

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

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SECTION I - FINANCIAL



DEPARTMENT OF AUDITS AND ACCOUNTS

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Magistrates Retirement Fund of Georgia (the Fund), a component unit of the State of Georgia, as of and for the year ended June 30, 2015, 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, 2015, 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 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 16 - 19 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 August 23, 2016 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Respectfully submitted,



Greg S. Griffin
State Auditor

August 23, 2016

GSG:bsw

BASIC FINANCIAL STATEMENTS

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

Statement of Fiduciary Net Position

June 30, 2015

Assets:			
Cash and cash equivalents		\$	627,295
Receivables:			
Interest and dividends receivable			12,042
Investments - at fair value:			
Obligations:			
Mutual funds		\$	7,068,343
Equities:			
Mutual funds	\$	12,534,542	
Stocks	2,578	<u>12,537,120</u>	
Total investments			<u>19,605,463</u>
Total assets			<u>20,244,800</u>
Liabilities:			
Withholdings payable			<u>12,575</u>
Total liabilities			<u>12,575</u>
Net position restricted for pensions		\$	<u><u>20,232,225</u></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, 2015

Additions:

Contributions:

Nonemployer	\$	1,563,301
Member		169,399

Net investment income:

Net increase in fair value of investments	\$	274,773	
Interest, dividends, and other		307,388	
Less investment expense		(71,228)	510,933

Total additions		2,243,633
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Deductions:

Benefit payments		91,519
Refunds of member contributions		14,328
Administrative expenses, net		45,186

Total deductions		151,033
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Net increase in net position		2,092,600
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Net position restricted for pensions:

Beginning of year		18,139,625
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End of year	\$	20,232,225
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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, 2015

Note 1: Plan Description

The Magistrates Retirement Fund of Georgia (the Fund) was created July 1, 2006, by the Georgia General Assembly to provide retirement benefits to chief magistrates of the magistrate courts of the State of Georgia. The Fund administers a cost-sharing, multiple-employer defined benefit pension plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*.

The 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; and five full-time chief magistrates who are members of the Fund. 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.) 47-25-40 and generally include all duly qualified and commissioned magistrates of a county of the State of Georgia and any person serving as secretary-treasurer of the Board of Commissioners.

As of June 30, 2015, participation in the Fund is as follows:

Inactive plan members and beneficiaries currently receiving benefits	9
Active plan members	<u>124</u>
Total	<u><u>133</u></u>

Participating Employers and Other Contributing Entities

At June 30, 2015, the active members of the Fund were employed by 124 employers. The Fund also had 1 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 are eligible for retirement at age 60 and must have served at least eight years in a position eligible for membership in 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 20 years, with exceptions.

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

Notes to Financial Statements

June 30, 2015

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. 47-25-41 and are not actuarially determined. Members must contribute 3.42% of their salary each month, subject to a limit that is based on the population of the member's county.

Nonemployer Contributions: In accordance with O.C.G.A. 47-25-60, the State of Georgia provides nonemployer contributions to the Fund through the collection of court fees. For each civil matter or proceeding filed in magistrate courts, \$3 is collected by the court and remitted directly to the Fund.

The court 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, 2014, calculated the minimum employer contribution for the fiscal year ended June 30, 2015, as \$0. The court fees revenue of \$1,563,301 for the fiscal year ended June 30, 2015, meets the minimum required fund contribution.

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

Notes to Financial Statements

June 30, 2015

Administrative Expenses

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

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

Basis of Accounting

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

Reporting Entity

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

Cash and Cash Equivalents

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

Investments

Investments are reported at fair value. 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 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.

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

Notes to Financial Statements

June 30, 2015

The Fund's policy in regard to the allocation of invested assets is established on a cost basis in compliance with State law. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following was the Fund's adopted asset allocation policy as of June 30, 2015:

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

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, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 3.07%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Use of Estimates

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

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 and the Fund's investment policy authorize the Fund to invest in a variety of short-term and long-term securities as follows:

Cash and Cash Equivalents

The carrying amount of the Fund's operating account totaled \$57,454 at June 30, 2015, with an actual bank balance of \$57,507. The Fund's cash balance is fully insured through the Federal Deposit Insurance 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, 2015, the Fund held \$569,841 in money market mutual funds.

