

# ***Audit Report***

*Magistrates Retirement Fund of Georgia  
Fiscal Year Ended June 30, 2017*



*The photograph on the cover was taken by Lacey Mitchell at Jekyll Island, Georgia.*

**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  
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, 2017, 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 opinions 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 opinions.

### ***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, 2017, 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 to the basic financial statements, in 2017, the Fund adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, 68, and No. 73*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Employers' and Nonemployers' Net Pension Liability, Schedule of Changes in Employers' and Nonemployers' Net Pension Liability, Schedule of Employer and Nonemployer Contributions, and Schedule of Investment Returns on pages 23-27 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 April 20, 2018 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,

A handwritten signature in blue ink that reads "Greg S. Griffin".

Greg S. Griffin  
State Auditor

April 20, 2018

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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, 2017

Assets:			
Cash and cash equivalents		\$	1,674,413
Receivables:			
Due from brokers for securities sold			14,933
Investments - at fair value:			
Obligations:			
U.S. Treasury obligations	\$ 3,113,569		
U.S. Agency obligations	402,317		
Corporate bonds/notes/debentures			
Domestic	3,456,574		
International	315,759		
Mortgage investments	<u>467,354</u>	\$	7,755,573
Equities:			
Stocks			
Domestic	12,040,837		
International	3,411,190		
Real estate investment trusts	<u>217,472</u>	<u>15,669,499</u>	
Total investments			<u>23,425,072</u>
Total assets			<u>25,114,418</u>
Liabilities:			
Due to brokers for securities purchased			18,270
Withholdings payable			<u>1,937</u>
Total liabilities			<u>20,207</u>
Net position restricted for pensions		\$	<u><u>25,094,211</u></u>

See accompanying notes to financial statements.

**MAGISTRATES RETIREMENT FUND OF GEORGIA**  
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Statement of Changes in Fiduciary Net Position

Year ended June 30, 2017

Additions:		
Contributions:		
Nonemployer	\$	1,549,378
Member		176,627
Net investment income:		
Net increase in fair value of investments	\$ 1,844,184	
Interest, dividends, and other	320,801	
Less investment expense	<u>(355,524)</u>	<u>1,809,461</u>
Total additions		<u>3,535,466</u>
Deductions:		
Benefit payments		226,851
Refunds of member contributions		13,479
Administrative expenses, net		<u>76,449</u>
Total deductions		<u>316,779</u>
Net increase in net position		3,218,687
Net position restricted for pensions:		
Beginning of year		<u>21,875,524</u>
End of year	\$	<u>25,094,211</u>

See accompanying notes to financial statements.

**MAGISTRATES RETIREMENT FUND OF GEORGIA**  
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Notes to Financial Statements

June 30, 2017

**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, 2017, participation in the Fund is as follows:

Inactive plan members and beneficiaries currently receiving benefits	20
Inactive plan members not yet receiving benefits, vested	3
Active plan members	<u>136</u>
Total	<u>159</u>

***Participating Employers and Other Contributing Entities***

At June 30, 2017, the active members of the Fund were employed by 136 employers. The Fund also had one nonemployer contributing entity, which is the State of Georgia.

***Retirement Benefits***

The Fund provides retirement as well as disability and death benefits. Title 47 of the O.C.G.A. assigns the authority to establish and amend the provisions of the Fund to the General Assembly. Members 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**  
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June 30, 2017

***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, 2017, calculated the minimum employer contribution for the fiscal year ended June 30, 2017, as \$0. The court fees revenue of \$1,549,378 for the fiscal year ended June 30, 2017, meets the minimum required fund contribution.

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***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. Equity securities traded on a national or international exchange are valued at the last reported sales price. Fixed income securities are valued based primarily on quoted market prices provided by independent pricing sources. Investment income is recognized as earned by the Fund. There are no investments in, loans to, or leases with parties related to the Fund.

The Fund utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as credit, interest rate, foreign currency risk, 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



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investment managers. There were no significant changes in the investment policy for the Fund during the fiscal year.

