

Peace Officers' Annuity and Benefit Fund of Georgia
Financial Statements
Fiscal Year Ended June 30, 2019
(With Independent Auditor's Report Thereon)



Cover photograph is the Major W.L. "Bill" Cline, Fund Headquarters located in Griffin, Georgia.

PEACE OFFICERS' ANNUITY AND BENEFIT 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 Brian P. Kemp, Governor of Georgia
Members of the General Assembly of the State of Georgia
Board of Commissioners of the Peace Officers' Annuity and Benefit Fund of Georgia
Mr. Robert Carter, Secretary/Treasurer

Report on the Financial Statements

We have audited the accompanying financial statements of the Peace Officers' Annuity and Benefit Fund of Georgia (the Fund), a component unit of the State of Georgia, as of and for the year ended June 30, 2019, 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 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, 2019, 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 discussed in Note 5 to the financial Statements, subsequent to the Statement of Net Position date of June 30, 2019, the occurrence of the COVID-19 pandemic had a significant negative effect on the valuation of certain investments of the Plan. Additionally, there are unknown and uncertain future effects to the Plan's operations. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

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.

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2020 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 the effectiveness of the Fund's 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.

A copy of this report has been filed as a permanent record in the office of the State Auditor and made available to the press of the State, as provided for by Official Code of Georgia Annotated section 50-6-24.

Respectfully submitted,



Greg S. Griffin
State Auditor

April 10, 2020

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BASIC FINANCIAL STATEMENTS

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PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Statement of Fiduciary Net Position

June 30, 2019

Assets:			
Cash and cash equivalents		\$	26,080,602
Receivables:			
Due from brokers for securities sold	\$	4,902,203	
Interest and dividends		1,406,496	
Other		9,757	6,318,456
Investments - at fair value:			
Obligations:			
Mutual funds	\$	26,966,360	
Exchange traded funds		6,191,349	
Municipal bonds		234,765	
U.S. Treasury obligations		31,818,907	
U.S. Agency obligations		34,760,880	
Foreign government obligations		256,960	
Corporate bonds/notes/debentures			
Domestic		42,126,656	
International		7,712,511	
Asset-backed securities			
Domestic		19,371,081	
International		3,214,372	
Mortgage investments		4,117,025	176,770,866
Equities:			
Mutual funds			
Domestic		223,882,158	
International		13,826,108	
Stocks			
Domestic		335,086,069	
International		48,368,372	
Real estate investment trusts		5,527,273	
Private real estate trust		4,007,586	630,697,566
Total investments			807,468,432
Capital assets, net			1,103,739
Total assets			840,971,229
Liabilities:			
Due to brokers for securities purchased			14,707,013
Accounts payable and other accruals			589,976
Total liabilities			15,296,989
Net position restricted for pensions		\$	825,674,240

See accompanying notes to financial statements.

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Statement of Changes in Fiduciary Net Position

June 30, 2019

Additions:		
Contributions:		
Nonemployer	\$	14,444,091
Members		3,541,866
Net investment income:		
Net increase in fair value of investments	\$ 34,840,320	
Interest, dividends, and other	20,087,873	
Less investment expense	<u>(4,295,371)</u>	50,632,822
Miscellaneous		<u>118,573</u>
Total additions		<u>68,737,352</u>
Deductions:		
Benefit payments		36,683,905
Refunds of member contributions		460,016
Administrative expenses, net		<u>1,192,003</u>
Total deductions		<u>38,335,924</u>
Net increase in net position		30,401,428
Net position restricted for pensions:		
Beginning of year		<u>795,272,812</u>
End of year	\$	<u><u>825,674,240</u></u>

See accompanying notes to financial statements.

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2019

Note 1: Plan Description

The Peace Officers' Annuity and Benefit Fund of Georgia (the Fund) was created in 1950 by the Georgia General Assembly to provide retirement benefits for qualifying peace officers. The Fund administers a cost-sharing, multiple-employer defined benefit pension plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*.

The Fund is governed by its Board of Commissioners. The Board is comprised of the Governor of the State of Georgia or his designee; an appointee of the Governor other than the Attorney General; the Commissioner of Insurance or his designee; and three active or retired peace officers appointed by the Governor. 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.) 47-17-1 and generally include: any individual employed by the State of Georgia or any municipality, county, or other political subdivision thereof for the preservation of public order, the protection of life and property or the detection of crime; wardens and correction officers of correctional institutions; full-time parole officers; other individuals employed full-time for the purpose of law enforcement; and full-time employees of the Fund.

