

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

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SECTION I - FINANCIAL

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DEPARTMENT OF AUDITS AND ACCOUNTS

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GREG S. GRIFFIN
STATE AUDITOR
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Magistrates Retirement Fund of Georgia, a component unit of the State of Georgia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Magistrates Retirement Fund of Georgia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Magistrates Retirement Fund of Georgia, as of June 30, 2014, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

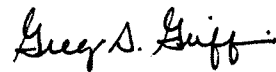
Accounting principles generally accepted in the United States of America require that the schedule of changes in employers' and nonemployers' net pension liability, schedule of employers' and nonemployers' net pension liability, schedule of employer and nonemployer contributions, and schedule of investment returns on pages 18 - 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

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

Respectfully submitted,



Greg S. Griffin
State Auditor

June 30, 2015

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BASIC FINANCIAL STATEMENTS

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Statement of Fiduciary Net Position

June 30, 2014

Assets:			
Cash and cash equivalents		\$	428,539
Receivables:			
Interest and dividends receivable			11,861
Investments - at fair value:			
Obligations:			
Mutual funds		\$	5,915,973
Equities:			
Mutual funds	\$	11,780,674	
Stocks		<u>2,578</u>	<u>11,783,252</u>
Total investments			<u>17,699,225</u>
Net position restricted for pensions		\$	<u>18,139,625</u>

See accompanying notes to financial statements.

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2014

Additions:		
Contributions:		
Nonemployer	\$	1,666,281
Member		151,155
Net investment income:		
Net increase in fair value of investments	\$	2,156,499
Interest, dividends, and other		257,964
Less investment expense		(66,801)
		<u>2,347,662</u>
Total additions		<u>4,165,098</u>
Deductions:		
Benefit payments		5,989
Administrative expenses, net		<u>98,767</u>
Total deductions		<u>104,756</u>
Net increase in net position		4,060,342
Net position restricted for pensions:		
Beginning of year		<u>14,079,283</u>
End of year	\$	<u><u>18,139,625</u></u>

See accompanying notes to financial statements.

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2014

(1) Plan Description

The Magistrates Retirement Fund of Georgia (Fund) was created July 1, 2006, by an act of the Georgia Legislature (the Act) to provide retirement benefits for chief magistrates of the magistrates courts who qualify under the Act. The Fund administers a cost-sharing, multiple-employer defined benefit pension plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The Board of Commissioners of the Fund is comprised of seven members and consists of the Governor or his designee, an appointee of the Governor other than the Attorney General, and five full-time chief magistrates who are members of the Fund.

(a) Eligibility and Membership

Individuals eligible to apply for membership in the Fund are defined in the *Official Code of Georgia Annotated* (O.C.G.A.) 47-25-3 and generally include all duly qualified and commissioned full-time chief magistrates of a county of the State of Georgia and any person serving as a secretary-treasurer of the Board of Commissioners of the Fund.

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

Inactive members and beneficiaries currently receiving benefits	1
Terminated members not yet receiving benefits, vested	0
Active plan members	125
Total	126

(b) Participating Employers and Other Contributing Entities

At June 30, 2014, the active members of the Fund were employed by 125 employers. The Fund had one nonemployer contributing entity, the State of Georgia.

(c) Retirement Benefits

The Fund provides retirement as well as disability and death benefits. Title 47 of the O.C.G.A. assigns the authority to establish and amend the provisions of the Fund to the State Legislature. Members are eligible for retirement at age 60 and must have served at least eight years as a regularly qualified and commissioned chief magistrate or as a secretary-treasurer of the Board of Commissioners of the Fund. A member must have terminated his or her official capacity as a chief magistrate or as a secretary-treasurer of the Board to receive benefits.

A member who is approved for retirement benefits is paid a monthly benefit equal to 4% of his or her average final monthly compensation (subject to a salary cap) for each year served up to, but not exceeding, a total of twenty years, with exceptions.

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2014

(d) Death and Disability Benefits

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

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

(e) Terminations

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

(f) Contributions

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

Member Contributions: Member contribution requirements are set forth in O.C.G.A. 47-25-41 and are not actuarially determined. Members must contribute \$105 per month as dues.

Magistrates Court Fees: For each civil matter or proceeding filed in magistrate courts, \$3 is collected by the court and remitted directly to the Fund in accordance with O.C.G.A. 47-25-60. These court fees are considered nonemployer contributions made by the State of Georgia.

