Georgia Firefighters' Pension Fund

Financial Statements

Fiscal Year Ended June 30, 2018

(With Independent Auditors' Report Thereon)

GEORGIA FIREFIGHTERS' PENSION FUND
(A Component Unit of the State of Georgia)

- TABLE OF CONTENTS -

	Page
SECTION I - FINANCIAL	
Independent Auditor's Report	1
Basic Financial Statements	
Statement of Fiduciary Net Position	6
Statement of Changes in Fiduciary Net Position	7
Notes to Financial Statements	8
Required Supplementary Information (Unaudited)	
Schedule of Employers' and Nonemployers' Net Pension Liability	23
Schedule of Changes in Employers' and Nonemployers' Net Pension Liability	24
Schedule of Employer and Nonemployer Contributions	25
Schedule of Investment Returns	26
Notes to Required Supplementary Information	27
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*	32

(This page intentionally left blank)

SECTION I - FINANCIAL

(This page intentionally left blank)

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

Independent Auditor's Report

The Honorable Brian P. Kemp, Governor of Georgia
Members of the General Assembly of the State of Georgia
Board of Trustees of the Georgia Firefighters' Pension Fund
Mr. C. Morgan Wurst, Executive Director

Report on the Financial Statements

We have audited the accompanying financial statements of the Georgia Firefighters' Pension Fund (the Pension Fund), a component unit of the State of Georgia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Pension Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Fund, as of June 30, 2018, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of 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 23-26 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 May 31, 2019 on our consideration of the Pension 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 Pension Fund's internal control over financial reporting and compliance.

Respectfully submitted,

Greg S. Griffin
State Auditor

May 31, 2019

(This page intentionally left blank)

BASIC FINANCIAL STATEMENTS

GEORGIA FIREFIGHTERS' PENSION FUND
(A Component Unit of the State of Georgia)

Statement of Fiduciary Net Position

June 30, 2018

Assets:				
Cash and cash equivalents				$ 52,802,540
Receivables:				
Interest and dividends	$ 2,078,103			
Due from brokers for securities sold	7,155,681			
Total receivables				9,233,784
Investments - at fair value:				
Obligations:				
Municipal bonds	114,957			
U.S. Treasury obligations	29,763,338			
U.S. Agency obligations:				
U.S. Government Explicitly Guaranteed	1,873,392			
U.S. Government Implicitly Guaranteed	19,786,938			
Foreign Government Bonds	79,798			
Corporate bonds/notes/debentures:				
Domestic	93,702,702			
International	10,746,780			
Asset-backed securities:				
Domestic	6,325,912			
International	5,130,517			
Mortgage investments:				
Domestic	95,183,862			
International	2,919,877	$ 265,628,073		
Equities:				
Mutual funds	209,346,798			
Commingled funds	121,836,666			
Stocks:				
Domestic	191,446,438			
International	27,371,153			
Real estate investment trusts	42,223,986	592,225,041		
Total investments				857,853,114
Capital assets, net				1,067,547
Other assets				113,972
Total assets				921,070,957
Liabilities:				
Accounts payable and other accruals				2,399,576
Due to brokers for securities purchased				23,741,612
Compensated absences payable				59,162
Total liabilities				26,200,350
Net position restricted for pensions				$ 894,870,607

See accompanying notes to financial statements.

GEORGIA FIREFIGHTERS' PENSION FUND
(A Component Unit of the State of Georgia)

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2018

Additions:		
Contributions:		
Nonemployer		$ 35,715,254
Members		3,960,290
Other fees		399,054
Net investment income:		
Net increase in fair value of investments	$ 45,267,313	
Interest, dividends, and other	20,544,432	
Miscellaneous Investment Income	319,002	
Less investment expense	(5,055,029)	61,075,718
Total additions		101,150,316
Deductions:		
Benefit payments		47,255,725
Refunds of member contributions		953,506
Administrative expenses, net		1,484,270
Total deductions		49,693,501
Net change in net position		51,456,815
Net position restricted for pensions:		
Beginning of year		843,413,792
End of year		$ 894,870,607

See accompanying notes to financial statements.