As of June 30, 2019, participation in the Fund is as follows:

Inactive members and beneficiaries currently receiving benefits	6,572
Terminated members not yet receiving benefits, vested	1,576
Active plan members	<u>13,103</u>
Total	<u><u>21,251</u></u>

Participating Employers and Other Contributing Entities

At June 30, 2019, the active members of the Fund were employed by 659 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. A member is eligible to receive retirement benefits with 30 years of service, regardless of age. A member is also eligible to receive retirement benefits at age 55 with 10 years of service; however, members joining on or after July 1, 2010, must have 15 years of service to be eligible for benefits. A member must have terminated his or her active employment as a peace officer to receive benefits.

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
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Notes to Financial Statements

June 30, 2019

The monthly benefit is a single life annuity payable in monthly payments for the life of the member only. The monthly payment amount at June 30, 2019, was \$24.78 per month (plus 1/12 of this amount for each month of any partial year) for each full year of creditable service up to a maximum of 30 years of total service. The Board of Commissioners is authorized to provide for increases effective as of January 1 and July 1 of each year up to 1.5% of the maximum monthly retirement benefit then in effect. Members may elect, as an alternate to the benefit described above, to receive a 100% joint life annuity payable during the life of the member or the member's spouse, or a contingency life annuity with a 50% monthly payment to the surviving spouse. The amount of the benefit for these options is an actuarially reduced portion of the single life annuity benefit described above.

Death and Disability Benefits

Any dues paying member who became a member prior to July 1, 1993 and becomes totally and permanently disabled is entitled to receive disability benefits, the amount of which is dependent upon the date of application for disability benefits.

If a member dies before retirement, the beneficiary is entitled to a lump sum of \$3,500. If a member dies in the line of duty and has a designated beneficiary, that beneficiary is eligible to receive a lump sum benefit of \$5,500 to be reduced (to no less than \$2,500) by the amount of any disability benefits received for the causative injury, as described above. If a member dies after retirement, the death benefit of the designated beneficiary is dependent on the amount of retirement benefits previously received by the deceased member. If the deceased member had received \$1,000 or more, the beneficiary is entitled to receive a lump sum of \$2,500. If the deceased member had received less than \$1,000, the beneficiary is entitled to receive an amount that when added to the amount previously received by the deceased member will total \$3,500.

Terminations

At any time before a member begins drawing retirement benefits, the member may request a refund of 95% of all member contributions paid into the Fund during creditable service. No interest is paid on these withdrawals.

Contributions

Funding is provided 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. 47-17-44 and are not actuarially determined. Each member must contribute \$20 per month, to be paid no later than the tenth day of each month.

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
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Nonemployer Contributions: In accordance with O.C.G.A. 47-17-60, the State of Georgia provides nonemployer contributions to the Fund through the collection of fines and forfeitures. For each criminal and quasi-criminal case involving the violation of State of Georgia laws, county ordinances, or municipal ordinances, courts collect and remit the following amounts:

For fines and bond forfeitures in excess of \$4, but not more than \$25	\$3
For fines and bond forfeitures in excess of \$25, but not more than \$50	\$4
For fines and bond forfeitures in excess of \$50, but not more than \$100	\$5
For fines and bond forfeitures in excess of \$100	5%
For pretrial diversion cases	\$5

The fines and forfeitures 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 June 30, 2018, calculated the minimum employer contribution for the fiscal year ended June 30, 2019, as \$10,430,116. The fines and forfeitures revenue of \$14,444,091 for the fiscal year ended June 30, 2019, did meet the minimum required fund contribution.

Administrative Expenses

Administrative expenses are generally funded from current member and nonmember 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 upon receipt 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 Statements 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.

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Notes to Financial Statements

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Cash and Cash Equivalents

Cash and cash equivalents, reported at cost, include cash on deposit at 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 interest rate, credit, foreign currency, 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 consultant. The Fund's policy regarding 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, 2019:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed income	20% - 40%
Equities	30% - 75%
Cash and cash equivalents	0% - 10%
Alternatives	0% - 5%

Approximately 7.99% of the investments held in trust for pension benefits are invested in debt securities of the U.S. government and its instrumentalities, of which 3.82% are U.S. government debt securities and 4.17% 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.