In accordance with O.C.G.A. 47-20-10, the court fees are considered employer contributions for the purpose of determining whether the Fund has met minimum funding requirements. This statute also prohibits any action to grant a benefit increase until such time as the minimum annual contribution requirements meet or exceed legislative requirements. The actuarial valuation as of July 1, 2013, calculated the minimum employer contribution for the fiscal year ended June 30, 2014, as \$0. The court fees revenue of \$1,666,281 for the fiscal year ended June 30, 2014, meets the minimum required fund contribution.

(g) Administrative Expenses

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

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2014

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

(a) Basis of Accounting

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

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

(b) Reporting Entity

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

(c) Cash and Cash Equivalents

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

(d) Investments

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

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

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2014

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

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

<u>Asset class</u>	<u>Target allocation</u>
Fixed income	30% - 50%
Equities	50% - 70%
Cash and cash equivalents	0% - 15%
Total	<u>100%</u>

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, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.33%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(e) Use of Estimates

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

(3) Investment Program

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

MAGISTRATES RETIREMENT FUND OF GEORGIA
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Notes to Financial Statements

June 30, 2014

(a) Cash and Cash Equivalents

The carrying amount of the Fund's operating account totaled \$309,204 at June 30, 2014, with an actual bank balance of \$310,246. The Fund's cash balance of \$250,000 is fully insured through the Federal Deposit Insurance Corporation, an independent agency of the U.S. Government. The remaining cash balance of \$60,246 is collateralized with securities held by the pledging financial institution, or by its trust department or agent, in the Fund's name.

Short-term highly liquid financial securities are authorized in money market funds rated by a nationally recognized rating agency, or if unrated, are deemed equivalent to top tier by the investment advisor. At June 30, 2014, the fund held \$119,335 in money market mutual funds. This investment is classified as a cash equivalent on the Fund's Statement of Fiduciary Net Position.

(b) Investments

Fixed income investments are maintained in mutual funds. At June 30, 2014, the Fund held debt mutual funds of \$5,915,973.

Equity securities are also authorized (in statutes) for investment as a complement to the Fund's fixed income portfolio and as a long-term inflation hedge. By statute, no more than 75% of the total invested assets on a historical cost basis may be placed in equities. 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 those listed on a domestic stock exchange, traded in the over-the-counter market or are traded on a domestic electronic stock exchange. Equity investments are maintained in the following instruments:

- Mutual funds. At June 30, 2014, the Fund held equity mutual funds of \$11,780,674.
- Domestic equities are those securities considered by the O.C.G.A. to be domiciled in the United States. At June 30, 2014, the Fund held domestic equities of \$2,578.

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 with a minimum rating of Baa3/BBB- at the time purchase as rated by a major fixed income rating organization, or if unrated, deemed equivalent to investment grade as rated by the investment advisor. At June 30, 2014, the investments held by the Fund in money market mutual funds and debt mutual funds have not been rated by Standard & Poor's or by Moody's Investor Services, which are nationally recognized statistical rating organizations.

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2014

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While the Fund does not have a formal policy for managing interest rate risk, the Fund's investment policy requires that the weighted average maturity of the portfolio of fixed income investments will not exceed 10 years. The following table provides information about the Fund's interest rate risk:

<u>Debt Security Type</u>	<u>Total Fair Value</u>	<u>Maturity Period</u>			
		<u>Less than 3 Months</u>	<u>4 - 12 Months</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>
Money market mutual funds	\$ 119,335	\$ 119,335	\$ -	\$ -	\$ -
Mutual funds - debt	<u>5,915,973</u>	<u>-</u>	<u>-</u>	<u>3,840,556</u>	<u>2,075,417</u>
Total	<u>\$ 6,035,308</u>	<u>\$ 119,335</u>	<u>\$ -</u>	<u>\$ 3,840,556</u>	<u>\$ 2,075,417</u>

(4) Net Pension Liability of Employers and Nonemployers

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

Total pension liability	\$ 12,005,486
Plan fiduciary net position	<u>18,139,625</u>
Employers' and nonemployers' net pension liability (asset)	<u>\$ (6,134,139)</u>
Plan fiduciary net position as a percentage of the total pension liability	151.09%

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

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

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

MAGISTRATES RETIREMENT FUND OF GEORGIA
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Notes to Financial Statements

June 30, 2014

The long-term expected rate of return on pension plan investments was calculated by the Fund's investment manager as 6.43% using a Monte Carlo simulation in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. The Fund's administrator determined that 7.00% was a reasonable assumption for the long-term rate of return on plan assets based on the calculation by the Fund's investment manager. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table.