(1) Plan Description

The Georgia Firefighters' Pension Fund (the Pension Fund) was created in 1955 by an act of the Georgia Legislature (the Act) for the purpose of paying retirement benefits to firefighters of the State of Georgia who qualify under the Act. The Pension Fund administers a cost-sharing, multiple-employer defined benefit pension plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The Board of Trustees of the Pension Fund is comprised of five members and consists of the Governor or his designee, the Commissioner of Insurance or his designee, two active members of the Pension Fund appointed by the Governor and one retired beneficiary of the Pension Fund appointed by the Governor. The Board of Trustees is ultimately responsible for the administration of the Pension Fund.

(a) Eligibility and Membership

Any person employed as a firefighter or enrolled as a volunteer firefighter within the State of Georgia or any regular employee of the Pension Fund is eligible for membership.

As of June 30, 2018, participation in the Pension Fund is as follows:

Retired members and beneficiaries currently receiving benefits including members receiving disability benefits	5,595
Terminated members not yet receiving benefits, vested	331
Inactive members, non-vested	2,358
Active plan members	13,483
Total	21,767

(b) Participating Employers and Other Contributing Entities

At June 30, 2018, the active members of the Pension Fund were employed by 434 employers. The Pension Fund had one nonemployer contributing entity, the State of Georgia.

(c) Retirement Benefits

The Pension 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 member is eligible to receive retirement benefits at age 55 provided the member has 25 years of service. A member is eligible to receive a pro rata share of benefits, at the latter of age 55 or at the member's termination as a firefighter or volunteer firefighter, after at least 15 years of service (amount received to be the maximum benefit amount times a ratio of years of service to 25 years). At age 50, a member may elect to receive a percentage of benefits to which the member would have been eligible to receive at age 55. Members may not receive benefits while they are still an employee of a fire department or of the Pension Fund. Members may receive benefits and continue service as a volunteer firefighter as long as they receive no form of compensation for their volunteer department activity.

The maximum retirement benefit at June 30, 2018 is $913 per month for the life of the member. The Board of Trustees is authorized to provide for ad hoc cost-of-living adjustments (COLAs) effective as of January 1 and July 1 of each year up to 1½% of the maximum retirement benefit then in effect. Members retiring after July 1, 1984 with service in excess of 25 years are entitled to an additional 1% of the maximum benefit in effect at the time of retirement for each additional full year of service. Members retiring after July 1, 2002 with service in excess of 25 years are entitled to an additional 2% of the maximum benefit in effect at the time of retirement for each additional full year of service.

Members may elect, as an alternate to the benefit described above, to receive either:

- the joint and survivor option, which is an actuarially reduced benefit payable during the joint lifetime of the member and the member's spouse, continuing after the death of the member through the lifetime of the spouse, or
- the ten years' certain and life option, which is a reduced benefit during the member's lifetime. In the event of the members' death within 10 years of retirement, the same monthly benefits continue to be paid to the member's selected beneficiary for the balance of the 10 year period.

(d) Disability Benefits

Subject to the approval of the Board of Trustees, any firefighter or volunteer firefighter, who was an active member, and became totally and permanently disabled, applied for disability benefits, and was awarded such benefits prior to July 1, 1993 is entitled to a monthly disability benefit. The disability would need to have resulted from injuries suffered while performing duties of the position to which he was regularly assigned or was rendered, by heart disease or respiratory disease, totally and permanently disabled and as a result of such physical disability, was separated from his work as a firefighter or appointment as a volunteer firefighter.

(e) Death Benefits

- In the event of the death of an active member of the Pension Fund who has not commenced receiving any benefits, the designated beneficiary of such deceased member is entitled to be paid the amount of $5,000.
- In the event of the death of an active member of the Pension Fund who has commenced receiving benefits, but who has not received total benefits in the amount of $5,000; the designated beneficiary of such deceased member is entitled to receive the difference between $5,000 and the amount of benefits received by such deceased member.
- In the event of the death of a member with 15 years of service, prior to commencing benefits, the spouse or beneficiary of the member is entitled to the retirement benefit elected to have been received by the member in accordance with the terms above.

