Audit Report

Magistrates Retirement Fund of Georgia

Fiscal Year Ended June 30, 2012

Prepared by: State Accounting Office

"Georgia State Capitol"
Artist: GeorgeAnn S. Moore, Gainesville, Georgia

Georgia

The artwork on the cover was created by Gainesville artist GeorgeAnn Moore and will be hanging in the Office of the Governor as part of a rotating exhibit "The Art of Georgia" through January 25, 2013. For more information about the exhibit, the selected artists and their work, visit www.gaarts.org.

Cause: The management of the Magistrates Retirement Fund of Georgia failed to implement adequate policies and procedures to ensure that all forms, data and other information required by SAO were submitted by the established deadlines.

Effect: The failure on behalf of the Magistrates Retirement Fund of Georgia to submit the required information to SAO by the prescribed deadlines results in delays in the preparation of the CAFR; delays which could result in the report not being issued by its deadline.

Recommendation: The Magistrates Retirement Fund of Georgia should implement policies and procedures, as needed, to ensure that all forms, data and other information required by SAO for the preparation of the CAFR is submitted to SAO by the prescribed deadlines.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

Finding Control Number: FS-991-12-01
ACCOUNTING CONTROLS (OVERALL)
FINANCIAL REPORTING AND DISCLOSURE
Failure to Meet Deadlines Established by the State Accounting Office

Condition: The Magistrates Retirement Fund of Georgia failed to meet deadlines established by the State Accounting Office (SAO) for the submission of forms, data and other information required for the preparation of the Comprehensive Annual Financial Report (CAFR). Our review revealed the following was not submitted to SAO by the prescribed deadline:

- Allowance for Doubtful Accounts Form
- Capital Assets Form
- Cash and Deposits Form
- Confirmation of Receipt of Year End Package
- General Information Form
- Inter-Organization Transactions Form
- Lease Agreement Data Form
- Long-Term Liabilities Form
- Pollution Remediation Form
- Questionnaire
- Trial Balance Shell

Criteria: As prescribed by O.C.G.A. 50-5B-4, "All organizations of state government...shall conform to and comply with the rules, regulations, policies, procedures, and forms devised, promulgated, and installed by the state accounting officer. All organizations of state government shall submit statements, reports, information, and data necessary to enable the state accounting officer to complete the reports required under this Code section. All organizations of state government shall provide lease information to the state accounting officer to permit the state accounting officer to properly account for and report all capital and operating leases. All organizations of state government shall provide information to the state accounting officer necessary to properly account for and report real property and personal property. All information and reports required in this Code section shall be provided in the form and within the time frame prescribed by the state accounting officer."

(This page intentionally left blank)

SECTION III - CURRENT YEAR FINDINGS AND QUESTIONED COSTS

1. **Accounting Controls (Overall)**
   Financial Reporting and Disclosure
   Failure to Meet Deadlines Established by the State Accounting Office
   FS-991-12-01

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Magistrates Retirement Fund's financial statements are free of 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*.

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

Respectfully submitted,

Greg S. Griffin
State Auditor

February 15, 2013

GSG:ja

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

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*

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

We have audited the basic financial statements of the Magistrates Retirement Fund, a component unit of the State of Georgia, as of and for the year ended June 30, 2012, and have issued our report thereon dated February 15, 2013. 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.

Internal Control Over Financial Reporting

Management of the Magistrates Retirement Fund is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the Magistrates Retirement Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Magistrates Retirement Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Magistrates Retirement Fund's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified the following deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency in internal control over financial reporting.

(This page intentionally left blank)

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*

(This page intentionally left blank)

MAGISTRATES RETIREMENT FUND OF GEORGIA
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES
JUNE 30, 2012

Fiscal Year	Annual Required Contribution	Percentage Contributed
2007	$ 610,141	210%
2008	610,141	241%
2009	587,777	247%
2010	839,254	169%
2011	820,155	211%
2012	825,300	191%

MAGISTRATES RETIREMENT FUND OF GEORGIA
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL(UAAL)/ (Funding Excess) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	$ 1,369,156	$ 700,003	$ (669,153)	195.6%	n/a	n/a
July 1, 2009	4,442,546	2,640,037	(1,802,509)	168.3%	n/a	n/a
July 1, 2011	8,628,445	5,349,392	(3,279,053)	161.3%	n/a	n/a

The actuarial value of assets at July 1, 2011 is equal to 96% of the market value of assets.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return (includes inflation)	7%
Projected salary increases	N/A
Cost-of-living adjustments	N/A

C. CONTRIBUTIONS AND RESERVES

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.

