435)	0
Administrative expense	(125,825)	(103,492)	(78,625)
Net change in plan fiduciary net position	(1,174,479)	2,040,900	9,883,049
Plan fiduciary net position - beginning	77,933,918	75,893,018	66,009,969
Plan fiduciary net position - ending (b)	76,759,439	77,933,918	75,893,018
Net pension liability (asset) - ending (a) - (b)	$ (10,455,457)	(17,312,363)	(18,058,244)

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)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer and nonemployer contribution	$ 213,330	102,667	1,343,982	1,291,074	1,180,024	1,186,191	1,047,068	841,975	623,378	746,002
Contributions in relation to the actuarially determined contribution	1,419,750	1,317,037	1,283,318	1,289,959	1,118,766	1,147,752	1,133,220	1,212,372	1,195,045	1,241,677
Contribution deficiency (excess)	$ (1,206,420)	(1,214,370)	60,664	1,115	61,258	38,439	(86,152)	(370,397)	(571,667)	(495,675)
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)

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	2.63%	6.89%	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.

Note 1: Schedule of Employers' and Nonemployers' Net Pension Liability
The components of the net pension liability as of the fiscal year end and the fiduciary net position as a percentage of the total pension liability as of that date are presented in this schedule. This trend information will be accumulated to display a ten year presentation.

Note 2: Schedule of Changes in Employers' and Nonemployers' Net Pension Liability
Net pension liability which is measured as the total pension liability less the amount of the fiduciary net position is presented in this schedule. This trend information will be accumulated to display a ten year presentation.

Note 3: Schedule of Employer and Nonemployer Contributions
The schedule presents the required contributions and the amounts actually contributed.

Note 4: Schedule of Investment Returns
The schedule presents historical trend information about the annual money-weighted rate of return on plan investments, net of plan investment expense. This trend information will be accumulated to display a ten year presentation.

Note 5: Actuarial Methods and Assumptions
Benefit changes: Effective July 1, 2014, automatic cost-of-living adjustments for retirees and surviving spouses have been eliminated. Effective January 1, 2015, the annual earnings limit was increased from $36,904 to $39,151. In addition, a 1.5% cost of living adjustment was granted to retirees and surviving spouses effective July 1, 2015.

Effective January 1, 2016, the annual earnings limit was increased from $39,151 to $40,326. In addition, a 1.5% cost of living adjustment was granted to retirees and surviving spouses effective January 1, 2016.

Beginning in fiscal year 2016, the maximum number of years used to calculate benefits was increased from 20 years to 30 years. The maximum number of years for payment of member dues was also increased to 30 years.

Changes of assumptions: Beginning in fiscal year 2014, 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.

Beginning in fiscal year 2016, the mortality table for healthy lives was changed to the RP 2014 Health Mortality Table with generational mortality using the Buck modified MP 2016 scale. The mortality table for disabled lives was changed to the RP 2014 Disabled Retiree Mortality Table with generational mortality projection using the Buck modified MP 2016 scale. In addition, the discount rate was changed from 7.00% to 6.50%.

Methods and assumptions used in calculations of actuarially determined contributions: The following actuarial methods and assumptions were used to determine the most recently calculated actuarially determined contribution reported in the Schedule of Employer and Nonemployer Contributions:

Valuation date	June 30, 2015
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

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<u>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*</u>

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DEPARTMENT OF AUDITS AND ACCOUNTS

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GREG S. GRIFFIN
STATE AUDITOR
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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
Board of Commissioners of the Judges of the Probate Courts Retirement Fund of Georgia
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 (the Fund), a component unit of the State of Georgia, which include the statement of fiduciary net position as of June 30, 2016, 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 the Fund's basic financial statements, and have issued our report thereon dated May 31, 2017.

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 the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as FS-949-16-01, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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*.

Judges of the Probate Courts Retirement Fund of Georgia's Response to Findings

The Fund's response to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Greg S. Griffin
State Auditor

May 31, 2017

SECTION III – SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FS-949-16-01 Improve Documentation and Performance of Controls

Internal Control Impact: Significant Deficiency
Compliance Impact: Nonmaterial Noncompliance

The Judges of the Probate Courts Retirement Fund of Georgia (JPC) should comply with the statewide guidance for documenting its internal control framework and improve performance of its change management and logical access controls.

Background Information:
The State of Georgia has adopted the standards presented in the U.S. Government Accountability Office's (GAO) Green Book that provide an overall framework for establishing and maintaining an effective system of internal control. The State Accounting Office (SAO) has issued guidance to state organizations for implementing the Green Book framework.