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

Notes to Financial Statements

June 30, 2015

Investments

Fixed income investments are maintained in mutual funds. At June 30, 2015, the Fund held debt mutual funds of \$7,068,343.

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

The equity portfolio is managed by the Fund in conjunction with independent advisors. Buy/sell decisions are based on securities meeting rating criteria established by the investment policy of the Fund. Equity trades are approved and executed by the independent advisors. Common stocks eligible for investment must meet the Objectives and Guidelines of the Fund's investment policy. State law limits the total investment in equity securities to 75% of the total invested assets calculated on a historical cost basis.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Fund. State law limits investments to investment grade securities. The Fund's investment policy requires that purchases of bonds be restricted to bonds rated as investment grade rated BAA (or equivalent) or better as defined by a national 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. At June 30, 2015, the investments held by the Fund in money market mutual funds and debt mutual funds have not been rated by Standard & Poor's, which is a nationally recognized statistical rating organization.

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:

<u>Debt Security Type</u>	<u>Total Fair Value</u>	<u>Maturity Period</u>				
		<u>Less than 3 Months</u>	<u>4 - 12 Months</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>More than 10 Years</u>
Money market mutual funds	\$ 569,841	569,841				
Mutual funds - debt	7,068,343		1,211,358	2,391,175	1,391,201	2,074,609
Total	\$ 7,638,184	569,841	1,211,358	2,391,175	1,391,201	2,074,609

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

Notes to Financial Statements

June 30, 2015

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, 2015, were as follows:

Total pension liability	\$	14,287,045
Plan fiduciary net position		(20,232,225)
Net pension liability (asset)		(5,945,180)

Plan fiduciary net position as a percentage of total pension liability	141.61%
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Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%	
Salary increases	N/A	
Investment rate of return	7.00%, net of pension plan investment expense, including inflation	

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

The long-term expected rate of return on pension plan investments was calculated by the Fund's investment manager as 6.43% 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:

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

Notes to Financial Statements

June 30, 2015

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%, based on the expected long-term rate of return on pension investments of 6.43%, but assuming an annual rate of inflation of 3.0%. The projection of cash flows used to determine the discount rate assumes revenues will remain level. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the net pension liability of the Fund, calculated using the discount rate of 7.00%, 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 (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%)
Employer's and nonemployers' net pension liability (asset)	\$ (4,231,886)	(5,945,180)	(7,387,637)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

MAGISTRATES 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>2015</u>	<u>2014</u>
Total pension liability	\$ 14,287,045	\$ 12,005,486
Plan fiduciary net position	20,232,225	18,139,625
Employers' and nonemployers' net pension liability (asset)	<u>\$ (5,945,180)</u>	<u>\$ (6,134,139)</u>
Plan fiduciary net position as a percentage of the total pension liability	141.61%	151.09%
Covered-employee payroll	N/A	N/A
Employers' and nonemployers' net pension liability as a percentage of covered-employee payroll	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.

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)

	2015		2014
Total pension liability:			
Service cost	\$ 1,342,981	\$	1,320,295
Interest	930,688		675,478
Changes of benefit terms	0		1,170,096
Differences between expected and actual experience	113,737		(173,451)
Changes of assumptions	0		686,668
Benefit payments	(91,519)		(5,989)
Refunds of member contributions	(14,328)		0
Net change in total pension liability	2,281,559		3,673,097
Total pension liability - beginning	12,005,486		8,332,389
Total pension liability - ending (a)	14,287,045		12,005,486
 Plan fiduciary net position:			
Contributions - nonemployer	1,563,301		1,666,281
Contributions - member	169,399		151,155
Net investment income	510,933		2,347,662
Miscellaneous	0		0
Benefit payments	(91,519)		(5,989)
Refund of member contributions	(14,328)		0
Administrative expense	(45,186)		(98,767)
Net change in plan fiduciary net position	2,092,600		4,060,342
Plan fiduciary net position - beginning	18,139,625		14,079,283
Plan fiduciary net position - ending (b)	20,232,225		18,139,625
Net pension liability (asset) - ending (a) - (b)	\$ (5,945,180)	\$	(6,134,139)

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 auditors' report.