The Fund's policy in regard to the allocation of invested assets is established on a cost basis in compliance with State law. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following was the Fund's adopted asset allocation policy as of June 30, 2017:

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

Approximately 15.0% of the investments held in trust for pension benefits are invested in debt securities of the U.S. government and its instrumentalities, of which 13.3% are U.S. government debt securities and 1.7% are debt securities of the U.S. government instrumentalities. The Fund has no investments in any one organization, other than those issued by the U.S. government and its instrumentalities, that represent 5% or more of the plan's total investments.

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.76%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

***Use of Estimates***

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

***New Accounting Pronouncements***

Pronouncements effective for the 2017 financial statements:

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement improves the usefulness of other postemployment benefits (OPEB) information included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. Implementation of this Statement by organizations that provide OPEB will require extensive note disclosures and required supplementary information (RSI) related to the

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measurement of the OPEB liabilities. There are no applicable reporting requirements for the Fund related to this Statement.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement defines tax abatement and provides disclosure guidance for governments that have granted tax abatements. There are no applicable reporting requirements for the Fund related to this Statement.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to amend the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*, to exclude pensions provided to employees of state or local governmental employers through certain multiple employer defined benefit pension plans and to establish accounting and reporting requirements for those pensions. There are no applicable reporting requirements for the Fund related to this Statement.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units*. The objective of this Statement is to improve financial reporting by clarifying the financial Statement presentation requirements for certain component units and to amend the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. There are no applicable reporting requirements for the Fund related to this Statement.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, 68, and No. 73*. The objective of this Statement is to address issues regarding (1) the presentation of payroll related measures in the required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not impact the amounts recorded in the Fund's financial Statements.

Pronouncements issued, but not yet effective:

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* effective for fiscal years beginning after June 15, 2017. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. This Statement also establishes requirements for note disclosures and required supplementary information for defined benefit OPEB plans. The Fund is in process of evaluating the impact of this pronouncement on its financial statements.

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In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* effective for fiscal years beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. There will be no applicable reporting requirements for the Fund related to this Statement.

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

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

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* effective for fiscal years beginning after June 15, 2017. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. A variety of topics are addressed including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The Fund is in process of evaluating the impact of this pronouncement on its financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. There will be no applicable reporting requirements for the Fund related to this Statement.

**Note 3: Investment Program**

The Fund maintains sufficient cash to meet its immediate liquidity needs. Cash not immediately needed is invested as directed by the investment policy of the Fund. All investments are held by agent custodial banks in the name of the Fund. State law (O.C.G.A. 47-20-83) and the Fund's investment policy authorize the Fund to invest in a variety of short-term and long-term securities.

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June 30, 2017

***Cash and Cash Equivalents***

The carrying amount of the Fund's operating account totaled \$52,451 at June 30, 2017, which is also the actual bank balance. The Fund's cash balance is fully insured through the Federal Deposit Insurance Corporation, an independent agency of the U.S. Government.

The carrying amount of the Fund's cash balances maintained within an investment account is \$545,931 at June 30, 2017. This balance includes \$250,000, which is fully insured through the Securities Investors Protection Corporation, an independent agency of the U.S. Government. The remaining balance of \$295,931 is uncollateralized.

The Fund's investment policy authorizes investment in short-term highly liquid financial securities. At June 30, 2017, the Fund held \$1,076,031 in money market mutual funds.

***Investments***

Fixed income investments are maintained in U.S. Treasury obligations, obligations unconditionally guaranteed by agencies of the U.S. Government, investment-grade corporate bonds, and mortgage-related securities.

Equity investments are maintained in domestic equities and international equities. Domestic equities are those securities considered by the O.C.G.A. to be domiciled in the United States. International equities are not considered by the O.C.G.A. to be domiciled in the United States.

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

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Fund. State law limits investments to investment grade securities. The Fund's investment policy requires that purchases of bonds be restricted to bonds rated as investment grade rated BAA (or equivalent) or better as defined by a 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.