(f) Termination

In the event a member terminates prior to receiving retirement benefits, 95% of the member's contribution will be returned. No interest is paid upon amounts so withdrawn.

(g) Contributions

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

Member Contributions: Member contribution requirements are set forth in O.C.G.A. 47-7-60 and are not actuarially determined. Each member must contribute $25 per month, to be paid no later than the tenth day of each month.

Nonemployer Contributions: In accordance with O.C.G.A 47-7-61, the State of Georgia has imposed an insurance premium tax of 1% on the gross premiums for fire, lightning, or extended coverage, inland marine or allied lines, and windstorm insurance policies covering property within Georgia. Insurance companies remit the insurance premium taxes due directly to the Pension Fund. These insurance premium taxes are considered to be made by the State of Georgia as the nonemployer contributing entity.

In accordance with O.C.G.A. 47-20-10, the insurance premiums tax is considered employer contributions for the purpose of determining whether the Pension Fund has met minimum funding requirements. This statute also prohibits any action to grant a benefit increase until such time as the minimum annual contribution requirements meet or exceed legislative requirements. The actuarial valuation as of June 30, 2018, calculated the minimum employer contribution for the fiscal year ended June 30, 2018, as $28,190,699. The insurance premium tax revenue of $35,715,254 for the fiscal year ended June 30, 2018, meets the minimum required fund contribution.

(h) Administrative Expenses

Administrative expenses are generally paid from current member dues and insurance premium taxes. Investment earnings may be utilized to pay any expenses in excess of contributions.

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

(a) Basis of Accounting

The Pension Fund's financial statements are prepared on the accrual basis of accounting, except for nonemployer contributions which are recognized upon receipt. Any accrual of these nonemployer contributions would be immaterial to the Pension 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.

(b) Reporting Entity

The Pension 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 Pension 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 Pension Fund.

(c) Cash and Cash Equivalents

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

(d) Investments

Investments are 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.

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.

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

The Pension Fund's policy in regard to the allocation of invested assets is established and may be amended by the Pension Fund's Board. 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 Pension Fund's asset allocation policy is shown below in the following table.

Asset class	Target allocation
Domestic fixed income	19.5% - 49.5%
Domestic equities	16% - 46%
International equities	9.5% - 29.5%
Other	5% - 25%
Total	100%

The Pension 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 Pension Fund's net position restricted for pensions.

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of all investment management expenses and additional plan investment related expenses, was 7.76%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(e) Use of Estimates

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

(f) New Accounting Pronouncements

During fiscal year 2018, the Pension Fund adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The Pension Fund does not hold any AROs. Therefore, the implementation of GASB Statement No. 83 did not impact the amounts recorded or disclosures in the financial statements.

During fiscal year 2018, the Pension Fund adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* This Statement's primary objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The implementation of GASB Statement No. 88 did not impact the amounts recorded or disclosures in the financial statements.

(3) Investment Program

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

(a) Cash and Cash Equivalents

The Pension Fund has cash on hand of $256 at June 30, 2018.

The carrying amount of the Pension Fund's deposits totaled $180,598 at June 30, 2018, with actual bank balances of $339,396. $250,000 of the Pension Fund's cash balances are insured through the Federal Deposit Insurance Corporation, an independent agency of the U.S. Government with the remaining $89,396 being insured through the Georgia Secured Deposit Program.

The carrying amount of the Pension Fund's cash balances maintained within an investment account is $434,178, which is also the investment account's balance. $250,000 of this balance is insured through the Securities Investors Protection Corporation, an independent agency of the U.S. Government, with the remaining balance of $184,178 being exposed to credit risk and uncollateralized.

