

Financial Statement and Supplementary Information

for

**JUDICIAL BRANCH OF THE COMMONWEALTH OF
KENTUCKY**

Year Ended June 30, 2023

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report on the Financial Statement.....	1
Financial Statement - Regulatory Basis for the Year Ended June 30, 2023:	
Statement of Receipts, Disbursements and Changes in Fund Balances.....	4
Notes to the Financial Statement.....	5 - 21
Supplementary Information:	
Schedule of Receipts and Disbursements - Budget to Actual.....	22
Schedule of General Fund Disbursements - Budget to Actual.....	23
Schedule of Agency Revenue Fund Disbursements.....	24
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25



Independent Auditor's Report on the Financial Statement

Laurance B. VanMeter
Chief Justice of Kentucky

Report on the Financial Statement

Opinions

We have audited the statement of receipts, disbursements, and changes in fund balances - regulatory basis of the Judicial Branch of The Commonwealth of Kentucky (the "Judicial Branch") as of and for the year ended June 30, 2023, and the related notes to the financial statement, which collectively comprise the Judicial Branch's basic financial statement as listed in the table of contents.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the fund balance of the Judicial Branch, as of June 30, 2023, and their respective cash receipts, disbursements, changes in fund balance, and budgetary results thereof for the year then ended in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws as described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" section of our report, the accompanying financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Judicial Branch, as of June 30, 2023, or the changes in its financial position and cash flows thereof for the year then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* ("GAS"), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Judicial Branch and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independent Auditor's Report on the Financial Statement (Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, the financial statements are prepared by the Judicial Branch on the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices prescribed or permitted by the Commonwealth of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for 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 for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Judicial Branch's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Judicial Branch's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Independent Auditor's Report on the Financial Statement (Continued)

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprise the Judicial Branch's basic financial statement. The Schedule of Receipts and Disbursements - Budget to Actual, the Schedule of General Fund Disbursements - Budget to Actual, and the Schedule of Agency Revenue Fund Disbursements are presented for purposes of additional analysis and are not a required part of the basic financial statement.

The Schedule of Receipts and Disbursements - Budget to Actual, Schedule of General Fund Disbursements - Budget to Actual, and the Schedule of Agency Revenue Fund Disbursements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Receipts and Disbursements - Budget to Actual, Schedule of General Fund Disbursements - Budget to Actual, and the Schedule of Agency Revenue Fund Disbursements are fairly stated in all material respect in relation to the basic financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2023 on our consideration of the Judicial Branch'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 solely 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 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 Judicial Branch's internal control over financial reporting and compliance.



Lexington, Kentucky
October 3, 2023

**JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023**

	General Fund				Agency Revenue Fund	Federal Fund	Capital	Capital Projects	Total Funds
	Court Operations	Local Facilities	Judicial Retirement System	Total			Federal Funds	Local Facilities	
Receipts:									
State appropriations	\$ 283,834,700	\$ 123,915,900	\$ 4,981,800	\$ 412,732,400	\$ -	\$ -	\$ 38,000,000	\$ 4,189,000	\$ 454,921,400
Program services	-	-	-	-	46,389,463	-	-	-	46,389,463
Grants and awards	-	-	-	-	-	3,315,850	-	-	3,315,850
Total receipts	283,834,700	123,915,900	4,981,800	412,732,400	46,389,463	3,315,850	38,000,000	4,189,000	504,626,713
Disbursements:									
Personnel costs:									
Salary and wages	150,407,196	-	-	150,407,196	25,846,248	679,307	-	-	176,932,752
Payroll taxes	12,832,980	-	-	12,832,980	758,521	60,089	-	-	13,651,590
Fringe benefits	76,997,942	-	-	76,997,942	3,743,004	262,224	-	-	81,003,170
Contracted services	8,746,690	988,708	-	9,735,397	5,115,042	682,647	-	-	15,533,086
	248,984,808	988,708	-	249,973,515	35,462,816	1,684,267	-	-	287,120,597
Operating costs:									
Utilities and telecommunication	3,758,207	421,380	-	4,179,586	1,920	45	-	-	4,181,551
Real Property Leases	456,630	6,462,178	-	6,918,808	45,232	-	-	-	6,964,040
Use allowance paid to Trustee	-	72,204,554	-	72,204,554	-	-	-	-	72,204,554
Use allowance and operating paid to County	-	30,895,531	-	30,895,531	-	-	-	-	30,895,531
Non-recurring paid to County	-	2,515,671	-	2,515,671	-	-	-	-	2,515,671
Rental of equipment	1,785,483	137,418	-	1,922,901	3,266	-	-	-	1,926,167
Repairs and maintenance	54,971	(404,537)	-	(349,566)	-	-	-	-	(349,566)
Postage	2,982,707	-	-	2,982,707	574	-	-	-	2,983,281
Miscellaneous services	1,942,965	189,322	-	2,132,286	372,179	875,277	-	-	3,379,743
Supplies and equipment	8,744,661	383,715	-	9,128,375	156,144	45,079	-	-	9,329,598
Computer and IT costs	10,374,417	-	-	10,374,417	1,836,068	565,031	-	-	12,775,516
Travel	2,962,444	-	-	2,962,444	352,345	224,296	-	-	3,539,085
Substance abuse testing supplies / collections	3,902,349	-	-	3,902,349	3,352	-	-	-	3,905,702
Substance abuse treatment	465,616	-	-	465,616	83,417	232,242	-	-	781,275
Retirement disbursements	-	-	4,981,800	4,981,800	-	-	-	-	4,981,800
Other	888,772	10,095	-	898,867	30,511	7,090	-	-	936,468
	38,319,222	112,815,325	4,981,800	156,116,347	2,885,009	1,949,060	-	-	160,950,415
Capital outlays	1,271,401	241,751	-	1,513,151	3,159,993	-	-	-	4,673,145
Capital projects	-	-	-	-	-	-	-	62,980	62,980
Transfer to OFM for bond service	-	-	-	-	3,197,530	-	-	-	3,197,530
Total disbursements	288,575,430	114,045,783	4,981,800	407,603,013	44,705,347	3,633,326	-	62,980	456,004,667
Transfer (to) from	-	-	-	-	-	-	-	-	-
Total disbursements and transfers	288,575,430	114,045,783	4,981,800	407,603,013	44,705,347	3,633,326	-	62,980	456,004,667
Net change in fund balances	(4,740,730)	9,870,117	-	5,129,387	1,684,115	(317,476)	38,000,000	4,126,020	48,622,046
Fund balances, beginning of year	14,719,796	10,929,648	-	25,649,443	51,739,740	(306,616)	-	-	77,082,568
Lapse of funds required by Budget Bill	-	(3,403,800)	-	(3,403,800)	-	-	-	-	(3,403,800)
Fund balances, end of year	\$ 9,979,066	\$ 17,395,965	\$ -	\$ 27,375,030	\$ 53,423,855	\$ (624,092)	\$ 38,000,000	\$ 4,126,020	\$ 122,300,814