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The quality ratings of investments in fixed income securities at June 30, 2017, as described by Standard & Poor's, which is a nationally recognized statistical rating organization, are shown in the following table:

<b>Quality Ratings of Fixed Income Investments</b>						
<b>Held at June 30, 2017</b>						
<u>Investment Type</u>	<u>Total Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Unrated</u>
<b>Cash and Cash Equivalents Subject to Credit Risk:</b>						
Money market mutual funds	\$ 1,076,031					1,076,031
<b>Debt Securities Subject to Credit Risk:</b>						
US Agency obligations						
Implicitly guaranteed	\$ 402,317					402,317
<b>Corporate debt</b>						
Domestic	3,456,574		311,562	933,742	2,211,270	
International	315,759			160,913	154,846	
Mortgage-backed securities	467,354	467,354				
<b>Total Debt Securities Subject to Credit Risk</b>	<b>4,642,004</b>	<b>467,354</b>	<b>311,562</b>	<b>1,094,655</b>	<b>2,366,116</b>	<b>402,317</b>
<b>Debt Securities Not Subject to Credit Risk:</b>						
U.S. Treasury obligations	3,113,569					
<b>Total Debt Securities</b>	<b>\$ 7,755,573</b>					

**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:

<b>Duration of Fixed Income Instruments</b>						
<b>Held at June 30, 2017</b>						
<u>Investment 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>
<b>Cash and Cash Equivalents Subject to Interest Rate Risk:</b>						
Money market mutual funds	\$ 1,076,031	1,076,031				
<b>Debt Securities Subject to Interest Rate Risk:</b>						
U.S. Treasury obligations	\$ 3,113,569			2,413,836	699,733	
U.S. Agency obligations	402,317					402,317
<b>Corporate debt</b>						
Domestic	3,456,574		152,960	1,427,204	1,714,169	162,241
International	315,759	154,846		160,913		
Mortgage-backed securities	467,354			311,302	156,052	
<b>Total Debt Securities Subject to Interest Rate Risk:</b>	<b>\$ 7,755,573</b>	<b>154,846</b>	<b>152,960</b>	<b>4,313,255</b>	<b>2,569,954</b>	<b>564,558</b>

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Notes to Financial Statements

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*Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Fund's currency risk exposures, or exchange rate risks, primarily reside within the Fund's international investment holdings. The Fund does not have a formal policy for managing foreign currency risk. As of June 30, 2017, the Fund's exposure to foreign currency risk in U.S. dollars, is highlighted in the following table:

<b>International Investment Securities at Fair Value as of June 30, 2017</b>			
Currency	Equities	Fixed Income	Total
Australian dollar	\$ 38,615		38,615
Bermudian dollar	357,241		357,241
British pound	863,745		863,745
Canadian dollar	53,267		53,267
Euro	640,210		640,210
Israeli new shekel	210,961		210,961
Japanese yen	321,879		321,879
Norwegian krone	42,141		42,141
Panamanian balboa	25,583		25,583
Singapore dollar	60		60
Swedish krona	40,884		40,884
Swiss franc	255,081		255,081
 Total Holdings subject to Foreign Currency Risk	 2,849,667		 2,849,667
 Investment Securities payable in U.S. Dollars	 561,523	315,759	 877,282
 Total International Investment Securities at Fair Value	 \$ 3,411,190	315,759	 3,726,949

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Notes to Financial Statements

June 30, 2017

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the Fund's investment in a single issue. On June 30, 2017, the Fund did not have debt investments in any one organization, other than those issued or guaranteed by the U.S. Government or its agencies, which represented greater than 5% of the plan's total investments.

*Fair Value Measurement*

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

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

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

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

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

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Notes to Financial Statements

June 30, 2017

The following table shows the fair value leveling of the Fund's investments:

<b>Investments measured at fair value as of June 30, 2017</b>		Fair value measures using		
Investments by fair value level	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Cash and Cash Equivalents:</b>				
Money market mutual funds	\$ 1,076,031	1,076,031		
<b>Debt Securities:</b>				
U.S. Treasury obligations	\$ 3,113,569		3,113,569	
U.S. Agency obligations	402,317		402,317	
Corporate debt				
Domestic	3,456,574		3,456,574	
International	315,759		315,759	
Mortgage investments	467,354		467,354	
<b>Equities:</b>				
Stocks				
Domestic	12,040,837	12,040,837		
International	3,411,190	3,411,190		
Real estate investment trusts	217,472	217,472		
Total Investments by fair value level	\$ 23,425,072	15,669,499	7,755,573	

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

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

The Fund did not have any Net Asset Value (NAV) investments at June 30, 2017.