Short-term highly liquid financial securities are authorized in the investment policy of the Pension Fund in a short term investment fund. This investment is classified as a cash equivalent on the Pension Fund's Statement of Fiduciary Net Position. At June 30, 2018, the Pension Fund held $52,187,508 in a short term investment fund.

(b) Investments

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

Equity investments are maintained in "pooled investments", mutual funds, domestic equities, both developed and emerging market international equities, and real estate investment trusts.

Equity securities are also authorized by the Public Retirement System Investment Authority Law for investment as a complement to the Pension Fund's fixed income portfolio and as a long-term inflation hedge. By statute, no more than 75% of the total invested assets on a historical cost basis may be placed in equities. The equity portfolio is managed by the Pension Fund in conjunction with independent advisors. Buy/sell decisions are based on securities meeting rating criteria established by the investment policy of the Pension Fund. Equity trades are approved and executed by the independent advisors. Common stocks eligible for investment must meet the General Investment Policies and Guidelines of the Pension Fund's investment policy.

Fair Value Measurements: The Pension 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 valuations 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 fair value 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 Pension Fund's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each investment. The following table shows the fair value leveling of the Pension Fund's investments.

		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)
Cash and Cash Equivalents:				
Short Term Investment Fund	$ 52,187,508	-	52,187,508	-
Debt Securities:				
Municipal bonds	114,957	-	114,957	-
U.S. Treasury obligations	29,763,338	-	29,763,338	-
U.S. Agency obligations	21,660,330	-	21,660,330	-
Foreign government obligations	79,798	-	79,798	-
Corporate debt				
Domestic	93,702,702	-	93,702,702	-
International	10,746,780	-	10,746,780	-
Asset-backed securities				
Domestic	6,325,912	-	6,325,912	-
International	5,130,517	-	5,130,517	-
Mortgage-backed securities				
Domestic	95,183,862	-	95,183,862	-
International	2,919,877	-	2,919,877	-
Total debt securities	265,628,073	-	265,628,073	-
Equities:				
Mutual funds	176,252,248	176,252,248	-	-
Commingled funds	121,836,666	-	121,836,666	-
Stocks				
Domestic	191,446,438	191,446,438	-	-
International	27,371,153	27,371,153	-	-
Real estate investment trusts	42,223,986	42,223,986	-	-
Total equity securities	559,130,491	437,293,825	121,836,666	-
Total Investments by fair value level	824,758,564	437,293,825	387,464,739	-
Investments measured at NAV				
Private Equity Fund of Funds	33,094,550			
Total Investments	$ 857,853,114			

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 are valued using a third party pricing evaluation services.

Mutual funds classified in Level 1 are valued using prices quoted in active markets for those investment types. Commingled 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 on the following table.

Investments Measured at the NAV (or its equivalent)

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Notice Period
Private Equity Fund of Funds	$ 33,094,550	21,063,663	Illiquid	N/A

Private Equity Fund of Funds includes investment in private equity funds that invest in a portfolio of other private equity funds. 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 General Partner as of March 31 of each fiscal year, adjusted by the Pension Fund for cash flows through June 30. The quarterly values of the partnership investments provided from the general partner are reviewed by the Pension Fund to determine if any adjustments are necessary. The types of partnership strategies currently held include buyout, growth equity, credit-focused, venture capital and global secondary investments. 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 Pension Fund currently has no plans to sell any of the investments prior to their liquidation resulting in these assets being carried at the NAV estimated by the general partner and adjusted quarterly for cash flows by the Pension Fund.