See independent auditor's report on the financial statement.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement

Note 1 - Description of the Organization and Reporting Entity

A. Description of the Organization

The Judicial Article of the Kentucky Constitution became effective in 1976 and created the Judicial Branch of the Commonwealth of Kentucky (Judicial Branch) as an independent branch of government, separate from the Executive and Legislative branches and separate from county and city governments. The Judicial Article created Kentucky's unified court system and made the chief justice head of the state court system, also known as the Kentucky Court of Justice.

The Kentucky Court of Justice is a four-tiered system of adjudication including a Supreme Court, Court of Appeals, Circuit Court, and District Court. Additionally, in 2002, a constitutional amendment was approved formally sanctioning the creation of Family Courts.

The Supreme Court of Kentucky is the highest appellate court in the Commonwealth of Kentucky and the final interpreter of the law. It consists of seven justices who are elected from the seven appellate districts and serve eight-year terms. The Chief Justice of the Commonwealth of Kentucky is chosen by his or her colleagues and serves a term of four years. The Supreme Court is also responsible for establishing rules of practice and procedures for the Court of Justice, which includes the conduct of judges and attorneys.

The Court of Appeals is Kentucky's intermediate appellate court and handles various appeals of court orders. If a case is tried in District or Circuit court, and the losing parties involved are not satisfied with the outcome, in many cases they may ask for the Court of Appeals to review the correctness of the trial court's decision. The Court of Appeals has 14 elected judges, two from each of the seven appellate districts. The Court of Appeals is divided into panels of at least three judges, which conduct hearings regularly throughout the state.

Circuit Court is Kentucky's highest trial court and has general jurisdiction in civil matters involving more than \$5,000, capital offenses and felonies, land dispute title cases, contested probate cases and appeals from district court and administrative agencies. The Circuit Court has 57 judicial circuits and 158 judges, of which 61 are in Family Court.

Family Court is a division of the Circuit Court devoted exclusively to cases involving families and children. Family Court provides one judge to hear all of a family's issues relating to divorce, child custody, adoption, termination of parental rights, domestic violence, child abuse and neglect. Family Courts are currently impacting 75 of Kentucky's 120 counties.

District Court handles juvenile matters, city and county ordinances, misdemeanors, violations, traffic offenses, probate of wills, arraignments, felony probable cause hearings, small claims involving \$2,500 or less, civil cases involving \$5,000 or less, voluntary and involuntary mental commitments and cases relating to domestic violence and abuse. The District Court consists of 114 judges from 59 judicial districts and their staff. District Court is held in every county in Kentucky.

Circuit Court Clerks are responsible for managing the records of Circuit and District courts. One circuit court clerk is elected in each Kentucky county for a six-year term. Circuit court clerks are state officers whose duties are coextensive with the Commonwealth, and who are subject to the administrative control of the Chief Justice. As state officers, circuit court clerks receive and disburse money on behalf of the Commonwealth.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

The clerks and their staff have as their primary goal the fulfillment of these objectives: maintain custody, control and safe storage of court records; increase the availability of statistical information and the ability to retrieve information; increase the orderly disposition of court matters; maintain uniform revenue accounting procedures; increase the clerk's responsiveness to the needs of the court and general public; provide assistance with jury management and general administration of the court; and ensure the prompt transmittal of records on appeal to the proper appellate court.

Funds collected by circuit court clerks are deposited into the state treasury for disbursement to applicable parties as required by statute. The only exceptions are the law library fee, the county jail fee and the sheriff security fee, which are distributed at the local level, and third-party money collected by circuit court clerks.