MAGISTRATES 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)

	2015	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	\$ 1,563,301	\$ 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)	\$ (1,563,301)	\$ (1,666,281)	\$ (867,466)	\$ (755,003)	\$ (919,080)	\$ (595,429)	\$ (858,789)	\$ (871,573)	\$ (786,738)
Covered-employee payroll	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

Note: Schedule is intended to show information for 10 years. The Fund was created July 1, 2006; and 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>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	3.07%	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, 2015

(Unaudited)

Note 1: Schedule of Changes in Net Pension Liability

The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Fund.

Note 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.

Note 3: Actuarial Methods and Assumptions

Benefit changes: During fiscal year 2014, the 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 became eligible to participate in the plan effective July 1, 2014. No past service benefits were granted to these part-time chief magistrates.

There were no benefit changes in fiscal year 2015.

Changes of assumptions: During 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 for healthy lives and to RP 2014 Disabled Retiree Mortality Table with generational mortality projection using Scale MP 2014 for disabled lives. In addition, the load for administrative expenses was changed from \$50,000 to \$100,000 per annum to better reflect the actual administration expenses expected to be paid from the Fund.

There were no changes of assumptions in fiscal year 2015.

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, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Actuarial value

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

Notes to Required Supplementary Information

June 30, 2015

(Unaudited)

Salary increases	N/A
Investment rate of return	7.0%, 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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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

The Honorable Nathan Deal, Governor of Georgia
Members of the General Assembly of the State of Georgia
Board of Commissioners of the Magistrates 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 Magistrates Retirement Fund of Georgia (the Fund), a component unit of the State of Georgia, which include the statement of fiduciary net position as of June 30, 2015, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated August 23, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. 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

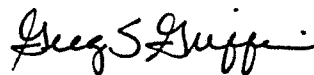
As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

We noted certain matters that we have reported to management of the Fund in a separate letter dated August 23, 2016.

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

August 23, 2016

GSG:bsw

RECEIVED

OCT 24 2016



BY: _____

DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2180

August 23, 2016

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

We have audited the financial statements of the Magistrates Retirement Fund of Georgia (the Fund) for the year ended June 30, 2015. Professional standards require that we communicate to you significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the organization are described in Note 2 to the financial statements. The application of existing policies was not changed during 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedules of immaterial uncorrected misstatements summarize uncorrected misstatements of each opinion unit. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

Management has provided certain representations that are included in the attached management representation letter dated August 23, 2016.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to the onset of the audit process. However, these discussions occurred in the normal course of our professional relationship.

We noted certain other matters involving the internal control and operations of the organization that were presented in the attached management letter dated August 23, 2016.

This information is intended solely for the use of the Board of Commissioners of the Fund, and management of the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the courtesy and cooperation extended to each member of our staff by the personnel of the Fund throughout the engagement. If you have any questions, please contact Ed Kemp at 404-651-8850.

Respectfully,



Greg S. Griffin
State Auditor

cc: Kim Avery
Ed Kemp



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2180

August 23, 2016

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

We have audited the basic financial statements of Magistrates Retirement Fund of Georgia (the Fund) as of and for the year ended June 30, 2015, and have issued our report thereon dated August 23, 2016. In planning and performing our audit of the basic financial statements of the Fund, 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 Fund'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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

During our audit we noted certain matters involving internal control and/or other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the attached schedule of observations.

The Fund's written responses to our comments and recommendations have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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 Fund'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.