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

Notes to Financial Statements

June 30, 2017

**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, 2017, were as follows:

Total pension liability	\$	18,660,629
Plan fiduciary net position		<u>(25,094,211)</u>
Net pension asset	\$	<u>(6,433,582)</u>

Plan fiduciary net position as a percentage of total pension liability		134.48%
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*Actuarial assumptions*

The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%	
Salary increases	N/A	
Investment rate of return	6.50%	net of pension plan investment expense, including inflation

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

The long-term expected rate of return on pension plan investments was calculated by the Fund's investment manager as 8.48% using a building block method by weighting the expected future rates of return for each asset class by the fund's current / target asset allocation percentages within each asset class. These allocations 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 6.50% was a reasonable assumption for the long-term rate of return on plan assets based on the calculation by the Fund's investment manager.

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

Notes to Financial Statements

June 30, 2017

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long term expected real rate of return</u>
Short-term Treasury bills	1.0 %	3.3 %
Domestic fixed income	34.0	5.0
International equities developed markets	7.5	9.9
Emerging market equities	2.0	11.8
Large cap core domestic equities	32.2	10.0
Large cap growth domestic equities	2.5	10.3
Large cap value domestic equities	5.7	10.0
Mid cap core domestic equities	3.5	10.7
Small cap growth domestic equities	6.7	12.2
Small cap value domestic equities	3.7	11.3
Domestic real estate investment trust	1.2	9.2
	<u>100.0 %</u>	

*Discount Rate*

The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumes revenues will remain level. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	1% Decrease (5.50%)	Current discount rate (6.50%)	1% Increase (7.50%)
Employers' and nonemployers' net pension asset	\$ (4,279,481)	(6,433,582)	(8,253,589)

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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 Employers' and Nonemployers' Net Pension Liability

For the year ended June 30

(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 18,660,629	16,767,742	14,287,045	12,005,486
Plan fiduciary net position	<u>25,094,211</u>	<u>21,875,524</u>	<u>20,232,225</u>	<u>18,139,625</u>
Employers' and nonemployers' net pension asset	\$ <u>(6,433,582)</u>	<u>(5,107,782)</u>	<u>(5,945,180)</u>	<u>(6,134,139)</u>
Plan fiduciary net position as a percentage of the total pension liability	134.48%	130.46%	141.61%	151.09%
Covered payroll	N/A	N/A	N/A	N/A
Employers' and nonemployers' net pension liability as a percentage of covered payroll	N/A	N/A	N/A	N/A

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

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

**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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:				
Service cost	\$ 1,439,028	1,337,201	1,342,981	1,320,295
Interest	1,175,629	1,089,423	930,688	675,478
Changes of benefit terms	0	238,720	0	1,170,096
Differences between expected and actual experience	(481,440)	(479,969)	113,737	(173,451)
Changes of assumptions	0	417,435	0	686,668
Benefit payments	(226,851)	(122,113)	(91,519)	(5,989)
Refunds of member contributions	(13,479)	0	(14,328)	0
Net change in total pension liability	<u>1,892,887</u>	<u>2,480,697</u>	<u>2,281,559</u>	<u>3,673,097</u>
Total pension liability - beginning	<u>16,767,742</u>	<u>14,287,045</u>	<u>12,005,486</u>	<u>8,332,389</u>
Total pension liability - ending (a)	<u>18,660,629</u>	<u>16,767,742</u>	<u>14,287,045</u>	<u>12,005,486</u>
Plan fiduciary net position:				
Contributions - nonemployer	1,549,378	1,532,736	1,563,301	1,666,281
Contributions - member	176,627	171,939	169,399	151,155
Net investment income	1,809,461	168,174	510,933	2,347,662
Benefit payments	(226,851)	(122,113)	(91,519)	(5,989)
Refund of member contributions	(13,479)	0	(14,328)	0
Administrative expense	(76,449)	(107,437)	(45,186)	(98,767)
Net change in plan fiduciary net position	<u>3,218,687</u>	<u>1,643,299</u>	<u>2,092,600</u>	<u>4,060,342</u>
Plan fiduciary net position - beginning	<u>21,875,524</u>	<u>20,232,225</u>	<u>18,139,625</u>	<u>14,079,283</u>
Plan fiduciary net position - ending (b)	<u>25,094,211</u>	<u>21,875,524</u>	<u>20,232,225</u>	<u>18,139,625</u>
Net pension asset - ending (a) - (b)	<u>\$ (6,433,582)</u>	<u>(5,107,782)</u>	<u>(5,945,180)</u>	<u>(6,134,139)</u>