Boards and Commissions of the Judicial Branch include the Circuit Court Clerk Conduct Commission, the Judicial Conduct Commission, the Judicial Ethics Committee, the Judicial Nominating Commission, the Office of Bar Admissions, the Kentucky Access to Justice Commission, and the Kentucky Judicial Commission on Mental Health. The Circuit Court Clerk Conduct Commission created by the Rules of Administrative Procedure of the Court of Justice (AP) Part XVI, *Circuit Court Clerks Conduct Commission*, investigates and reviews complaints against circuit court clerks and, when warranted, conducts hearings regarding the alleged misconduct where evidence is presented and takes disciplinary action. The Judicial Conduct Commission investigates and reviews complaints against judges and, when warranted, conducts hearings regarding the alleged misconduct and takes disciplinary action. (Ky. Const. § 121; SCR 4.000, et. seq.) The Judicial Ethics Committee, established by SCR 4.310, issues opinions and guidance to judges concerning the propriety of certain acts or conduct and the construction or application of judicial canons of ethics upon request. The Judicial Nominating Commission helps fill judicial vacancies by appointment when a vacancy occurs outside of the election cycle. It is established by the Kentucky Constitution (Ky. Const. § 118; SCR 6.000, et. seq.). The Kentucky Office of Bar Admissions (OBA) was created by SCR 2.00 to administer the bar examination and determine the eligibility of all candidates seeking admission to the practice of law in the Commonwealth. The Office includes the Board of Bar Examiners and the Character and Fitness Committee, whose members are practicing attorneys appointed by the Supreme Court, and the staff of the OBA who carry out the work of the Board and Committee. The Kentucky Access to Justice Commission was created by Supreme Court Order 2018-09 to increase access to the courts and high-quality legal representation for people of low and moderate income in Kentucky through innovative partnerships with the civil legal aid programs, the judiciary and court personnel, the Kentucky Bar Association, the private bar and non-lawyer professionals, law schools, and business and community-based organizations. The Kentucky Judicial Commission on Mental Health was created by Supreme Court Order 2022-42 to develop, implement, and coordinate initiatives designed to improve the courts' interaction with and the administration of justice for individuals with mental illness, substance use disorders, and intellectual disabilities.

The Administrative Office of the Courts (AOC) was established in 1976 as a result of the Judicial Article. The AOC is the operational arm of the Judicial Branch and acts as the fiscal agent for the Judicial Branch. The AOC supports court facilities and programs in all 120 counties in Kentucky, with its main campus in Frankfort, Kentucky. The AOC carries out duties that are mandated by the Kentucky Constitution, including administering the Judicial Branch budget, building and maintaining court facilities, maintaining court statistics through a statewide case management database, administering personnel policies and payroll for court personnel, providing centralized procurement services for the Judicial Branch, and providing educational programs for judges, circuit court clerks and support staff. The AOC is overseen by the Chief Justice of Kentucky, Laurance B. VanMeter, and its daily operations are managed by the AOC Director, Katie Comstock.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

B. Reporting Entity

The Judicial Branch is a part of the Commonwealth of Kentucky's primary government and thus, the financial information of the Judicial Branch is included within the financial statements of the Commonwealth of Kentucky. The financial statements of the Judicial Branch include all funds, organizations, agencies, boards, commissions and authorities for funds under the control of the Judicial Branch. Funds included within the reporting entity are those funds presented in the Judicial Branch's approved annual budget.

The AOC, although legally a separate entity, is in substance part of the Judicial Branch's operations and exists solely to provide services for the Judicial Branch. The Judicial Branch is funded by appropriations from the General Assembly. The budget represents approximately 3.0 percent of the total state general funds for each year. The budget pays for all expenses of the state court system including salaries of elected officials and non-elected personnel, court facilities, court technology and office supplies and equipment.

Note 2 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies consistently followed by the Judicial Branch in the preparation of its financial statements.

A. Basis of Accounting

Financial Statement

The financial statement is presented in accordance with the regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). This regulatory basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Commonwealth of Kentucky and the Chief Justice as described in the statutes referenced herein as supplemented by relevant policies, rules and orders of the Kentucky Supreme Court and the Administrative Office of the Courts

The regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentation of government-wide and fund financial statements, cash receipts are recognized when received rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Budget Information

The budget information reflected in the supplemental schedule is the annual budget adopted by the General Assembly in accordance with the provisions of Commonwealth of Kentucky law. The budget is prepared on a basis consistent with the basis of accounting used in preparing the financial statement.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

B. Use of Estimates

The preparation of a financial statement requires management to make estimates and assumptions that affect the reported amounts in the financial statement and accompanying notes. Actual results could differ from those estimates.

C. Basis of Presentation

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. The Judicial Branch Budget consists of the following appropriation units:

Court Operations & Administration covers the disbursements relating to the Supreme Court, Court of Appeals, Circuit Court, Family Court, District Court, Circuit Court Clerk, and the Administrative Office of the Courts.

Local Facilities covers disbursements relating to: (1) use allowance and operating costs payments for judicial centers and courthouses statewide, (2) real property leases, (3) maintenance and operating costs for the AOC headquarters located in Frankfort; and (4) miscellaneous costs related to court facilities.

"Operating costs" means compensation equivalent to the annual expenses borne by the unit of government for utilities, janitorial service, rent, insurance, and necessary maintenance, repair, and upkeep of the court facility which do not increase the permanent value or expected life of the court facility, but keeps it in efficient operating condition, and, at the election of the AOC, capital costs of interior or mechanical renovations for the benefit of the court.