Mr. Robert Carter, Secretary/Treasurer

Page 2

August 23, 2016

This communication is intended solely for the information and use of management of the Fund, 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 "Greg S. Griffin". The signature is written in a cursive, flowing style.

Greg S. Griffin
State Auditor

cc: Kim Avery

MAGISTRATES RETIREMENT FUND OF GEORGIA
SCHEDULE OF OBSERVATIONS
YEAR ENDED JUNE 30, 2015

ML-991-15-01

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. Management will review controls in order to enforce policies and procedures to address change management documentation. Management will continue to monitor and to strengthen logical access controls. Management has met with the State Accounting Office to establish internal control framework based on the US Government Accountability Office's Green Book.

Responsible Officials

Robert Carter, Executive Director

Implementation Date

December 31, 2016

MAGISTRATES RETIREMENT FUND OF GEORGIA
SCHEDULE OF OBSERVATIONS
YEAR ENDED JUNE 30, 2015

ML-991-15-02

Internal Control Framework

Observation

The Magistrates Retirement Fund of Georgia (MRF) has an informal internal control framework in place over financial reporting and compliance processes, including relevant information systems. During our procedures we found MRF personnel could generally describe control policies and procedures. However controls were not comprehensively documented and they were not designed based on a thorough analysis of business objectives and risks related to operational, reporting and compliance requirements. According to management, MRF has held internal discussions regarding risk but has not to date formally documented its risk assessment process.

Recommendation

A formal internal control framework is necessary to allow Management to gain reasonable assurance MRF will achieve its objectives in complying with operational, financial reporting and compliance requirements. A comprehensive internal control structure should include the following:

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

MAGISTRATES RETIREMENT FUND OF GEORGIA
SCHEDULE OF OBSERVATIONS
YEAR ENDED JUNE 30, 2015

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

The MRF Management should establish and maintain an effective system of internal control which includes establishing formal policies and procedures, conducting risk assessments, defining control activities, establishing information and communication processes, and perform on-going monitoring. A robust system of internal control is critical to gain assurance in meeting operational, reporting and compliance requirements. It also serves as a way to enhance control activities, have safeguards in place to prevent or detect fraud and abuse, and gain efficiencies in operations.

We recommend MRF adopt the standards presented in the U.S. Government Accountability Office's (GAO) Green Book, which provides an overall framework for establishing and maintaining an effective system of internal control. The State Accounting Office has developed a statewide internal control framework based on this model. The Green Book is available on GAO's website at <http://www.gao.gov/greenbook/overview>.

Views of Responsible Officials and Corrective Action Plans

Management understands the issues related to the internal control framework over financial reporting and compliance. Management has met with the State Accounting Office to work and develop an internal framework based on the US Government Accountability Office's Green Book.

Responsible Officials

Robert Carter, Executive Director

Implementation Date

December 31, 2016

MAGISTRATES RETIREMENT FUND OF GEORGIA
SCHEDULE OF OBSERVATIONS
YEAR ENDED JUNE 30, 2015

ML-991-15-03

Inadequate Internal Control over Census Data

Observation

The Magistrates Retirement Fund of Georgia (MRF) did not have adequate internal control over the census data. Errors in updating members' data were not detected and corrected prior to providing the data to the fund's actuary. The actuary uses the census data to calculate the total pension liability. The design of MRF's computer system used for maintaining census data allows for members' census data to be only partially updated within the system. In addition, the policies and procedures for reviewing the census data prior to providing it to the actuary were not sufficient.

Recommendation

We recommend that MRF establish policies and procedures for reviewing census data for accuracy before providing it to the fund's actuary. These policies and procedures could include changes to the computer system that would prevent partial changes to member census data.

Views of Responsible Officials and Corrective Action Plans

Management understands the need to establish policies and procedures for reviewing census data for accuracy. Management has updated computer processes and systems to ensure participants are updated in every file. Management is reviewing policies and procedures with Buck Consultants to better ensure accuracy before it is sent to actuary.

Responsible Officials

Robert Carter, Executive Director

Implementation Date

September 30, 2015