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 Employer and Nonemployer Contributions

For the year ended June 30

(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined employer and nonemployer contribution	\$ 0	0	0	0	814,380	825,300	820,155	839,254	587,777	610,141
Contributions in relation to the actuarially determined contribution	1,549,378	1,532,736	1,563,301	1,666,281	1,681,846	1,580,303	1,739,235	1,434,683	1,446,566	1,481,714
Contribution deficiency (excess)	<u>\$ (1,549,378)</u>	<u>(1,532,736)</u>	<u>(1,563,301)</u>	<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>
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

**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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	8.76%	1.13%	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, 2017

(Unaudited)

**Note 1: Schedule of Employers' and Nonemployers' Net Pension Liability**

The components of the net pension liability as of the fiscal year end and the fiduciary net position as a percentage of the total pension liability as of that date are presented in this schedule. This trend information will be accumulated to display a ten-year presentation.

**Note 2: Schedule of Changes in Employers' and Nonemployers' Net Pension Liability**

Net pension liability which is measured as the total pension liability less the amount of the fiduciary net position is presented in this schedule. This trend information will be accumulated to display a ten-year presentation.

**Note 3: Schedule of Employer and Nonemployer Contributions**

The schedule presents the required contributions and the percentage of required contributions actually contributed.

**Note 4: Schedule of Investment Returns**

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

**Note 5: Actuarial Methods and Assumptions**

*Benefit changes:* 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.

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.

A 1.5% cost-of-living adjustment was granted to retirees and surviving spouses effective January 1, 2016. The earnings caps used to calculate retirement benefits were increased by 1.5% effective January 1, 2016.

*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.

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

Notes to Required Supplementary Information

June 30, 2017

(Unaudited)

During fiscal year 2016, the mortality table was updated to the RP-2014 Health Mortality Table with generational mortality projection using the Conduent modified MP-2015 scale for healthy lives. For disabled lives, the mortality table was updated to the RP-2014 Disabled Retiree Mortality table with generational mortality projection using the Conduent modified MP-2015 scale.

During fiscal year 2016, the discount rate was changed from 7.00% to 6.50%.

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

Valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Actuarial value
Inflation rate	2.5%
Salary increases	N/A
Investment rate of return	6.5%, net of pension plan investment expense, including inflation

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**SECTION II – REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

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## DEPARTMENT OF AUDITS AND ACCOUNTS

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

Atlanta, Georgia 30334-8400

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

### **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

#### Independent Auditor's Report

The Honorable 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, 2017, 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 April 20, 2018.

#### **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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as FS-991-17-01, that we consider to be a significant deficiency.