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

		Maturity Period				
Fixed income investment type	**Total Fair Value**	**Less than 3 Months**	**4 - 12 Months**	**1 - 5 Years**	**6 - 10 Years**	**More than 10 Years**
Short term investment fund	$ 52,187,508	52,187,508	-	-	-	-
Municipal bonds	114,957	-	-	114,957	-	-
U.S. Treasury obligations	29,763,338	-	1,901,870	12,761,743	9,874,912	5,224,813
U.S. Agency obligations	21,660,330	1,699	-	8,174	524,995	21,125,462
Corporate debt						
Domestic	93,702,702	1,537,425	10,871,556	39,151,496	23,272,612	18,869,613
International	10,746,780	-	1,698,916	4,034,116	4,310,424	703,324
Other Debt International	79,798	-	-	-	24,125	55,673
Asset-backed securities						
Domestic	6,325,912	-	-	4,739,171	897,633	689,108
International	5,130,517	-	-	99,569	2,408,033	2,622,915
Mortgage investments						
Domestic	95,183,862	-	-	2,663	2,452,457	92,728,742
International	2,919,877	-	-	-	-	2,919,877
Total fixed income investments	$317,815,581	53,726,632	14,472,342	60,911,889	43,765,191	144,939,527

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Pension Fund's investment in a single issuer. At June 30, 2018, the Pension Fund did not have any 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 net position.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Pension Fund's currency risk exposures, or exchange rate risks, primarily reside within the Pension Fund's international cash and equity investment holdings. The Pension Fund's Board-adopted foreign exchange risk management policy is to minimize risk and protect the investments from negative impact by hedging foreign currency exposures with foreign exchange instruments when market conditions and circumstances are deemed appropriate.

The following table provides information about the Pension Fund's foreign currency risk exposure in U.S. Dollars as of June 30, 2018:

International investment securities at fair value as of June 30, 2018

	Currency		Equities	Fixed Income	Cash	Total
AUD	Australian Dollar	$	1,579,253	-	1,650	1,580,903
GBP	British Pound		2,462,533	-	10,689	2,473,222
CAD	Canadian Dollar		2,286,202	-	21,855	2,308,057
EUR	Euro		4,928,283	-	23,168	4,951,451
JPY	Japanese Yen		277,853	-	2,264	280,117
NOK	Norwegian Krone		342,926	-	-	342,926
SEK	Swedish Krona		797,270	-	-	797,270
CHF	Swiss Franc		155,388	-	-	155,388
	Total holdings subject to foreign currency risk		12,829,708	-	59,626	12,889,334
	Investment securities payable in U.S. dollars		14,541,445	18,876,972	-	33,418,417
	Total international investments - at fair value	$	27,371,153	18,876,972	59,626	46,307,751

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Pension Fund. State law limits investments to investment grade securities. The Pension Fund's investment policy requires purchases of fixed income securities to be rated **BBB** or higher at the time of purchase by a nationally recognized rating organization. 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.

The following table presents the quality ratings of investments in fixed income securities at June 30, 2018, has been prepared using Standard & Poor's Corporation rating scales:

Quality Ratings of Fixed Income Investments
Held at June 30, 2018

Investment Type	Total Fair Value	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated
Cash and cash equivalents subject to credit risk:												
Short term investment funds	$ 52,187,508	-	-	-	-	-	-	-	-	-	-	52,187,508
Debt securities subject to credit risk:												
Municipal bond	114,957	-	114,957	-	-	-	-	-	-	-	-	-
U.S. Agency obligations												
- implicitly guaranteed	19,786,938	1,699	-	58,655	178,675	-	-	-	-	-	-	19,547,909
Corporate debt												
Domestic	93,702,702	378,515	5,326,253	22,644,673	58,983,358	3,342,292	-	-	-	-	-	3,027,611
International	10,746,780	-	679,199	4,358,369	4,897,001	812,211	-	-	-	-	-	-
Other international debt	79,798	-	-	-	79,798	-	-	-	-	-	-	-
Asset-backed securities												
Domestic	6,325,912	5,389,008	145,103	93,780	450,225	-	-	-	-	-	-	247,796
International	5,130,517	5,130,517		-	-	-	-	-	-	-	-	
Mortgage investments												
Domestic	95,183,862	29,523,883	17,702,510	9,326,820	6,799,619	2,708,279	1,228,795	3,067,180	579,320	245,140	407,455	23,594,861
International	2,919,877	1,618,875	-	-	-	-	-	-	-	-	-	1,301,002
Total debt securities subject to credit risk	233,991,343	42,042,497	23,968,022	36,482,297	71,388,676	6,862,782	1,228,795	3,067,180	579,320	245,140	407,455	47,719,179
Debt securities not subject to credit risk:												
U.S. Treasury obligations	29,763,338											
U.S. Agency obligations explicitly guaranteed	1,873,392											
Total debt securities	$ 265,628,073											