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For the year ended June 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.14%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Capital Assets

Capital assets, including software development costs, are stated at cost less accumulated depreciation. The capitalization thresholds are \$1,000,000 for software, \$100,000 for buildings and building improvements and \$5,000 for equipment and vehicles. Depreciation on capital assets is computed using the straight-line method over estimated useful lives of 5 to 40 years. Depreciation expense is included in administrative expenses. Maintenance and repairs are charged to administrative expense when incurred.

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 2019 financial statements:

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. There are no applicable reporting requirements for the Fund related to this Statement.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*, effective for fiscal years beginning after June 15, 2018. The purpose is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. There are 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 statutes and the Fund's investment policy authorize the Fund to invest in a variety of short-term and long-term securities.

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
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Notes to Financial Statements

June 30, 2019

Cash and Cash Equivalents

The Fund had cash on hand of \$311 at June 30, 2019.

The carrying amount of the Fund's operating account totaled \$137,925 at June 30, 2019, with an actual bank balance of \$164,269. 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 \$123,188 at June 30, 2019. This balance includes \$84,968, which is fully insured through the Securities Investors Protection Corporation, an independent agency of the U.S. Government. This balance also includes \$38,220, which is held in British Pounds and is uncollateralized.

The Fund's investment policy authorizes investment in short-term highly liquid financial securities. At June 30, 2019, the Fund held \$10,101,422 in money market mutual funds and \$15,717,757 in short term investment funds.

Investments

Fixed income investments are maintained in mutual funds, exchanged traded funds, municipal bonds, U.S. Treasury obligations, obligations unconditionally guaranteed by agencies of the U.S. Government, obligations of foreign governments, investment-grade corporate bonds, asset-backed securities, and mortgage-related securities.

Equity investments are maintained in mutual funds, domestic equities, international equities, real estate investment trusts, and private real estate trust. 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 Policies 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 the bond portfolio be of high quality and chosen primarily with respect to the safety and liquidity of the investment and only secondarily by the yield available. The Fund's investment policy also requires that purchases of bonds be restricted to bonds rated as investment grade or higher quality as defined by a nationally recognized rating agency. Obligations

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Notes to Financial Statements

June 30, 2019

of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality.

The quality ratings of investments in fixed income securities at June 30, 2019, as described by Standard & Poor's, which is a nationally recognized statistical rating organization, are shown in the following table:

Quality Ratings of Fixed Income Investments Held at June 30, 2019

Investment Type	Total Fair Value	AAA	AA	A	BBB	BB	Unrated
Debt Securities Subject to Credit Risk:							
Mutual funds	\$ 26,966,360						26,966,360
Exchange traded funds	6,191,349						6,191,349
Municipal bonds	234,765		234,765				
US Agency obligations							
Implicitly guaranteed	30,755,835	227,716	2,069,064				28,459,055
Foreign government obligations	256,960		229,208		27,752		
Corporate debt							
Domestic	42,126,656	524,494	1,124,892	8,377,379	29,577,270	1,323,592	1,199,029
International	7,712,511		880,334	3,346,073	2,965,223	182,028	338,853
Asset-backed securities							
Domestic	19,371,081	13,604,959	1,198,922	876,287	1,072,857		2,618,056
International	3,214,372	3,214,372					
Mortgage-backed securities	4,117,025	1,982,438	306,971				1,827,616
Total Debt Securities Subject to Credit Risk	\$ 140,946,914	19,553,979	6,044,156	12,599,739	33,643,102	1,505,620	\$ 67,600,318
Debt Securities Not Subject to Credit Risk:							
U.S. Treasury obligations	31,818,907						
U.S. Agency obligations							
Explicitly guaranteed	4,005,045						
Total Debt Securities	\$ 176,770,866						

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Notes to Financial Statements

June 30, 2019

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund does not have a formal policy for managing interest rate risk. The following table provides information about the Fund's interest rate risk:

Fair Value of Fixed Income Instruments by Maturity Period - Specific Identification Method Held at June 30, 2019