Per KRS 26A.090, as modified by 2022 HB 244, "Use allowance" means:

- For court facility projects authorized by the 2000 General Assembly or after, use allowance is the judicial branch's proportional share of the annual principal and interest in connection with the construction or renovation of the facility, not to exceed the maximum annual use allowance authorized by the General Assembly.
- When there is no debt on a court facility authorized prior to the 2000 General Assembly, use allowance is the court's proportional share of 2% of capital construction costs, paid annually. An additional 2% of capital construction costs is retained by the AOC for maintenance of court facilities state-wide.
- When there is debt on a court facility authorized prior to the 2000 General Assembly, use allowance is the court's proportional share of the annual principal and interest cost in connection with the renovation or construction, but not to exceed 8% annually of capital costs.

The Local Facilities Use Allowance Contingency Fund was created by KRS 26A.164. The fund consists of money appropriated by the General Assembly. The Kentucky Court of Justice can increase the budgeted scope of a court project or project pool and may use this fund to cover any resulting increase in the budgeted annual use allowance only in certain circumstances as stated in KRS 26A.164. The fund has no appropriated funds for the year ended June 30, 2023.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

The Judicial Retirement System is a separate appropriation unit in which appropriated funds are used to pay for annual contributions to the Judicial Retirement Plan (Plan) for justices of the Kentucky Supreme Court, judges of the Court of Appeals, and Circuit, District and Family Court judges who choose to participate in the Plan. Monies appropriated to this appropriation unit are the passed through to the Judicial Fund Retirement System (System), the state agency charged with administering the Judicial Retirement Plan and the Legislators Retirement Plan to be used toward judicial retirement benefits. The System is not a component unit of the Judicial Branch, but, rather, is a component unit of the Commonwealth of Kentucky. The System's fiduciary net position and the changes in the System's fiduciary net position are included in the Commonwealth's Annual Comprehensive Financial Report (ACFR) as a pension trust fund in the fiduciary funds financial statement. Financial statements of the Commonwealth and its component units that form the Commonwealth reporting entity are issued separately and are audited by the Auditor of Public Accounts.

The financial statement contains information regarding each of the following Judicial Branch funds which support the above appropriation units:

General Fund - state funds appropriated by the Kentucky General Assembly.

Special Revenue Funds - a category of governmental funds that accounts for the proceeds of specific revenue sources which are restricted or committed to expenditures for a specific purpose. Included in this category are the federal fund and agency revenue fund.

Federal Fund - a major fund that accounts for and reports monies received from the federal government that are restricted or committed to specific programs and operations.

Agency Revenue Fund - a major fund that accounts for and reports other fees and charges received by the Judicial Branch that are restricted or committed for a particular function. Agency revenue funds also include service charges, fees, donations, and grants or receipts from private sources or other governmental jurisdictions which may be applied toward the public purposes of the Judicial Branch.

Capital Projects - the General Assembly has appropriated American Rescue Plan Act ("ARPA") funds to be used for a capital project for an electronic court filing system and general funds to be used for capital projects for local facilities including a carpet replacement in Jefferson County and an HVAC replacement project in Hardin County.

Appropriated funds in all appropriation units do not lapse but instead are included in the applicable fund balance and carried forward to the next year or biennium unless otherwise required by the applicable budget bill.

D. Cash and Cash Equivalents

Cash and cash equivalents include cash on-hand and highly liquid investments with an original maturity of three months or less from the date of acquisition.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

Circuit court clerks maintain their own bank accounts in their capacity as state officers, but all funds are fiduciary in nature and not Judicial Branch funds, except for small petty cash amounts. Circuit Court Clerks are audited by the Judicial Branch Office of Audits at least once every three years.

E. Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on an accrual basis. Dividends are recorded on an ex-dividend date. Investment income includes the unrealized gains or losses from changes in the fair value of the investments, as well as the realized gains and losses on investments bought and sold during the year.

F. Subsequent Events

Management has evaluated subsequent events for accounting and disclosure requirements through October 3, 2023, the date that the financial statement was available to be issued.

Note 3 - Deposits and Investments

The Judicial Branch's Agency Revenue fund balance is largely comprised of cash, cash equivalents, and investments. All of the Judicial Branch's cash, cash equivalents, and investments are held directly by and are a part of the Commonwealth of Kentucky's cash and investment pool. The carrying amount of the Judicial Branch's cash and cash equivalents invested in the Commonwealth of Kentucky's cash and investment pool at June 30, 2023 was \$12,180,985.28 At June 30, 2023, the Judicial Branch's share of investments in the Commonwealth of Kentucky's cash and investment pool totaled \$82,878,576.10 Legally authorized investments generally include obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers' acceptances; commercial paper and repurchase agreements. The Commonwealth of Kentucky is also eligible to invest in reverse repurchase agreements.

The Commonwealth of Kentucky has statutory responsibility and authority to safeguard the funds. See the Commonwealth of Kentucky's ACFR for the year ended June 30, 2023 for disclosure of the credit risk classification of the Commonwealth of Kentucky's cash and investment pool.