(4) Securities Lending Program

State statutes permit the Pension Fund to lend its securities to broker/dealers with a simultaneous agreement to return the collateral for the same securities in the future. The Pension Fund is presently involved in a securities lending program with major brokerage firms. The Pension Fund lends equity and fixed income securities for varying terms and receives a fee based on the loaned securities' value. During a loan the Pension Fund continues to receive dividends and interest as the owner of the loaned securities. The brokerage firms pledge collateral securities consisting of cash (U.S.), securities issued or guaranteed by the United States government or its agencies or instrumentalities, and such other collateral as the parties may agree to in writing from time to time. The collateral value must be equal to at least 102% to 105% of the loaned securities' value, depending on the type of collateral security.

Securities loaned totaled $49,082,087 at June 30, 2018. The collateral value was equal to 102.9% of the loaned securities' value at June 30, 2018. The Pension Fund's lending collateral was held in the Pension Fund's name by the custodian.

Loaned securities are included in the accompanying statement of fiduciary net position since the Pension Fund maintains ownership. The related collateral securities are not recorded as assets on the Pension Fund's statement of fiduciary net position and a corresponding liability is not recorded, since the Pension Fund is deemed not to have the ability to pledge or trade the collateral securities. The Pension Fund is deemed not to have the ability to pledge or sell the collateral securities, since the Pension Fund's lending contracts do not address whether the lender can pledge or sell the collateral securities without a borrower default, the Pension Fund has not previously demonstrated that ability, and there are no indications of the Pension Fund's ability to pledge or sell the collateral securities.

(5) Net Pension Liability of Employers and Nonemployers

The components of the net pension liability of the participating employers and nonemployers at June 30, 2018, were as follows:

Total pension liability	$ 1,065,924,289
Plan fiduciary net position	894,870,607
Employers' and nonemployers' net pension liability	$ 171,053,682
Plan fiduciary net position as a percentage of the total pension liability	83.95%

Actuarial assumptions: The total pension liability was determined based on an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement date of June 30, 2018:

Inflation	2.75%
Salary increases	N/A
Investment rate of return	6.00%, net of pension plan investment expense, including inflation

Mortality rates for pre-retirement were based on the RP-2000 Employee Mortality Table projected to 2025 with Projection Scale BB. Mortality rates for post-retirement and for dependent beneficiaries were based on the RP-2000 Blue Collar Mortality Table projected to 2025 with projection scale BB set forward 1 year for males and 4 years for females. For current disability retirees, mortality rates are based on the RP-2000 Disabled Mortality Table projected to 2025 with projection scale BB set forward 5 years for males and 3 years for females, however there are no longer any disability benefits included in the plan.

Eighty percent of active members are assumed to be married with the male three years older than his spouse. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the six-year period ending June 30, 2015 dated November 4, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate arithmetic expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These assumptions are converted into nominal assumptions by adding inflation, and then combined by weighting them by the target asset allocation percentages.

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

Asset Class	Target Allocation	Long-term expected real rate of return*
Investment grade corporate credit	12.00 %	2.20 %
Mortgage-backed securities	12.00	0.71
Core bonds	10.50	1.14
Large cap equities	15.50	5.92
Small/mid cap equities	15.50	6.71
International unhedged equities	13.00	6.71
Emerging international equities	6.50	9.46
Private equity	5.00	8.73
Real estate (core)	5.00	4.38
Real assets (liquid)	5.00	4.63
Total	100.00 %	

* Rates shown are net of inflation

Discount rate: The discount rate used to measure the total pension liability was 6.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that nonemployer contributing entity contributions will remain at the level contributed the previous fiscal year. 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.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed that plan member contributions and nonemployer contributing entity contributions will be made at the current contribution rates. These rates are shown in the following table:

Calendar Year	Monthly Employee Dues	Estimated nonemployer contributing entity annual contribution
2019 and thereafter	$25	$35.7 million

***Municipal bond rate*:** The discount rate determination does not use a municipal bond rate.

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2118.