A description of contribution provisions are established by statute and may be amended only by the General Assembly of Georgia. A description of contribution requirements is as follows:

(A) MEMBERS CONTRIBUTIONS: Members must contribute $105 per month as dues.

(B) MAGISTRATE COURT CONTRIBUTIONS: In addition to all other legal costs, the sum of $3.00 shall be charged and collected in each civil matter or proceeding filed in the magistrate courts. The fees shall be remitted to the secretary-treasurer of the Retirement Fund.

Actual contributions for the year ended June 30, 2012, were as follows:

Member Contributions	$	136,440
Civil Filings		1,580,303
Total	$	1,716,743

D. CONCENTRATION OF CREDIT RISK

At June 30, 2012, more than 5 percent of the Retirement Fund's total investments were investments in the mutual funds of PIMCO FDS Total Return. These investments represented approximately 8.5 percent of the Retirement Fund's total investments.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of July 1, 2011, the most recent actuarial valuation date, is as follows:

Actuarial value of plan assets (a)	Actuarial accrued liability (AAL) - entry age (b)	Unfunded AAL (UAAL) (funding excess) (b-a)	Funding ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as a percentage of covered payroll [(b-a)c]
$ 8,628,445	$ 5,349,392	$ (3,279,053)	161.3%	n/a	n/a

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

A. PLAN DESCRIPTION

(C) 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.

(D) DEATH BENEFITS

(1) In the event of the death of a member who has not commenced receiving any benefits, the spouse may elect to withdraw the dues paid into the Retirement Fund by the deceased member plus interest, in which case the spouse shall be deemed to have waived any rights to any benefits; or an optional payment plan may be chosen for which benefits will be paid according to the terms of the Plan.

(2) In the event of the death of a member who has commenced receiving benefits, the surviving spouse, upon reaching age 60, shall receive a benefit equal to 50 percent of the monthly retirement benefit being paid to the deceased spouse at the time of death. These benefits will be paid for the remainder of the surviving spouse's life.

(E) TERMINATION: 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.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

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

INVESTMENTS

Investments are defined as those financial instruments with terms in excess of three months from the date of purchase and certain other securities held for the production of revenue. In addition, funds on deposit with the Retirement fund's investment custodian for purposes of continual investment are reflected as investments regardless of the term of the instruments.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price.

C. CONTRIBUTIONS AND RESERVES

FUNDING POLICY

The minimum annual employer contribution requirements are set forth in the Official Code of Georgia Annotated (O.C.G.A.) Section 47-20-10 and are not actuarially determined. This statute further 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, 2011, which reflected the proceeds of designated portions of fines and forfeitures as the employer contribution, indicated that the minimum employer contribution was met. Member contribution requirements are set forth in O.C.G.A. Section 47-25-41 and are not actuarially determined.

A. PLAN DESCRIPTION

ORGANIZATION AND PLAN DESCRIPTION

The Magistrates Retirement Fund of Georgia is a cost-sharing multiple-employer defined benefit pension plan established July 1, 2006 by the General Assembly of Georgia for the purpose of paying retirement benefits to chief magistrates of the magistrate courts of the State of Georgia. The Board of Commissioners of the Retirement Fund is comprised of seven members and consists of the Governor or his designee, an appointee of the Governor other than the Attorney General, and five full-time chief magistrates who are members of the Retirement Fund. The Magistrates Retirement Fund of Georgia is included within the State of Georgia's basic financial statements as a part of the primary government.