During our fiscal year 2015 audit, we noted that JPC has an informal internal control framework in place over financial reporting and compliance processes. The JPC personnel could generally describe control policies and procedures; however, controls were not consistently documented, and they were not designed based on a thorough analysis of business objectives and risks related to operational, financial reporting, and compliance requirements. During our fiscal year 2016 audit, we followed up on JPC's efforts to update, document, and monitor its system of internal control.

Criteria:
The JPC management is responsible for establishing and maintaining a system of internal control over financial reporting and compliance processes, including relevant information systems, that provides reasonable assurance of accurate financial reporting and compliance with applicable laws and regulations as well as statewide policies and procedures. The statewide internal control guidance issued by SAO required JPC to update and document the Control Environment component of its internal control framework and to submit that documentation to SAO.

Condition:
The JPC did not comply with SAO's established timeline for updating and documenting the Control Environment component of its internal control framework and submitting that documentation to SAO. The Control Environment documentation was due on April 15, 2016; the JPC submitted its documentation to SAO on May 12, 2017.

We also noted JPC has not yet updated and documented the Risk Assessment and Control Activities components of its internal control framework. The guidance SAO issued for these components included reporting and recording templates, which are intended to provide documentation of the organization's internal control system in accordance with the statewide guidance. Documentation for the reporting template was due to SAO by October 31, 2016, and the recording template was due by February 28, 2017.

In addition, we noted inconsistent compliance with existing controls related to change management and logical access related to JPC's information systems.

Cause:
The JPC has a small staff and did not assign sufficient resources to fully follow SAO's guidance and timeline for implementing the Green Book's internal control framework standards. In addition, the JPC has not allocated sufficient resources to monitor compliance with existing information system controls.

Effect or Potential Effect:
Without adequately documenting and implementing each component of an internal control system in accordance with the statewide guidance, management cannot ensure JPC's internal control framework will comply with the Green Book standards or that a material misstatement of the JPC's financial information would be prevented or detected and corrected in a timely manner. This may also impede management's ability to gain reasonable assurance that JPC will achieve its operational, financial reporting, and compliance objectives.

Recommendation:
The JPC should review the resources available within its existing staff to determine whether additional internal resources could be assigned to implementing the Green Book's internal control framework standards and monitoring performance of the existing information system controls. If sufficient internal resources are not available, the JPC should consider obtaining additional resources on either a permanent or temporary basis.

When implementing its comprehensive internal control structure, an organization such as JPC should:

- Establish appropriate Tone at the Top; have clear, documented policies and procedures outlining those charged with governance and authority; and set responsibility and expectations for a system of internal control throughout the organization.
- Conduct risk assessments to determine risks that would prohibit the organization from achieving its operational, reporting, and compliance objectives. The risk assessment framework should:
    - Establish objectives related to operational, reporting, and compliance requirements across the organization.
    - Assess the suitability of the objectives and analyze risks (including fraud) to achieving each objective.
    - Consider possible changes from internal and external environments and their impact.
- Define control activities to manage the objectives and mitigate risks identified during the risk assessment process. Control activities should be:
    - Linked to each objective and risk.
    - Established through documented policies and procedures.
    - Performed at every level of the organization and applied at the appropriate stages within the business process and IT environment.
    - Assessed periodically to determine their overall effectiveness in mitigating risks to achieving objectives.
- Identify information needed to assess the internal control environment. This information should be collected and communicated both internally and externally to support the effectiveness of internal controls.

- Put on-going monitoring and evaluation processes in place to determine whether components of internal control are present and functioning effectively.

A robust system of internal control over financial reporting and compliance processes, including relevant information systems, is critical to gain assurance in meeting operational, reporting, and compliance requirements. It also serves as a way to enhance control activities, have safeguards in place to prevent or detect fraud and abuse, and gain efficiencies in operations.

Views of Responsible Officials:
Management concurs with the finding.

Corrective Action Plan:
Management has started to review the U.S. Government Accountability Office's Green Book as well as reviewing the guidance issued by SAO. Management is presently working on the Risk Assessment and Control Activities templates from SAO. Management is in the process of formalizing policies and procedures for better internal control.

Management is concurrently developing and revising policies and procedures as it relates to the internal control matters for relevant information systems as it relates to change management and logical access. Management is developing logical access policies to ensure proper documentation is in place, to ensure parameters are appropriately set and updated, and to ensure proper deprovisioning documentation. Management is reviewing change management policies to ensure workflow changes are authorized, tested, and approved.

Estimated Completion Date:
December 30, 2017

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