Sensitivity analysis: The following table presents the net pension liability of the employers and nonemployers, calculated using the discount rate of 6.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.0%) or 1-percentage-point higher (7.0%) than the current rate:

	1% Decrease (5.0%)	Current discount rate (6.0%)	1% Increase (7.0%)
Employers' and nonemployers' net pension liability	$ 313,594,031	171,053,682	53,386,130

Actuarial valuation date: The total pension liability is based on the actuarial assumptions and methods used in the June 30, 2018 actuarial valuation of the plan.

(6) Subsequent Event

Effective July 1, 2018, a one-time 1% cost-of-living-adjustment (COLA) was granted to retired members and beneficiaries and to the benefit rate for future retirees. The effect of this change to benefits has been included in the calculation of total pension liability as measured on June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

GEORGIA FIREFIGHTERS' PENSION FUND
(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)

		2018	2017	2016	2015	2014
Total pension liability	$	1,065,924,289	1,007,204,835	970,155,843	923,834,927	848,313,817
Plan fiduciary net position		894,870,607	843,413,792	766,677,306	767,332,949	761,114,847
Employers' and nonemployers' net pension liability	$	171,053,682	163,791,043	203,478,537	156,501,978	87,198,970
Plan fiduciary net position as a percentage of the total pension liability		83.95%	83.74%	79.03%	83.06%	89.72%
Covered payroll		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

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.

GEORGIA FIREFIGHTERS' PENSION FUND
(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)

		2018	2017	2016	2015	2014
Total pension liability:						
Service cost	$	19,713,340	19,556,923	19,397,345	18,376,925	17,889,112
Interest		58,986,013	56,846,696	54,163,727	53,833,446	51,849,649
Benefit changes		20,552,907	9,980,125	14,200,990	-	-
Differences between expected and actual experience		7,676,425	(3,912,946)	771,150	(11,447,786)	-
Changes of assumptions		-	-	-	54,972,451	-
Benefit payments		(47,255,725)	(44,301,102)	(41,561,617)	(39,379,163)	(37,530,118)
Refunds of member contributions		(953,506)	(1,120,704)	(650,679)	(834,763)	(693,549)
Net change in total pension liability		58,719,454	37,048,992	46,320,916	75,521,110	31,515,094
Total pension liability - beginning		1,007,204,835	970,155,843	923,834,927	848,313,817	816,798,723
Total pension liability - ending (a)		1,065,924,289	1,007,204,835	970,155,843	923,834,927	848,313,817
Plan fiduciary net position:						
Contributions - nonemployer		35,715,254	34,152,048	32,683,880	31,489,129	30,034,219
Contributions - member		4,359,344	4,288,737	4,246,631	4,192,647	3,835,566
Net investment income		61,075,718	85,058,108	5,972,056	12,079,550	111,503,343
Miscellaneous		0	40	16,576	-	544,132
Benefit payments		(47,255,725)	(44,301,102)	(41,561,617)	(39,379,163)	(37,530,118)
Administrative expense		(1,484,270)	(1,340,641)	(1,362,490)	(1,329,298)	(1,209,094)
Refunds of member contributions		(953,506)	(1,120,704)	(650,679)	(834,763)	(693,549)
Net change in plan fiduciary net position		51,456,815	76,736,486	(655,643)	6,218,102	106,484,499
Plan fiduciary net position - beginning		843,413,792	766,677,306	767,332,949	761,114,847	654,630,348
Pla Plan fiduciary net position - ending (b)		894,870,607	843,413,792	766,677,306	767,332,949	761,114,847
Net pension liability - ending (a) - (b)	$	171,053,682	163,791,043	203,478,537	156,501,978	87,198,970

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.