Asset class	Target allocation	Long-term expected real rate of return*
Domestic fixed income	20 %	2.7 %
International fixed income	10	4.0
Domestic large equities	40	7.5
Domestic mid equities	5	8.4
Domestic small equities	5	8.6
Global equities	20	8.2
Total	100	

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

Discount Rate: The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumes revenues associated with court fees 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 employers and nonemployers, calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

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

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

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2014

(5) Subsequent Events

Effective July 1, 2014, Chapter 25 of Title 47 of the O.C.G.A. was amended to revise the methodology for computing the average final monthly compensation used to compute benefits by establishing a monthly maximum based on the population of the member's county. In addition, membership dues were changed from a flat rate of \$105 per month to 3.42% of the maximum average final compensation amount.

Effective July 1, 2014, Chapter 25 of Title 47 of the O.C.G.A. was amended to allow part-time chief magistrates to become members of the Fund.

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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

MAGISTRATES RETIREMENT FUND OF GEORGIA

(A Component Unit of the State of Georgia)

Required Supplementary Information

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

For the year ended June 30

(Unaudited)

	<u>2014</u>
Total pension liability:	
Service cost	\$ 1,320,295
Interest	675,478
Changes of benefit terms	1,170,096
Differences between expected and actual experience	(173,451)
Changes of assumptions	686,668
Benefit payments	(5,989)
Refunds of member contributions	-
Net change in total pension liability	<u>3,673,097</u>
Total pension liability - beginning	<u>8,332,389</u>
Total pension liability - ending (a)	<u>12,005,486</u>
Plan fiduciary net position:	
Contributions - nonemployer	1,666,281
Contributions - member	151,155
Net investment income	2,347,662
Miscellaneous	-
Benefit payments	(5,989)
Refunds of member contributions	-
Administrative expense	(98,767)
Net change in plan fiduciary net position	<u>4,060,342</u>
Plan fiduciary net position - beginning	<u>14,079,283</u>
Plan fiduciary net position - ending (b)	<u>18,139,625</u>
Net pension liability (asset) - ending (a) - (b)	\$ <u><u>(6,134,139)</u></u>

MAGISTRATES RETIREMENT FUND OF GEORGIA

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Required Supplementary Information

Schedule of Employers' and Nonemployers' Net Pension Liability

For the year ended June 30

(Unaudited)

	<u>2014</u>
Total pension liability	\$ 12,005,486
Plan fiduciary net position	18,139,625
Employers' and nonemployers' net pension liability (asset)	\$ <u>(6,134,139)</u>
Plan fiduciary net position as a percentage of the total pension liability	151.09%
Covered-employee payroll	N/A
Employers' and nonemployers' net pension liability as a percentage of covered-employee payroll	N/A

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

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

MAGISTRATES RETIREMENT FUND OF GEORGIA
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Required Supplementary Information

Schedule of Employer and Nonemployer Contributions

For the year ended June 30

(Unaudited)

	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer and nonemployer contribution	\$ -	\$ 814,380	\$ 825,300	\$ 820,155	\$ 839,254	\$ 587,777	\$ 610,141	\$ 610,141
Contributions in relation to the actuarially determined contribution	1,666,281	1,681,846	1,580,303	1,739,235	1,434,683	1,446,566	1,481,714	1,396,879
Contribution deficiency (excess)	<u>\$ (1,666,281)</u>	<u>\$ (867,466)</u>	<u>\$ (755,003)</u>	<u>\$ (919,080)</u>	<u>\$ (595,429)</u>	<u>\$ (858,789)</u>	<u>\$ (871,573)</u>	<u>\$ (786,738)</u>
Covered-employee payroll	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

Note: Schedule is intended to show information for 10 years. The Fund was created July 1, 2006; therefore, 10 years of information is not available.

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

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedule of Investment Returns

For the year ended June 30

(Unaudited)

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	17.33%

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.

MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Required Supplementary Information

June 30, 2014

(Unaudited)

(1) Schedule of Changes in Net Pension Liability

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

(2) Schedule of Employer and Nonemployer Contributions

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

(3) Actuarial Methods and Assumptions

Benefit changes:

- Maximum average compensation used to calculate retirement benefits changed from a uniform maximum of \$42,781 to maximums that vary according to population size, ranging from \$42,781 to \$86,974.
- Member dues increased from \$105 per month to 3.42% of maximum average monthly compensation.
- Part-time chief magistrates are eligible to participate in the plan effective July 1, 2014. No past service benefits were granted to these members.

Changes of assumptions:

- The mortality table for healthy lives was changed from the IRS 2013 Static Mortality Table (separate for annuitants and non-annuitants) to the RP 2014 Healthy Mortality Table with generational mortality projection using Scale MP 2014.
- The mortality table for disabled lives was changed to the RP 2014 Disabled Retiree Mortality Table with generational mortality projection using Scale MP 2014.
- The load for administrative expenses was changed from \$50,000 per annum to \$100,000 per annum to better reflect the actual administration expenses expected to be paid from the Fund.

MAGISTRATES RETIREMENT FUND OF GEORGIA
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Notes to Required Supplementary Information

June 30, 2014

(Unaudited)

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

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

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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 Nathan Deal, Governor of Georgia
Members of the General Assembly of the State of Georgia
Members of the Magistrates Retirement Fund of Georgia
and
Mr. Robert Carter, Secretary/Treasurer

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Magistrates 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 Magistrates Retirement Fund of Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magistrates Retirement Fund of Georgia's internal control.

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

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

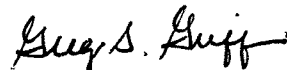
Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Greg S. Griffin
State Auditor

June 30, 2015

GSG:cl

SECTION III – SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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MAGISTRATES RETIREMENT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Schedule of Prior Year Findings and Questioned Costs

For the Year Ended June 30, 2014

FS-991-13-01 Forms Submitted Late to the State Accounting Office

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

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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

June 30, 2015

Members of the Board of the Magistrates Retirement Fund of Georgia
and
Mr. Robert Carter, Secretary/Treasurer

We have audited the basic financial statements of the Magistrates Retirement Fund of Georgia as of and for the year ended June 30, 2014, and have issued our report thereon dated June 30, 2015. In planning and performing our audit of the basic financial statements of the Magistrates Retirement Fund of Georgia, 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, we considered the Magistrates Retirement Fund of Georgia's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Magistrates Retirement Fund of Georgia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magistrates Retirement Fund of Georgia's internal control.

During our audit we noted a matter involving internal control and/or another operational matter that is presented for your consideration. This comment and recommendation, all of which have been discussed with the appropriate members of management, is intended to improve internal control or result in other operating efficiencies and is summarized on the attached schedule of observations.

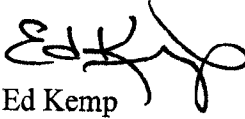
The Magistrates Retirement Fund of Georgia's written responses to our comment and recommendation has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Our audit procedures are designed primarily to enable us to form opinions on the basic financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Magistrates Retirement Fund of Georgia's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management of the Magistrates Retirement Fund of Georgia, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

A handwritten signature in black ink, appearing to read 'Ed Kemp', with a stylized flourish at the end.

Ed Kemp
Deputy Director

GSG:cl

MAGISTRATES RETIREMENT FUND OF GEORGIA
SCHEDULE OF OBSERVATIONS
YEAR ENDED JUNE 30, 2014

ML-991-14-01

Ineffective Change Management and Logical Access Controls

Observation

The Magistrates Retirement Fund of Georgia (MRF) did not consistently follow policies and procedures for change management and logical access controls in place over its financial applications. Our review of the established internal control structure associated with certain financial applications at MRF revealed deficiencies in change management and logical access controls designed to protect financial information from manipulation, corruption, or loss and to ensure financial information is processed accurately. The change management and logical access deficiencies were due to informal policies and procedures and inconsistent enforcement and compliance with existing policies and procedures.

Recommendation

Management should formalize and consistently enforce their policies and procedures to ensure the integrity and accuracy of the information used within the financial statements.

Views of Responsible Officials and Corrective Action Plans

Management understands the issues related to ineffective logical access and change management controls and will formalize and enforce its policies and procedures to address change management documentation and monitoring and strengthen logical access controls.

Responsible Officials

Robert Carter, Executive Director

Implementation Date

7/31/2015