

JUDGES OF THE PROBATE COURTS

RETIREMENT FUND OF GEORGIA

(A Component Unit of the State of Georgia)

Schedule of Employer and Nonemployer Allocations and

Schedule of Pension Amounts by Employer and Nonemployer

June 30, 2016

(With Independent Auditors' Report Thereon)



DEPARTMENT OF AUDITS AND ACCOUNTS

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Independent Auditor's Report

Board of Commissioners of the Judges of the Probate Courts Retirement Fund of Georgia
Mr. Robert Carter, Secretary/Treasurer

We have audited the accompanying schedule of employer and nonemployer allocations 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. We also have audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total employer pension expense excluding that attributable to employer-paid member contributions included in the accompanying schedule of pension amounts by employer and nonemployer of the Fund (collectively, the specified column totals) as of and for the year ended June 30, 2016, and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules 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 the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer and nonemployer allocations and the specified column totals included in the schedule of pension amounts by employer and nonemployer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer and nonemployer allocations and the specified column totals included in the schedule of pension amounts by employer and nonemployer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer and nonemployer allocations and the specified column totals included in the schedule of pension amounts by employer and nonemployer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer and nonemployer allocations and the specified column totals included in the schedule of pension amounts by employer and nonemployer, 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 schedule of employer and nonemployer allocations and the specified column totals included in the schedule of pension amounts by employer and nonemployer 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 schedule of employer and nonemployer allocations and the specified column totals included in the schedule of pension amounts by employer and nonemployer.

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer and nonemployer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total employer pension expense excluding that attributable to employer-paid member contributions for the total of all participating entities for the Fund as of and for the year ended June 30, 2016, and in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the Fund as of and for the year ended June 30, 2016, and our report thereon, dated May 31, 2017, and expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of Fund management, the Board, Fund employers, nonemployer contributing entities, and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Greg S. Griffin
State Auditor

June 16, 2017

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(A Component Unit of the State of Georgia)

Schedule of Employer and Nonemployer Allocations

For the year ended June 30, 2016

<u>Employer</u>	<u>Employer Allocation Percentage</u>
Each County Participating in the Fund - Employer Share	0.000000 %
State's Proportionate Share	<u>0.671141 %</u>
Total for Each Participating County	<u><u>0.671141 %</u></u>
STATE OF GEORGIA (Nonemployer Contributing Entity)	<u><u>100.00000 %</u></u>
Total for All Entities	<u><u>100.00000 %</u></u>

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Schedule of Pension Amounts by Employer and Nonemployer

For the year ended June 30, 2016

Employer	Net Pension Liability (Asset)	Changes in Assumptions	Deferred Outflows of Resources		Total Deferred Inflows of Resources	Pension Expense Excluding that Attributable to Employer-Paid Member Contributions Proportionate Share of Plan Pension Expense
			Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Total Deferred Outflows of Resources		
Each County Participating in the Fund - Employer Share	\$ 0				\$	0
State's Proportionate Share	(70,171)					29,095
Total for Each Participating County	(70,171)				\$	29,095
STATE OF GEORGIA (Nonemployer Contributing Entity)	(10,455,457)	2,146,788	540,976	2,687,764	\$ 1,219,700	\$ 4,335,228
Total for All Entities	(10,455,457)	2,146,788	540,976	2,687,764	\$ 1,219,700	\$ 4,335,228

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Notes to Schedule of Employer and Nonemployer Allocations and
Schedule of Pension Amounts by Employer and Nonemployer

June 30, 2016

Note 1: Plan Description

The Judges of the Probate Courts Retirement Fund of Georgia (the 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*.

Each county in the state of Georgia has a judge of the probate court who is eligible to be a member of the Fund. The counties, as the employers of the members of the Fund, do not make contributions to the Fund. The State of Georgia provides nonemployer contributions to the Fund through the collection of court fines and forfeitures. These nonemployer contributions are recognized as revenue by the Fund when collected from the courts.

Note 2: Basis of Presentation

The Schedule of Employer and Nonemployer Allocations and Schedule of Pension Amounts by Employer and Nonemployer (the schedules) are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Note 3: Components of Collective Net Pension Liability

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	<u>(76,759,439)</u>
Net pension liability (asset)	<u>\$ (10,455,457)</u>

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

The collective 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	

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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 plan assets was 6.60% based on 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.

Discount Rate

The discount rate used to measure the collective total pension liability was 6.50%. 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 Collective Net Pension Liability to Changes in the Discount Rate

The following table presents the collective 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%)
Collective net pension liability (asset)	\$ <u>(3,836,533)</u>	<u>(10,455,457)</u>	<u>(16,132,881)</u>

Note 4: Special Funding Situation

The State of Georgia, although not the employer of the Fund’s members, makes contributions to the Fund through the collection of court fines and forfeitures as specified by O.C.G.A. §47-11-50 and §47-11-51. The State makes all these contributions to the Fund on behalf of the employers.