Note 4 - Receipts

A. General Fund Appropriations

General Fund appropriations comprise the majority of the Judicial Branch's receipts. Kentucky Revised Statute (KRS) Chapter 48 requires that each branch of government prepare and submit a recommended budget to the General Assembly for each of the two fiscal years to be included in a biennial budget. These budgets are prepared in accordance with the regulatory basis of accounting described herein - principally on the cash basis. The Legislature reviews these budget requests, makes any necessary revisions, and legally adopts a biennial budget for each of the three branches of government. The Governor has the power to approve or veto each bill, subject to legislative override. The financial plan for each fiscal year, as presented in a branch budget recommendation, is adopted with such modifications as made by the General Assembly (and explained in a budget memorandum) by the

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

passage of the budget bill and such revenue and other acts necessary for the purpose. Budgetary control is maintained at the budget unit level as designated by the budget bills enacted by the General Assembly.

In accordance with KRS 48.605, allotments within appropriations for the activities and purposes contained in an enacted branch budget bill may be revised for the Judicial Branch upon authorization of the Director of the AOC or designee. In accordance with the Judicial Branch's budget bill, the Chief Justice can approve transfers from allotment schedule to allotment schedule. Encumbrance accounting is utilized for budgetary control purposes. In accordance with the Judicial Branch's budget bill, Judicial Branch appropriations do not lapse and are carried forward unless otherwise required by the applicable budget bill. The Judicial Branch's general fund balance is comprised of unexpired general fund appropriations.

B. Federal Fund Receipts

Federal Fund receipts are derived from various federal grants received directly from the federal government or passed through executive branch agencies. The AOC is currently the recipient of 25 federal grants or pass-through funds including State Court Improvement Program funds, Title IV-E funds, Title IV-D funds, VAWA grants, BJA grants and SAMHSA grants.

C. Agency Revenue Fund Receipts

Agency Revenue Fund receipts are derived from providing the following services:

Court Costs

The Finance and Administration Cabinet remits to AOC fees collected by circuit court clerks for administrative services performed in collecting restitution payments, court costs, and county attorney diversion fees (Deputy Clerk Enhancement (DCE) Funds). The amount of each fee can be found in KRS 533.030(3)(b) (restitution), KRS 42.320 (court costs), and KRS 186.574(6)(d) (county attorney diversion fees). Funds do not lapse and are used to hire additional deputy clerks and office personnel or increase deputy clerk salaries.

Civil Filing Fees

The Supreme Court establishes filing fees and miscellaneous costs for civil cases filed in Circuit Court and District Court (KRS 23A.200, KRS 24A.170). Fees are established by the Supreme Court in the Rules of Civil Procedure (CR) 3.02 and 3.03 and, unless waived by the Court because the litigant is a poor person, are collected by circuit court clerks who send them along with other costs and fees collected to the Finance and Administration Cabinet. The Finance and Administration Cabinet remits to AOC certain portions of civil filing fees for cases filed in Circuit and District Court.

Per the budget bill, the Finance and Administration Cabinet Division of Local Government Services submits the first \$15,468,100 of civil filing fees to AOC. Any excess civil filing fees are deposited into the executive branch general fund.

Expungements

The Finance and Administration Cabinet remits to AOC a portion of the fees collected by circuit court clerks for filing petitions for misdemeanor and felony expungements. The amount of each fee can be found in KRS 431.078(7) and KRS 431.073(10). Funds are used for deputy clerks.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

Additionally, the AOC Division of Records Services charges a \$20 fee to run a criminal record report for the purpose of certifying the eligibility of an expungement request per KRS 431.079. These fees are paid directly to AOC by requesting parties.

Carry Concealed Deadly Weapons

The AOC Division of Records Services performs criminal records checks for the Kentucky State Police (KSP) as part of KSP's protocol for issuing licenses to carry concealed deadly weapons. Per KRS 237.110(7)(b)(3), KSP remits \$20 to the AOC Division of Accounting Services for each license application received to be used to fund background checks.

Criminal History Record Checks

The AOC Division of Records Services offers criminal record reports to individuals, businesses, licensing agencies, government entities and others for a \$25 fee. The AOC is authorized to collect fees pursuant to KRS 27A.090.

CourtNet

The AOC Department of Information and Technology Services offers attorneys and other justice partners subscriptions to CourtNet 2.0, an application allowing easy and expeditious electronic access to criminal and civil cases filed within the Kentucky Court of Justice. Subscription fees range from \$5.00 per month through \$250.00 per month depending on volume of use.

Court Interpreting

The AOC Department of Language Access charges interpreter candidates a fee for trainings, workshops, and certifications.

Court Technology

Circuit court clerks collect Court Technology fees and remit them monthly to the AOC Office of Audits. The Supreme Court's authority to establish miscellaneous costs for civil cases filed in Circuit Court and District Court is established in KRS 23A.200, and KRS 24A.170. A court technology fee of \$20.00 is established by the Supreme Court in CR 3.02 and 3.03 and, unless waived by the Court because the litigant is a poor person, is collected by circuit court clerks when civil cases are filed and is deposited in the bank account of the circuit court clerk. Each circuit court clerk sends a check for monthly fees collected to the AOC Office of Audits along with monthly reports.