### **Compliance and Other Matters**

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

### **Magistrates Retirement Fund of Georgia's Response to Findings**

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

### **Purpose of this Report**

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

Respectfully submitted,



Greg S. Griffin  
State Auditor

April 20, 2018

**SECTION III – SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**FS-991-17-01 Continue to Improve Internal Control Framework**

**Internal Control Impact:** Significant Deficiency  
**Compliance Impact:** Nonmaterial Noncompliance  
**Repeat of Prior Year Finding:** FS-991-16-01

**The Magistrates Retirement Fund of Georgia (MRF) has not yet documented the Risk Assessment and Control Activities components of its internal control framework.**

**Background Information:**

The State of Georgia has adopted the standards presented in the U.S. Government Accountability Office's (GAO) Green Book that provide an overall framework for establishing and maintaining an effective system of internal control. Internal control is a process that provides reasonable assurance that the objectives of the organization will be achieved. The Green Book presents internal control concepts through a hierarchical structure consisting of five components, seventeen principles, and various attributes, which are essential to the establishment of an effective system of internal control.

During the prior year audit, we noted that MRF has an informal internal control framework in place over financial reporting and compliance processes. The MRF personnel could generally describe control policies and procedures; however, controls were not consistently documented, and they were not designed based on a thorough analysis of business objectives and risks related to operational, financial reporting, and compliance requirements. During our fiscal year 2017 audit, we followed up on MRF's efforts to update, document, and monitor its system of internal control.

**Criteria:**

The MRF is responsible for implementing the internal control framework standards presented in the Green Book in accordance with the statewide guidance issued by the State Accounting Office (SAO), pursuant to Title 50, Chapter 5B, Article 2 of the Official Code of Georgia Annotated (OCGA) § 50-5B-4(b). The Green Book standards specify that internal control should cover all aspects of an organization's objectives, including the effectiveness and efficiency of operations, reliability of reporting for internal and external use, and compliance with applicable laws and regulations.

**Condition:**

The MRF is in the process of implementing the internal control framework standards presented in the GAO Green Book. The MRF has documented the Control Environment component of its internal control framework, but has not yet finished documenting its Risk Assessment and Control Activities. Documentation for these two components was required to be submitted to SAO during fiscal year 2017 in accordance with the statewide guidance issued on August 5, 2016.

**Cause:**

The MRF has a small staff and did not assign sufficient resources to complete its Risk Assessment and Control Activities documentation during the year.

**Effect or Potential Effect:**

Without adequately documenting and implementing each component of an internal control system, management cannot ensure MRF's internal control framework will comply with the Green Book standards, or that a material misstatement of the financial statements or noncompliance with applicable statutes and regulations will be prevented; or detected and corrected in a timely manner. This may also impede management's ability to gain reasonable assurance that MRF will achieve its operational, financial reporting, and compliance objectives.

**Recommendation:**

The MRF should review the resources available within its existing staff to determine whether additional internal resources could be assigned to implementing the Green Book's internal control framework standards. If sufficient internal resources are not available, the MRF should consider obtaining additional resources on either a permanent or temporary basis.

The MRF should continue to implement the standards presented in the Green Book for the remaining components of its internal control framework. The documentation for those components should address all of MRF's operational, financial reporting, and compliance objectives as required by the Green Book standards.

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.

**Views of Responsible Officials:**

We acknowledge that insufficient resources were allocated to complete documentation of this organization's Risk Assessment and Control Activities, in accordance with the guidelines provided in the Green Book. This is a deficiency that must be corrected.

**SECTION IV – MANAGEMENT’S CORRECTIVE ACTION PLAN**



**Board of Commissioners of the  
Magistrates Retirement Fund of Georgia**

P.O. Box 56, Griffin, Georgia 30224  
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**CORRECTIVE ACTION PLANS – FINANCIAL STATEMENT FINDING**

**FS-991-17-01 Continue to Improve Internal Control Framework**

**Internal Control Impact:** Significant Deficiency  
**Compliance Impact:** Nonmaterial Noncompliance  
**Repeat of Prior Year Finding:** FS-991-16-01

We will examine our current personnel's responsibilities to determine what, if any, resources are available to properly document this organization's Risk Assessment and Control Activities. If current resources are insufficient, we will seek out other resources to enable us to complete this documentation. We will also continue to follow the standards in the Green Book that we have already implemented.

Estimated Completion Date: February, 2019

Contact Person: Robert W. Carter  
Telephone: 770-228-8461

E-mail: [bcarter@rfga.us](mailto:bcarter@rfga.us)