GEORGIA FIREFIGHTERS' PENSION FUND
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedule of Employer and Nonemployer Contributions

For the year ended June 30

(Unaudited)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined employer and nonemployer contribution	$ 28,190,699	28,987,131	28,030,287	26,215,027	28,955,864	29,994,798	29,994,798	36,030,805	36,030,805	22,845,197
Contributions in relation to the actuarially determined contribution	35,715,254	34,152,048	32,683,880	31,489,129	30,034,219	28,441,739	27,073,306	25,965,514	25,328,493	26,446,590
Contribution deficiency (excess)	$ (7,524,555)	(5,164,917)	(4,653,593)	(5,274,102)	(1,078,355)	1,553,059	2,921,492	10,065,291	10,702,312	(3,601,393)
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.

GEORGIA FIREFIGHTERS' PENSION FUND
(A Component Unit of the State of Georgia)

Required Supplementary Information

Schedule of Investment Returns

For the year ended June 30

(Unaudited)

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	7.76%	11.10%	0.96%	1.23%	17.60%

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.

(1) Schedule of Employers' and Nonemployers' Net Pension Liability

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

(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.

(3) Schedule of Employer and Nonemployer Contributions

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

(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.

(5) Actuarial Methods and Assumptions

Changes of benefit terms:

- In 2016, a one-time 1.5% Cost-of-Living Adjustment (COLA) was granted to retired members and beneficiaries and to the benefit rate for future retirees effective as of July 1, 2016.
- In 2017, a one-time 1% Cost-of-Living Adjustment (COLA) was granted to retired members and beneficiaries and to the benefit rate for future retirees effective as of July 1, 2017.
- In 2018, a one-time 1% Cost-of-Living Adjustment (COLA) was granted to retired members and beneficiaries and to the benefit rate for future retirees effective as of January 1, 2018 and an additional 1% COLA was granted July 1, 2018.

Changes of assumptions and methods: In 2015 the following changes were made:

- The assumed investment rate of return was lowered from 6.5% to 6.0%.
- The assumed rate of inflation was lowered from 3.0% to 2.75%
- Rates of withdrawal and retirement were adjusted to more closely reflect actual experience.
- Rates of mortality were adjusted during the most recent experience study. Pre-retirement mortality rates were changed to the RP 2000 employee mortality table projected to 2025 with projection scale BB set forward 1 year for males and 4 years for females. Post-retirement mortality rates were changed to the RP 2000 blue collar mortality table projected to 2025 with projection scale BB set forward 5 years for males and 3 years for females, however there are no

longer any disability benefits included in the plan. Post-disability mortality rates were changed to the RP 2000 disabled mortality table projected to 2025 with projection scale BB.

In 2013, a funding policy was adopted that changes the amortization period of the unfunded actuarial accrued liability from 15 to 30 years.

Methods and assumptions used in calculations of actuarially determined contributions: The actuarially determined contribution rates in the Schedule of Employer and Nonemployer Contributions are calculated as of the June 30th prior to the fiscal year end in which contributions are reported. The following actuarial methods and assumptions were used to determine actuarial contribution rates reported in that schedule:

Valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	27.0 years
Asset valuation method	5-year smoothed market with 15% corridor
Inflation rate	2.75%
Salary increases	N/A
Investment rate of return	6.0%, net of pension plan investment expense, and including inflation

(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)

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 Brian P. Kemp, Governor of Georgia
Members of the General Assembly of the State of Georgia
Board of Trustees of the Georgia Firefighters' Pension Fund
Mr. C. Morgan Wurst, Executive Director

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 Georgia Firefighters' Pension Fund (the Pension Fund), a component unit of the State of Georgia, which include the statement of fiduciary net position as of June 30, 2018, 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 May 31, 2019.

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 opinions 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

May 31, 2019