Investment type	Total Fair Value	Maturity Period				
		Less than 3 Months	4 - 12 Months	1 - 5 Years	6 - 10 Years	More than 10 Years
Debt Securities Subject to Interest Rate Risk:						
Mutual funds	\$ 26,966,360		26,966,360			
Exchange traded funds	6,191,349			4,615,863	1,575,486	
Municipal bonds	234,765			35,903		198,862
U.S. Treasury obligations	31,818,907		1,005,306	11,423,247	14,987,718	4,402,637
U.S. Agency obligations	34,760,880	423	835,713	1,116,934	360,114	32,447,695
Foreign government obligations	256,960			27,752		229,208
Corporate debt						
Domestic	42,126,656	336,205	2,162,713	15,672,115	18,866,695	5,088,927
International	7,712,511		394,851	4,932,189	1,926,054	459,417
Asset-backed securities						
Domestic	19,371,081			12,581,950	3,616,403	3,172,728
International	3,214,372			509,299	2,207,725	497,347
Mortgage-backed securities	4,117,025				306,971	3,810,054
Total Debt Securities Subject to Interest Rate Risk:	\$ 176,770,865	336,628	31,364,943	50,915,252	43,847,167	50,306,876

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, 2019, 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 plan's total investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Fund's currency risk exposures, or exchange rate risks, primarily reside within the Fund's international investment holdings. The Fund does not have a formal policy for managing foreign currency risk. As of June 30, 2019, the Fund's exposure to foreign currency risk in U.S. dollars, is highlighted in the following table:

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International Investment Securities at Fair Value as of June 30, 2019

Investment Type

Cash and Cash Equivalents

Subject to Foreign Currency Risk:

British Pound	\$ <u>38,220</u>
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Equities:

Mutual Funds - International

British Pound	13,826,108
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Stocks - International

British Pound	85,517
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Total Investments subject to Foreign Currency Risk:	\$ <u>13,949,845</u>
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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.

Level 2 – Valuations based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments 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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June 30, 2019

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

Investments Measured at Fair Value as of June 30, 2019

Investments by fair value level	Total	Fair value measures using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash Equivalents:				
Money market mutual funds	\$ 10,101,422		10,101,422	
Short term investment funds	<u>15,717,757</u>		<u>15,717,757</u>	
Total Cash and Cash Equivalents by fair value level	\$ <u>25,819,179</u>		<u>25,819,179</u>	
Debt Securities:				
Mutual Funds	\$ 26,966,360	26,966,360		
Exchange traded funds	6,191,349	6,191,349		
Municipal bonds	234,765		234,765	
U.S. Treasury obligations	31,818,907		31,818,907	
U.S. Agency obligations	34,760,880		34,760,880	
Foreign government obligations	256,960		256,960	
Corporate debt				
Domestic	42,126,656		42,126,656	
International	7,712,511		7,712,511	
Asset-backed securities				
Domestic	19,371,081		19,371,081	
International	3,214,372		3,214,372	
Mortgage-backed securities	4,117,025		4,117,025	
Equities:				
Mutual funds				
Domestic	223,882,158	61,774,178	162,107,980	
International	13,826,108	13,826,108		
Stocks				
Domestic	335,086,069	335,086,069		
International	48,368,371	48,368,371		
Real estate investment trusts	<u>5,527,273</u>	<u>5,527,273</u>		
Total Investments by fair value level	\$ <u>803,460,845</u>	<u>497,739,708</u>	<u>305,721,137</u>	
Investments Measured at NAV				
Private Equity Real Estate Trust	<u>4,007,586</u>			
Total Investments	\$ <u>807,468,432</u>			

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA

(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2019

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Equity securities classified in Level 2 are valued using observable underlying inputs that are market corroborated.

Debt securities classified in Level 1 are valued using prices quoted in active markets. Debt securities classified in Level 2 are valued using either a bid evaluation or a matrix pricing technique. Bid evaluations may include market quotations, yields, maturities, call features and ratings. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. These securities have nonproprietary information that was readily available to market participants, from multiple independent sources, which are known to be actively involved in the market.

Mutual funds classified in Level 1 are valued using prices quoted in active markets for those investment types. Mutual funds classified in Level 2 are valued using observable underlying inputs that are market corroborated.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table.

Investments Measured at the NAV (or its equivalent)

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Notice Period</u>
Private Equity Real Estate	\$ <u>4,007,586</u>	\$ <u>13,992,414</u>	Illiquid	N/A

Private Equity Real Estate Trust includes investments in private equity funds that invest in a portfolio of real estate holdings. These investments are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. These investments are valued by using the NAV provided by the trust as of the last day of each calendar quarter, adjusted by the Fund for cash flows through June 30. The quarterly values of the partnership investment are reviewed by the Fund to determine if any adjustments are necessary. These investments are considered illiquid since the nature of these investments in this category prohibits redemptions through the duration of the partnership, which ranges between 10 to 15 years. Distributions are received through the liquidation of underlying assets of the funds. The Fund currently has no plans to sell any of the investments prior to their liquidation.