Master Commissioner

The AOC Department of Financial Services establishes accounting standards for Master Commissioners across the state. Circuit judges may appoint a Master Commissioner for each county to assist them in the discharge of their duties and the enforcement of their judgments, for example by conducting sales of property to satisfy liens, mortgages or claims of ownership. Master Commissioners are compensated by fees charged to parties. Fees and limits on compensation are established in the Kentucky Court of Justice *Rules of Administrative Procedure (AP) Part IV, Sections 8-10*. Fees collected in excess of the authorized compensation and expenses of the master commissioner, as well as excess interest, are remitted to the AOC Department of Financial Services. Those fees are deposited in a trust and agency account that shall not lapse and is used to hire additional deputy clerks or office personnel, to increase deputy clerk or office personnel salaries, or a combination thereof.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

Pretrial Diversion

The AOC Department of Pretrial Services operates pretrial diversion programs in each judicial circuit. Pretrial Officers oversee the programs for defendants charged with misdemeanors and collect diversion supervision fees per KRS 533.250(7) when not waived due to indigency. Those fees are remitted to the AOC Division of Accounting Services for deposit, to be used to defray all or part of the cost of the defendant's participation in the diversion program.

Specialty Courts

The AOC Department of Specialty Courts staffs programs operated by judges throughout the state with the goal of restoring lives and reducing recidivism through judicial oversight and behavior modification for defendants with substance abuse disorder. Judges may impose reimbursement fees for services performed by the AOC Department of Specialty Courts, including treatment services, the cost of a laboratory confirmation of a positive drug test, or other required services. See AP Part XIII, Section 22. These fees are collected by Specialty Courts staff and are used to defray the cost of substance abuse treatment and drug testing.

Other

The AOC sometimes receives other service charges, fees, donations, grants or receipts from private sources or other governmental jurisdictions which may be applied toward the public purposes of the Judicial Branch.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

The receipts and disbursements for the agency revenue funds for services provided during the year ended June 30, 2023 were as follows:

	Beginning Balance	Receipts	Disbursements	Ending Balance
FUND 135A				
Driver's License	\$ 118,037	\$ 25,917	\$ 162,715	\$ (18,762)
Court Costs	405,395	2,605,832	942,859	2,068,369
Expungements	11,205	219,344	-	230,549
Clerks Change Fund	-	608	350	258
TOTAL FUND 135A	534,637	2,851,701	1,105,924	2,280,414
FUND 135B - Master Commissioner	1,051,725	1,794,458	2,697,597	148,586
FUND 135C - Pretrial Diversion	191,766	165,585	78,342	279,009
FUND 135D - Court Technology	4,208,967	3,965,792	5,913,948	2,260,811
FUND 135E - Drug Court	53,682	242,346	229,346	66,682
FUND 135G - Other	745,247	219,457	16,350	948,354
FUND 13HE - Civil Filing Fees	13,158,542	15,468,100	15,491,241	13,135,401
FUND 13HG				
Criminal History Records Checks	21,803,914	17,340,337	13,675,536	25,468,715
Mediation	1,192,007	-	1,694,583	(502,576)
Concealed Weapons	2,041,830	1,057,350	69,078	3,030,102
Court Interpreting	77,877	1,925	6,481	73,321
Senate Bill 90	-	-	30,736	(30,736)
TOTAL FUND 13HG	25,115,628	18,399,611	15,476,414	28,038,826
FUND 13M0 - CourtNet	6,637,136	2,170,843	3,127,312	5,680,667
FUND 13RR - Office of Bar Admissions	42,410	1,111,569	568,874	585,105
GRAND TOTAL	\$ 51,739,740	\$ 46,389,463	\$ 44,705,347	\$ 53,423,855

D. Transfers of Expenditures

Expenditures may be transferred between appropriation units pursuant to the authority granted to the Kentucky Chief Justice in the budget bill for the fiscal year ended June 30, 2023, which was 2022 House Bill 244.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

Note 5 - Capital Assets

Included in capital assets are real property and equipment. These are included as capital outlays in the financial statement and are recorded at historical cost when purchased or constructed. The policy of the Judicial Branch is to record these items as capital outlays when the useful life is greater than one year and the acquisition cost is \$5,000 or greater. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are shown in the financial statement as repairs and maintenance.

Capital asset activity for the year ended June 30, 2023 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets:				
Buildings and improvements	\$ 12,484,885	\$ 52,427,969	\$ -	\$ 64,912,854
Computers and equipment	18,231,447	3,580,139	(149,664)	21,661,922
Furniture and equipment	1,078,231	57,879	(15,928)	1,120,182
Vehicles	1,397,473	406,162	-	1,803,635
Total, at historical cost	<u>\$ 33,192,036</u>	<u>\$ 56,472,149</u>	<u>\$ (165,592)</u>	<u>\$ 89,498,593</u>

Additions to Buildings and improvements includes a court facility, valued at \$51,875,169, that was conveyed to the Administrative Office of the Courts by the City of Elizabethtown without consideration in accordance with KRS 26A.130.

Note 6 - Lease Obligations

The AOC occupies court facilities owned by local units of government in every county and pays operating costs and use allowance for each such facility in accordance with KRS 26A.090, 26A.100, 26A.110, and 26A.115. Capital projects for court facilities are authorized by the General Assembly in the judicial branch budget bill and financed by bonds sold by the public properties corporation established by the local unit of government in accordance with KRS Chapter 58. The AOC oversees the design, financing and construction of court facilities in accordance with KRS 26A.160 and enters into a lease agreement with the local unit of government agreeing to apply use allowance payments to the debt service subject to biennial appropriations from the General Assembly. The lease agreement functions as collateral for the bonds sold by the public properties corporation. The AOC currently pays its pro rata share of the debt service on 82 court facilities statewide. The AOC also pays for 84 public and private sector leases. Private sector leases are used to house Kentucky Court of Justice programs such as drug courts, pretrial services, and Supreme Court offices when government-owned facilities are not available or suitable.