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June 30, 2016

Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

Since the employers of the Fund's members do not contribute directly to the Fund, there is no net pension liability to recognize for each employer. However, the notes to each employer's financial statements must disclose the portion of the nonemployer contributing entity's share of the collective net pension liability that is associated with that employer. In addition, each employer must recognize its portion of the collective pension expense of the State as well as recognize revenue contributions from the State in an equal amount.

Note 5: Allocation Methodology

GASB Statement No. 68 requires participating employers and nonemployer contributing entities to recognize their proportionate share of collective net pension liability and pension expense. These schedules are prepared to provide employers and nonemployer contributing entities with their calculated proportionate share.

As discussed in Note 4, the counties, as employers of the Fund's members, do not make contributions to the Fund; therefore, the proportionate share allocation for each employer is 0%. The proportionate share attributable to the State of Georgia, as the nonemployer contributing entity, is therefore 100%.

The amounts attributable to the State of Georgia, as the nonemployer contributing entity, have been allocated evenly to each employer participating in the Fund. The judges of the probate court of 148 of the 159 counties in Georgia are active members of the Fund as of June 30, 2016. (The 11 counties without an active member of the Fund are Atkinson, Berrien, Catoosa, Charlton, Crawford, Harris, Jeff Davis, McIntosh, Monroe, Peach and Seminole.) In addition to the 148 active member probate court judges, the Secretary/Treasurer of the Fund is a member of the Fund. There are, therefore, 149 employers in the Fund as of June 30, 2016. Because there are 149 employers, each employer's proportionate share allocation percentage is 0.671141% (1 divided by 149).

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Note 6: Collective Deferred Outflows of Resources and Deferred Inflows of Resources

The following table presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources for the year ended June 30, 2016:

	<u>Year of deferral</u>	<u>Amortization period</u>	<u>Beginning of year balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>End of year balance</u>
Deferred outflows of resources						
Change in assumptions	2014	5.23 years	\$ 2,342,686		725,290	1,617,396
	2016	4.8 years		668,706	139,314	529,392
Difference between projected and actual investment earnings	2014	5 years	(4,682,817)		(1,560,939)	(3,121,878)
	2015	5 years	542,603		135,651	406,952
	2016	5 years	<u> </u>	<u>4,069,877</u>	<u>813,975</u>	<u>3,255,902</u>
Net difference between projected and actual investment earnings (1)			<u>(4,140,214)</u>	<u>4,069,877</u>	<u>(611,313)</u>	<u>540,976</u>
Total deferred outflows of resources			<u>\$ (1,797,528)</u>	<u>4,738,583</u>	<u>253,291</u>	<u>2,687,764</u>
Deferred inflows of resources						
Difference between expected and actual experience	2014	5.23 years	\$ 183,078		56,681	126,397
	2015	5.0 years	492,758		123,190	369,568
	2016	4.8 years	<u> </u>	<u>914,191</u>	<u>190,456</u>	<u>723,735</u>
Total deferred inflows of resources			<u>\$ 675,836</u>	<u>914,191</u>	<u>370,327</u>	<u>1,219,700</u>
Net of deferred outflows of resources and deferred inflows of resources						<u>\$ 1,468,064</u>

(1) In accordance with paragraph 71b of GASB Statement No. 68, collective deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings in different measurement periods have been aggregated and included as a net collective deferred outflow of resources related to pensions.

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30, 2017	\$	(117,036)
2018		(117,036)
2019		929,076
2020		<u>773,060</u>
Total	\$	<u>1,468,064</u>

Changes in Proportion

The amounts shown in the two preceding tables do not include employer- or nonemployer-specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. Based on the allocation methodology discussed in Note 5, there were no changes in proportion for the year ended June 30, 2016.

Note 7: Collective Pension Expense

The components of collective pension expense for the year ended June 30, 2016, are shown in the following table:

Service cost		\$ 1,434,313
Interest on the total pension liability and net cash flow		4,206,592
Projected earnings on plan investments		(5,368,805)
Current period effect of benefit changes		4,210,396
Member contributions		(156,057)
Administrative expenses		125,825
Recognition (amortization) of deferred inflows and outflows of resources		
Change in assumptions		864,604
Difference between expected and actual experience		(370,327)
Difference between projected and actual investment earnings		<u>(611,313)</u>
Collective pension expense	\$	<u>4,335,228</u>