All duly qualified and commissioned full-time chief magistrates of a county of the State of Georgia and any person serving as secretary-treasurer of the Board of Commissioners of the Magistrates Retirement Fund of Georgia are eligible for membership. The Retirement Fund is funded through a combination of member contributions paid by the affected chief magistrates and designated portions of fees collected for civil filings.

CURRENT MEMBERSHIP

The following compares the membership of the Magistrates Retirement Fund at June 30, 2012, to that of the prior year:

	June 30, 2012	June 30, 2011
Number of Active Members		
Vested	0	0
Nonvested	108	113
Total	108	113

PARTICIPATING EMPLOYERS AND CONTRIBUTING ENTITIES

The number of participating employers at June 30, 2012 was 159. The number of contributing entities at June 30, 2012 was 159.

BENEFITS

The Magistrates Retirement Fund provides retirement as well as disability and death benefits. Benefit provisions and vesting requirements are established by statute and may be amended only by the General Assembly of Georgia. A description of plan benefits and vesting requirements is as follows:

(A) RETIREMENT CONDITIONS: Members shall be eligible for retirement at age 60 and must have served at least eight years as a regularly qualified and commissioned full-time chief magistrate or as a secretary-treasurer of the Board of Commissioners of the Retirement 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.

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

MAGISTRATES RETIREMENT FUND OF GEORGIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Additions:		
Contributions		
Plan Members		$ 136,440
Other Contributions		
Other Fees		1,580,303
Interest and Other Investment Income		
Dividends and Interest	$ 204,231	
Net Appreciation in		
Investments Reported at Fair Value	38,827	
Less: Investment Expense	(45,271)	
Net Investment Income		197,787
Total Additions		1,914,530
Deductions:		
General and Administrative Expenses		58,937
Change in Net Assets Held in Trust for Pension Benefits		1,855,593
Net Assets, July 1		9,112,243
Net Assets, June 30		$ 10,967,836

The notes to the financial statements are an integral part of this statement.

MAGISTRATES RETIREMENT FUND OF GEORGIA
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

Assets		
Cash and Cash Equivalents	$	50,892
Receivables		
Interest and Dividends		27,507
Investments		
Mutual Funds		4,953,717
Municipal, U.S. and Foreign Government Obligations		1,397,089
Corporate Bonds/Notes/Debentures		1,358,340
Stocks		3,197,992
Total Assets		10,985,537
Liabilities		
Accounts Payable and Other Accruals		17,763
Salaries/Withholdings Payable		(62)
Total Liabilities		17,701
Net Assets		
Held in Trust for:		
Pension Benefits	$	10,967,836

The notes to the financial statements are an integral part of this statement.

MAGISTRATES RETIREMENT FUND OF GEORGIA

- TABLE OF CONTENTS -

	Page
SECTION I - FINANCIAL	
Independent Auditor's Report	1
Basic Financial Statements	
Statement of Fiduciary Net Assets	4
Statement of Changes in Fiduciary Net Assets	5
Notes to the Financial Statements	6
Required Supplementary Information	
Schedule of Funding Progress	12
Schedule of Contributions from the Employer and Other Contributing Entities	13
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*	17
SECTION III - CURRENT YEAR FINDINGS AND QUESTIONED COSTS	
Schedule of Findings and Questioned Costs	21

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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress and Schedule of Contributions from the Employer and Other Contributing Entities information on pages 12 through 13 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 evidence sufficient 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.

Respectfully submitted,

Greg S. Griffin

Greg S. Griffin
State Auditor

February 15, 2013

GSG:ja

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Magistrates Retirement Fund, a component unit of the State of Georgia, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Magistrates Retirement Fund's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as disclosed in the following paragraph, 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Magistrates Retirement Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In accordance with section 50-6-1(c) of the Official Code of Georgia Annotated, Greg S. Griffin was appointed State Auditor on July 1, 2012. During the year under review, Mr. Griffin served as the State Accounting Officer. As the State Accounting Officer, Mr. Griffin was responsible for the State's accounting and financial reporting practices.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the Magistrates Retirement Fund, as of June 30, 2012, and the changes in fiduciary net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013 on our consideration of the Magistrates Retirement Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant