

Judges of the Probate Courts Retirement Fund of Georgia
Financial Statements
Fiscal Year Ended June 30, 2018
(With Independent Auditor's Report Thereon)



Cover photograph is the Fund's office building located in Griffin, 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

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

Atlanta, Georgia 30334-8400

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

Independent Auditor's Report

The Honorable Brian P. Kemp, 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, 2018, 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, 2018, 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.

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 21-26 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, 2019 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 Judges of the Probate Courts Retirement Fund's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in blue ink that reads "Greg S. Griffin". The signature is written in a cursive style with a horizontal line at the end.

Greg S. Griffin
State Auditor

May 31, 2019

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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, 2018

| | | |
|---|-------------------|-------------------|
| Assets: | | |
| Cash and cash equivalents | \$ | 2,326,227 |
| Receivables: | | |
| Interest, dividends and other investment income | \$ | 285,519 |
| Due from brokers for securities sold | 610,544 | 896,063 |
| Investments - at fair value: | | |
| Obligations: | | |
| Municipal bonds | \$ | 138,549 |
| U.S. Treasury obligations | 7,617,785 | |
| U.S. Agency obligations | 1,057,397 | |
| Corporate bonds/notes/debentures | | |
| Domestic | 6,462,407 | |
| International | 1,708,456 | |
| Asset-backed securities | | |
| Domestic | <u>3,639,137</u> | 20,623,731 |
| Equities: | | |
| Stocks: | | |
| Domestic | 50,565,753 | |
| International | <u>16,757,913</u> | <u>67,323,666</u> |
| Total investments | | <u>87,947,397</u> |
| Total assets | | 91,169,687 |
| Liabilities: | | |
| Due to brokers for securities purchased | | <u>60,029</u> |
| Net position restricted for pensions | \$ | <u>91,109,658</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, 2018

Additions:

Contributions:

| | | |
|-------------|----|-----------|
| Nonemployer | \$ | 1,454,921 |
| Members | | 198,080 |

Net investment income:

| | | | |
|---|----|------------------|------------------|
| Net increase in fair value of investments | \$ | 6,587,783 | |
| Interest, dividends, and other | | 1,980,557 | |
| Less investment expense | | <u>(774,851)</u> | <u>7,793,489</u> |

| | | | |
|-----------------|--|--|------------------|
| Total additions | | | <u>9,446,490</u> |
|-----------------|--|--|------------------|

Deductions:

| | | |
|---------------------------------|--|----------------|
| Benefit payments | | 4,436,786 |
| Refunds of member contributions | | 7,135 |
| Administrative expenses, net | | <u>105,750</u> |

| | | |
|------------------|--|------------------|
| Total deductions | | <u>4,549,671</u> |
|------------------|--|------------------|

| | | |
|------------------------------|--|-----------|
| Net increase in net position | | 4,896,819 |
|------------------------------|--|-----------|

Net position restricted for pensions:

| | | |
|-------------------|----|--------------------------|
| Beginning of year | | <u>86,212,839</u> |
| End of year | \$ | <u><u>91,109,658</u></u> |

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2018

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, 2018, participation in the Fund is as follows:

| | |
|--|------------|
| Inactive plan members and beneficiaries currently receiving benefits | 151 |
| Terminated members not yet receiving benefits, vested | 7 |
| Active plan members | 155 |
| Total | <u>313</u> |

Participating Employers and Other Contributing Entities

At June 30, 2018, the active members of the Fund were employed by 155 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.

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Members approved for retirement benefits prior to July 1, 2016, 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, 2016, 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 30 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 30 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

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June 30, 2018

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, 2017, calculated the minimum employer contribution for the fiscal year ended June 30, 2018, as \$748,083. The court fines, forfeitures and fees revenue of \$1,454,921 for the fiscal year ended June 30, 2018, 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.

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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 for 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, 2018:

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

Approximately 9.9% of the investments held in trust for pension benefits are invested in debt securities of the U.S. government and its instrumentalities, of which 8.7% are U.S. government debt securities and 1.2% 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, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.20%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

JUDGES OF THE PROBATE COURTS RETIREMENT FUND OF GEORGIA
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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

Pronouncements effective for the 2018 financial statements:

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* effective for fiscal years beginning after June 15, 2017. This Statement addressed accounting and financial reporting for OPEB plans that are provided to the employees of state and local governmental employers. There are no applicable reporting requirements for the Fund related to this Statement.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* effective for fiscal years beginning after June 15, 2017. This Statement addressed practice issues that have been identified during implementation and application of certain GASB Statements. A variety of topics are addressed including issues related to blending component units, goodwill, fair value measurement, and OPEB. The implementation of GASB Statement No. 85 did not impact the amounts recorded in the Fund's financial statements.

Pronouncements issued, but not yet effective:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* effective for fiscal years beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The Fund does not anticipate this statement to impact its financial statements and related reporting.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* effective for fiscal years beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Fund is in process of evaluating the impact of this pronouncement on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*, effective for fiscal years beginning after June 15, 2018. The purpose is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies

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which liabilities governments should include when disclosing information related to debt. The Fund is in the process of evaluating the impact of this pronouncement on its 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 \$3,817 at June 30, 2018, With an actual bank balance of \$55,631. 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 \$658 at June 30, 2018, 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, 2018, the Fund held \$2,321,752 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.

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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, 2018, 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, 2018

| Investment Type | Total Fair Value | AAA | AA | A | BBB | BB | Unrated |
|--|----------------------|------------------|----------------|------------------|------------------|---------------|----------------|
| Cash and Cash Equivalents Subject to Credit Risk: | | | | | | | |
| Short term investment funds | \$ 2,321,752 | | | | | | 2,321,752 |
| Debt Securities Subject to Credit Risk: | | | | | | | |
| Municipal bonds | \$ 138,549 | | 138,549 | | | | |
| U.S. Agency obligations | 1,057,397 | | 501,832 | | 251,729 | | 303,836 |
| Corporate debt | | | | | | | |
| Domestic | 6,462,407 | | | 1,952,766 | 4,416,986 | 92,655 | |
| International | 1,708,456 | 445,555 | 202,215 | 311,534 | 749,152 | | |
| Asset-backed securities | 3,639,137 | 3,434,081 | 102,095 | 102,961 | | | |
| Total Debt Securities Subject to Credit Risk | 13,005,946 | 3,879,636 | 944,691 | 2,367,261 | 5,417,867 | 92,655 | 303,836 |
| Debt Securities Not Subject to Credit Risk: | | | | | | | |
| U.S. Treasury obligations | 7,617,785 | | | | | | |
| Total Debt Securities | \$ 20,623,731 | | | | | | |

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

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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:

**Fair Value of Fixed Income Investments by Maturity Period-Specific Identification Method
Held at June 30, 2018**

| Investment type | Total Fair Value | Maturity Period | | | | |
|--|----------------------|--------------------|----------------|-------------------|------------------|--------------------|
| | | 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 | \$ 2,321,752 | 2,321,752 | | | | |
| Debt Securities Subject to Interest Rate Risk | | | | | | |
| Municipal bonds | \$ 138,549 | | | 138,549 | | |
| U.S. Treasury obligations | 7,617,785 | | | 4,019,838 | 3,597,947 | |
| U.S. Agency obligations | 1,057,397 | | | 501,832 | 42,428 | 513,137 |
| Corporate debt | | | | | | |
| Domestic | 6,462,407 | 104,984 | 339,579 | 3,510,850 | 2,506,994 | |
| International | 1,708,456 | | | 1,607,756 | 100,700 | |
| Asset-backed securities | 3,639,137 | | | 2,963,034 | 676,103 | |
| Total Debt Securities Subject to Interest Rate Risk | \$ 20,623,731 | 104,984 | 339,579 | 12,741,859 | 6,924,172 | 513,137 |

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, 2018, 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.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Fund's currency risk exposures, or exchange rate risks, primarily reside within the Fund's international investment holdings. The Fund does not have a formal policy for managing foreign currency risk. As of June 30, 2018, the Fund's investments that are classified as international are payable in U.S. dollars.