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2019

Note 4: Net Pension Liability of Employers and Nonemployers

The components of the collective net pension liability (asset) of the participating employers and nonemployers at June 30, 2019, were as follows:

Total pension liability	\$	802,169,077
Plan fiduciary net position		<u>(825,674,240)</u>
Net pension asset	\$	<u><u>(23,505,163)</u></u>

Plan fiduciary net position as a percentage of total pension liability		102.93%
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Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The roll forward calculation adds the normal cost (also called service costs), subtracts the actual benefit payments and refunds for the plan year, and then applies the discount rate for the year. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	1.9%	
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 blue collar adjustments and 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 scale for disabled lives.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an experience study covering the period June 30, 2008 through June 30, 2015.

The long-term expected rate of return on pension plan investments was calculated by the Fund's investment consultant as 7.27% 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 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 consultant.

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2019

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>
Domestic fixed income	22.60 %	2.00 %
Ultra short fixed income	6.60	1.00
Domestic large equities	31.60	6.70
Domestic mid equities	13.80	7.80
Domestic small cap equities	11.00	7.20
International equities	9.40	6.63
Private real estate	5.00	4.90
Total	<u>100.00 %</u>	

*Rates shown are net of the 1.9% assumed rate of inflation

Discount Rate

The discount rate used to measure the total pension liability was 6.50%, based on the expected long-term rate of return on pension investments of 7.27%, but assuming an annual rate of inflation of 1.90%. 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 expected 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 (asset) of the Fund, calculated using the discount rate of 6.50%, as well as what the Fund's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50%) or 1-percentage-point higher (7.50%) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Current discount rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Employer's and nonemployers' net pension liability (asset)	<u>\$ 75,945,465</u>	<u>(23,505,163)</u>	<u>(105,897,480)</u>

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Financial Statements

June 30, 2019

Note 5: Subsequent Events

During the fiscal year under review, the Board of Commissioners approved a 1.5% cost-of-living adjustment to the benefit terms effective January 1, 2020.

In December 2019, a strain of coronavirus (COVID-19) began to spread worldwide, resulting in a severe impact to the United States economy in March 2020. The spread of COVID-19 has had a negative impact on virtually all businesses and individuals which comprise the tax base of all levels of government. The full extent of this impact is uncertain but is expected to have negative results on financial operations. The complete impact cannot be reasonably estimated at this time, however, below are some of the known impacts of the COVID-19 event.

At June 30, 2019, investments held in agent, custodial banks in the name of the Fund were valued at \$807,468,432. Based on most recent available information as of March 31, 2020, these investments have experienced a significant decline in value to an amount estimated at \$707,823,126, a decrease of 12.3%.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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PEACE OFFICERS' ANNUITY AND BENEFIT 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)

	2019	2018	2017	2016	2015	2014
Total pension liability	\$ 802,169,077	781,280,969	742,608,761	747,483,662	720,212,697	674,724,912
Plan fiduciary net position	825,674,240	795,272,812	754,614,593	689,020,910	703,535,505	698,888,740
Employers' and nonemployers' net pension liability (asset)	\$ (23,505,163)	(13,991,843)	(12,005,832)	58,462,752	16,677,192	(24,163,828)
Plan fiduciary net position as a percentage of the total pension liability	102.93%	101.79%	101.62%	92.18%	97.68%	103.58%
Covered payroll	N/A	N/A	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	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.

PEACE OFFICERS' ANNUITY AND BENEFIT 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)