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

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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 Measured at Fair Value as of June 30, 2018

| 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 | \$ 2,321,752 | | 2,321,752 | |
| Debt Securities: | | | | |
| Municipal bonds | \$ 138,549 | | 138,549 | |
| U.S. Treasury obligations | 7,617,785 | | 7,617,785 | |
| U.S. Agency obligations | 1,057,397 | | 1,057,397 | |
| Corporate debt | | | | |
| Domestic | 6,462,407 | | 6,462,407 | |
| International | 1,708,456 | | 1,708,456 | |
| Asset-backed securities | 3,639,137 | | 3,639,137 | |
| Equities: | | | | |
| Stocks | | | | |
| Domestic | 50,565,753 | 50,565,753 | | |
| International | 16,757,913 | 16,650,204 | 107,709 | |
| Total Investments by fair value level | \$ 87,947,397 | 67,215,957 | 20,731,440 | |

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Notes to Financial Statements

June 30, 2018

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, 2018.

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, 2018, were as follows:

| | |
|--|------------------------|
| Total pension liability | \$ 73,304,133 |
| Plan fiduciary net position | <u>(91,109,658)</u> |
| Net pension liability (asset) | \$ <u>(17,805,525)</u> |
| | |
| Plan fiduciary net position as a percentage of total pension liability | 124.29% |

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, with update procedures used to roll forward the total pension liability to June 30, 2018. The roll forward calculation adds the normal cost (also called service costs), subtracts the actual benefit payments and refunds for the plan year, and then applies the discount rate for the year. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.50% |
| Salary increases | N/A |
| Investment rate of return | 6.50%, net of pension plan investment expense, including inflation |

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

Notes to Financial Statements

June 30, 2018

Mortality rates were updated to the RP 2014 Healthy Mortality Table with generational mortality projection using the Buck modified MP 2017 scale for healthy lives and the RP 2014 Disabled Retiree Mortality Table with generational mortality projection using the Buck modified MP 2017 scale for disabled lives.

The long-term expected rate of return on pension plan investments was calculated by the Fund's investment manager as 6.67% 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 6.50% 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 geometric 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 % | 5.3 % |
| Developed Market Ex U.S. Equities | 10 | 5.0 |
| Emerging Market Equities | 5 | 6.7 |
| U.S. Intermediate Taxable Fixed Income | 25 | 0.6 |
| | 100 % | |

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 6.67%, but assuming an annual rate of inflation of 2.5%. 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.

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

Notes to Financial Statements

June 30, 2018

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:

| | <u>1% Decrease (5.50%)</u> | <u>Current discount rate (6.50%)</u> | <u>1% Increase (7.50%)</u> |
|---|------------------------------------|--|------------------------------------|
| Employers' and nonemployers' net pension liability (asset) | \$ <u>(10,730,127)</u> | <u>(17,805,525)</u> | <u>(23,885,664)</u> |

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)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|------------------------|---------------------|---------------------|---------------------|---------------------|
| Total pension liability | \$ 73,304,133 | 69,530,681 | 66,303,982 | 60,621,555 | 57,834,774 |
| Plan fiduciary net position | <u>91,109,658</u> | <u>86,212,839</u> | <u>76,759,439</u> | <u>77,933,918</u> | <u>75,893,018</u> |
| Employers' and nonemployers' net pension liability (asset) | <u>\$ (17,805,525)</u> | <u>(16,682,158)</u> | <u>(10,455,457)</u> | <u>(17,312,363)</u> | <u>(18,058,244)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 124.29% | 123.99% | 115.77% | 128.56% | 131.22% |
| Covered-employee payroll | N/A | N/A | 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 | 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)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-----------------|--------------|--------------|--------------|--------------|
| Total pension liability: | | | | | |
| Service cost | \$ 1,634,988 | 1,598,011 | 1,434,313 | 1,360,365 | 1,443,097 |
| Interest | 4,481,341 | 4,276,618 | 4,206,592 | 4,008,009 | 4,245,535 |
| Changes of benefit terms | 2,101,044 | 2,000,255 | 4,210,396 | 1,910,093 | (8,646,082) |
| Differences between expected and actual experience | 0 | (3,841) | (914,191) | (615,948) | (296,440) |
| Changes of assumptions | 0 | (428,598) | 668,706 | 0 | 3,793,266 |
| Benefit payments | (4,436,786) | (4,205,305) | (3,916,867) | (3,863,303) | (3,823,997) |
| Refunds of member contributions | (7,135) | (10,441) | (6,522) | (12,435) | 0 |
| Net change in total pension liability | 3,773,452 | 3,226,699 | 5,682,427 | 2,786,781 | (3,284,621) |
| Total pension liability - beginning | 69,530,681 | 66,303,982 | 60,621,555 | 57,834,774 | 61,119,395 |
| Total pension liability - ending (a) | 73,304,133 | 69,530,681 | 66,303,982 | 60,621,555 | 57,834,774 |
| Plan fiduciary net position: | | | | | |
| Contributions - nonemployer | 1,454,921 | 1,466,740 | 1,419,750 | 1,317,037 | 1,283,318 |
| Contributions - member | 198,080 | 190,947 | 156,057 | 156,534 | 161,527 |
| Net investment income | 7,793,489 | 12,145,217 | 1,298,928 | 4,546,559 | 12,340,826 |
| Benefit payments | (4,436,786) | (4,205,305) | (3,916,867) | (3,863,303) | (3,823,997) |
| Refund of member contributions | (7,135) | (10,441) | (6,522) | (12,435) | 0 |
| Administrative expense | (105,750) | (133,758) | (125,825) | (103,492) | (78,625) |
| Net change in plan fiduciary net position | 4,896,819 | 9,453,400 | (1,174,479) | 2,040,900 | 9,883,049 |
| Plan fiduciary net position - beginning | 86,212,839 | 76,759,439 | 77,933,918 | 75,893,018 | 66,009,969 |
| Plan fiduciary net position - ending (b) | 91,109,658 | 86,212,839 | 76,759,439 | 77,933,918 | 75,893,018 |
| Net pension liability (asset) - ending (a) - (b) | \$ (17,805,525) | (16,682,158) | (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)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|--------------|-----------|-------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Actuarially determined employer and nonemployer contribution | \$ 748,083 | 711,752 | 213,330 | 102,667 | 1,343,982 | 1,291,074 | 1,180,024 | 1,186,191 | 1,047,068 | 841,975 |
| Contributions in relation to the actuarially determined contribution | 1,454,921 | 1,466,740 | 1,419,750 | 1,317,037 | 1,283,318 | 1,289,959 | 1,118,766 | 1,147,752 | 1,133,220 | 1,212,372 |
| Contribution deficiency (excess) | \$ (706,838) | (754,988) | (1,206,420) | (1,214,370) | 60,664 | 1,115 | 61,258 | 38,439 | (86,152) | (370,397) |
| 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>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return, net of investment expense | 8.20% | 17.00% | 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.

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

Notes to Required Supplementary Information

June 30, 2018

(Unaudited)

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.

Effective January 1, 2017, the annual earnings limit was increased from \$40,326 to \$41,536. In addition, two 1.5% cost of living adjustments each were granted to retirees and surviving spouses effective January 1, 2017 and July 1, 2017.

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

Notes to Required Supplementary Information

June 30, 2018

(Unaudited)

Effective January 1, 2018, the annual earnings limit was increased from \$41,536 to \$42,782. In addition, two 1.5% cost of living adjustments each were granted to retirees and surviving spouses effective January 1, 2018 and July 1, 2018.

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%.

Beginning in fiscal year 2017, the mortality table for healthy lives was changed to the RP 2014 Health Mortality Table with generational mortality using the Buck modified MP 2017 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 2017 scale.

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, 2017 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, open |
| Remaining amortization period | 30 years |
| Asset valuation method | Actuarial value |
| Inflation rate | 2.5% |
| Salary increases | N/A |
| Investment rate of return | 6.5%, net of pension plan investment expense, including inflation |

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**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 Brian P. Kemp, 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 Pension Fund), a component unit of the State of Georgia, which include the statement of fiduciary net position as of June 30, 2018, 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 Pension Fund's basic financial statements, and have issued our report thereon dated May 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pension Fund'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pension 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. 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 the Pension 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*.

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

May 31, 2019

**SECTION III – AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND
QUESTIONED COSTS**

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PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS-949-17-01

Control Categories:

Internal Control Impact:

Compliance Impact:

Continue to Improve Internal Control Framework

Accounting Controls Overall

Significant Deficiency

Nonmaterial Noncompliance

Finding Status:

Previously Reported Corrective Action Plan Implemented

FS-949-16-01

Control Categories:

Internal Control Impact:

Compliance Impact:

Improve Documentation and Performance of Controls

Accounting Controls Overall

Significant Deficiency

Nonmaterial Noncompliance

Finding Status:

Previously Reported Corrective Action Plan Implemented