	2019	2018	2017	2016	2015	2014
Total pension liability:						
Service cost	\$ 14,015,493	13,770,913	15,049,173	12,825,926	13,084,414	17,889,962
Interest	49,361,069	48,065,558	52,254,836	50,242,311	47,138,110	43,876,585
Change of benefit terms	12,271,275	11,546,024	0	0	0	0
Differences between expected and actual experience	(17,615,808)	(350,262)	(6,614,890)	(4,688,487)	0	0
Changes of assumptions	0	0	(32,941,939)	0	14,576,503	0
Benefit payments	(36,683,905)	(33,889,830)	(32,216,207)	(30,696,141)	(28,878,531)	(27,263,352)
Refunds of member contributions	(460,016)	(470,195)	(405,874)	(412,644)	(432,711)	(436,639)
Net change in total pension liability	20,888,108	38,672,208	(4,874,901)	27,270,965	45,487,785	34,066,556
Total pension liability - beginning	781,280,969	742,608,761	747,483,662	720,212,697	674,724,912	640,658,356
Total pension liability - ending (a)	802,169,077	781,280,969	742,608,761	747,483,662	720,212,697	674,724,912
Plan fiduciary net position:						
Contributions - nonemployer	14,444,091	13,825,699	14,004,975	14,712,821	15,340,930	15,342,296
Contributions - member	3,541,866	3,459,827	3,481,782	3,526,325	3,537,427	3,531,388
Net investment income	50,632,822	58,715,685	81,610,211	(836,587)	15,770,563	103,599,538
Miscellaneous	118,573	92,873	65,502	65,501	64,546	90,040
Benefit payments	(36,683,905)	(33,889,830)	(32,216,207)	(30,696,141)	(28,878,531)	(27,263,352)
Refund of member contributions	(460,016)	(470,195)	(405,874)	(412,644)	(432,711)	(436,639)
Administrative expense	(1,192,003)	(1,075,840)	(946,706)	(873,870)	(755,459)	(730,002)
Net change in plan fiduciary net position	30,401,428	40,658,219	65,593,683	(14,514,595)	4,646,765	94,133,269
Plan fiduciary net position - beginning	795,272,812	754,614,593	689,020,910	703,535,505	698,888,740	604,755,471
Plan fiduciary net position - ending (b)	825,674,240	795,272,812	754,614,593	689,020,910	703,535,505	698,888,740
Net pension liability (asset) - ending (a) - (b)	\$ (23,505,163)	(13,991,843)	(12,005,832)	58,462,752	16,677,192	(24,163,828)

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.

PEACE OFFICERS' ANNUITY AND BENEFIT 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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined employer and nonemployer contribution	\$ 10,430,116	11,350,828	12,651,232	18,082,091	17,814,948	22,340,743	22,343,059	19,760,211	19,760,211	14,034,429
Contributions in relation to the actuarially determined contribution	<u>14,444,091</u>	<u>13,825,699</u>	<u>14,004,975</u>	<u>14,712,821</u>	<u>15,340,930</u>	<u>15,342,296</u>	<u>15,471,981</u>	<u>16,256,050</u>	<u>16,185,126</u>	<u>17,281,914</u>
Contribution deficiency (excess)	<u>\$ (4,013,975)</u>	<u>(2,474,871)</u>	<u>(1,353,743)</u>	<u>3,369,270</u>	<u>2,474,018</u>	<u>6,998,447</u>	<u>6,871,078</u>	<u>3,504,161</u>	<u>3,575,085</u>	<u>(3,247,485)</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.

PEACE OFFICERS' ANNUITY AND BENEFIT 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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	6.14%	7.89%	11.91%	0.08%	2.53%	18.49%

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.

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Required Supplementary Information

June 30, 2019

(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: For fiscal year 2019, a 1.5% cost-of-living adjustment effective July 1, 2018.

For fiscal year 2020, a 1.5% cost-of-living adjustment effective January 1, 2020.

Changes of assumptions: None

Methods and assumptions used in calculations of actuarially determined contributions: For fiscal years ending before June 30, 2015, the actuarially determined contribution in the Schedule of Employer and Nonemployer Contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. Beginning with the June 30, 2015 fiscal year, the actuarially determined contribution is calculated as of June 30 of the prior fiscal year.

PEACE OFFICERS' ANNUITY AND BENEFIT FUND OF GEORGIA
(A Component Unit of the State of Georgia)

Notes to Required Supplementary Information

June 30, 2019

(Unaudited)

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, 2018
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

**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

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GREG S. GRIFFIN
STATE AUDITOR
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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 Brian P. Kemp, Governor of Georgia
Members of the General Assembly of the State of Georgia
Board of Commissioners of the Peace Officers' Annuity and Benefit 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 Peace Officers' Annuity and Benefit Fund of Georgia (the Pension Fund), a component unit of the State of Georgia, which include the statement of fiduciary net position as of June 30, 2019, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Pension Fund's basic financial statements, and have issued our report thereon dated April 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pension Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pension Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and

corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Greg S. Griffin
State Auditor

April 10, 2020