Note 7 - Retirement Plans and Other Post-Employment Benefits

Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS) and State Police Retirement System (SPRS). The County Employees Retirement System Board of Trustees administers the County Employees Retirement System (CERS). These are cost-sharing, multiple employer defined benefit pension plans. Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan and the administrative costs incurred by those receiving a benefit, in accordance with the provisions of KRS Sections 16.510, 61.515, 61.702, 78.520, and 78.630.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

Under the provisions of KRS Section 61.701, the Board of Trustees of the Kentucky Retirement Systems administers the Kentucky Retirement Systems' Insurance Fund (Insurance Fund). The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by the Kentucky Retirement Systems: (1) KERS; (2) CERS; and (3) SPRS. The assets of the Insurance Fund are also segregated by plan.

The Judicial Branch participates in the KERS and CERS pension plans and the Insurance Fund. These are a cost-sharing, multiple employer defined benefit pension and OPEB plans, which cover all eligible full-time employees and provides for retirement, disability, health insurance and death benefits to plan members.

Cost-sharing governmental employers, such as the Judicial Branch, are required to report a net pension and net OPEB liability, pension and OPEB expense, and pension and OPEB related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan when reporting on the accrual basis of accounting in accordance with GAAP. Since the financial statement is prepared on a regulatory basis of accounting no such pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB are included in the financial statement. The Judicial Branch only records disbursements for their annual contributions to the plans. The Judicial Branch's contributions to the plans totaled \$31,248,690 for KERS and \$19,105,892 for CERS for the year ended June 30, 2023.

At June 30, 2023, if the Judicial Branch were preparing its financial statements on an accrual basis of accounting in accordance with GAAP, the following liabilities would have been reported for its proportionate share of the net pension liability and net OPEB liability:

Pension Fund	Amount
KERS net pension liability	\$358,950,868
CERS net pension liability	\$155,926,568
KERS net OPEB liability	\$90,215,500
CERS net OPEB liability	\$42,570,445
TOTAL	\$647,663,381

The following is a summary of the plans in which the Judicial Branch participates:

A. CERS Plan

The CERS Pension Fund and CERS Insurance Fund cover all eligible full-time employees and provide retirement, disability and death benefits, and health insurance benefits. Benefit contributions and provisions are established by statute. CERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Kentucky Public Pension Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by calling (502) 696-8800.

Non-hazardous employees can retire with full retirement benefits after 27 years of service or age 65. Non-hazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

Retirement benefits are determined based upon a maximum of 2.2 percent of the employee's years of service multiplied by their Final Compensation. Final Compensation is calculated based upon the average of the five highest fiscal years (or last five fiscal years for employees who begin participation on or after September 1, 2008) of salary prior to attainment of the CERS specified age (or age and service combinations). CERS allows employees to retire prior to meeting the requirements above and receive partial benefits, providing they meet certain age and service-related criteria.

Employees are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. Death benefits equal the employee's final full-year salary.

CERS also provides post-retirement health care coverage. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Year of Service	% Paid by Insurance Fund	% Paid by Member through Payroll Deductions
20 or more	100%	0%
15-19	75%	25%
14-10	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index. Benefit and contribution rates are established by state statute. Non-hazardous covered employees are required to contribute 5.00% of their salary to the plan. Non-hazardous covered employees who begin participation on or after September 1, 2008, are required to contribute 6.00% of their salary to the plan. The Judicial Branch's contribution rate for non-hazardous employees was 26.79%, for the year ended June 30, 2023.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute 5% (nonhazardous) and 8% (hazardous) of their creditable compensation each month to their own account, and 1% to the Insurance Fund which is not credited to the member's account and is not refundable.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

The employer contribution rate is set annually by the Board of Trustees of the County Employees Retirement Systems based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% (non-hazardous) and 7.5% (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The net pension and OPEB liabilities are measured as of June 30 of the preceding year and the total pension and OPEB liabilities used to calculate the net pension and OPEB liabilities are determined by an actuarial valuation as of that date. The Judicial Branch's proportion of the net pension and OPEB liabilities were based on a projection of the plan's long-term share of contributions to the pension and OPEB plans relative to the projected contributions of all participating entities. At June 30, 2023 the Judicial Branch's proportion of the net pension and OPEB liabilities was 2.16.

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov or can be obtained as described previously above.

The discount rate used to measure the total pension liability was 6.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current active and inactive employees. 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.

The discount rate used to measure the total OPEB liability was 5.7%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate each future year calculated in accordance with the current funding policy. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. However, the cost associated with the implicit employer subsidy was not included in the calculation of the Kentucky Retirement System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the Kentucky Retirement System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

B. KERS Plan

Eligible full-time employees of the Judicial Branch who work more than one hundred hours per month participate in a defined benefit plan administered by KERS, a cost-sharing multi-employer public employee retirement system.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

	Tier 1	Tier 2	Tier 3
Participation	Prior to 9/1/2008	9/1/2008 - 12/31/2013	1/1/2014 and after
Covered Employees	Substantially all regular full-time members employed in non-hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula	Final compensation x benefit factor x years of service.		Cash Balance Plan
Final Compensation	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No final compensation
Benefit Factor	1.97% - if member does not have 13 months credit for 1/1/1998 - 1/1/1999; 2.00% - if member has 13 months credit for 1/1/1998 - 1/1/1999	10 yrs or less = 1.10%. 10-20 years = 1.30%. 20-26 years = 1.50%. 26-30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.
Cost of Living Adjustment (COLA)	No COLA unless unauthorized by the Legislature with specific criteria. This impacts all retirees regardless of tier.		
Unreduced Retirement Benefit	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exceptions: refunds, omitted, free military).	No reduced retirement benefit.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

The KERS defined benefit plan includes two funds, the pension fund which provides retirement benefits and the insurance fund which provides health insurance benefits. KERS issues a publicly available financial report that includes financial statements and required supplementary information for both the pension and insurance funds. That report may be obtained by writing to Kentucky Public Pension Authority, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40501-6124 or by calling (502) 696-8800.

Benefit and contribution rates are established under statute by the Commonwealth. Per KRS 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KERS board of trustees. For the fiscal year ended June 30, 2023, the Judicial Branch employees were required to contribute 5% of their annual covered salary for retirement benefits. Employees with a participation date after September 1, 2008 were required to contribute an additional 1% of their salary for retiree healthcare benefits. The Judicial Branch was contractually required to contribute 9.97% of covered payroll to the non-hazardous KERS pension and insurance plans for the year ended June 30, 2023. Actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The net pension and OPEB liabilities are measured as of June 30 of the preceding year and the total pension and OPEB liabilities used to calculate the net pension and OPEB liabilities are determined by an actuarial valuation as of that date. The Judicial Branch's proportion of the net pension and OPEB liabilities were based on a projection of the plan's long-term share of contributions to the pension and OPEB plans relative to the projected contributions of all participating entities. At June 30, 2023 the Judicial Branch's proportion of the net pension and OPEB liabilities was 4.08.

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate each year in accordance with the current funding policy

June 30, 2021 is the actuarial valuation date upon which the total pension liability is based for the year ended June 30, 2022. The liability was rolled forward from the valuation date (June 30, 2021) to the plan's fiscal year end using generally accepted actuarial principles. The discount rate is defined as the single rate of return that, when applied to all projected payments, results in an actuarial value of projected benefit payments for all current plan members being projected through 2117.

C. Deferred Compensation Plans

The Judicial Branch's employees may elect to participate in two deferred compensation plans offered by the Kentucky Public Employees Deferred Compensation Authority under sections 401(k) and 457 of the Internal Revenue Code. Under the plans, employees may defer up to 100% of their compensation after deducting required contributions to the CERS and KERS plans. The Judicial Branch does not make matching contributions to these plans.

Note 8 - Commitments and Contingencies

The Judicial Branch is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position, results of operations or changes in net assets of the Judicial Branch.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Notes to the Financial Statement, continued

Note 9 - Recent Accounting Pronouncements

GASB Statement No. 96 - *Subscription-Based Information Technology Arrangements*, was issued in May 2020. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. This Statement defines an SBITA, establishes that a SBITA results in a right-to-use subscription intangible asset and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments and requires note disclosures regarding an SBITA. The standards for SBITAs are based on the standards established in Statement No. 87 - *Leases*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

In June 2022, the GASB issued Statement No. 101. *Compensated Absences*. The provisions of the statement are effective for fiscal years beginning after December 15, 2023. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means when certain defined circumstances exist. This statement is not expected to have a material impact on the KLC's financial position or results of operations.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

Supplementary Information

**JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2023**

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
SOURCE OF FUNDS:			
General Fund - Court Operations			
Carryforward from FY 2022	\$ 14,719,796	\$ 14,719,796	\$ -
Appropriation	283,834,700	283,834,700	-
Total	<u>298,554,496</u>	<u>298,554,496</u>	-
General Fund - Local Facilities Fund			
Carryforward from FY 2022	10,929,648	10,929,648	-
Appropriation	123,915,900	123,915,900	-
Total	<u>134,845,548</u>	<u>134,845,548</u>	-
General Fund - Judicial Retirement System	4,981,800	4,981,800	-
Agency Revenue Funds			
Carryforward from FY 2022	51,739,740	51,739,740	-
Revenue	42,683,700	46,389,463	3,705,763
Total	<u>94,423,440</u>	<u>98,129,203</u>	<u>3,705,763</u>
Federal Funds			
Carryforward from FY 2022	(306,616)	(306,616)	-
Revenue	4,234,200	3,315,850	(918,350)
Total	<u>3,927,584</u>	<u>3,009,234</u>	<u>(918,350)</u>
Capital Projects - Federal Fund			
Carryforward from FY 2022	-	-	-
Revenue	38,000,000	38,000,000	-
Total	<u>38,000,000</u>	<u>38,000,000</u>	-
Capital Projects - Local Facilities Fund			
Carryforward from FY 2022	-	-	-
Revenue	4,189,000	4,189,000	-
Total	<u>4,189,000</u>	<u>4,189,000</u>	-
TOTAL SOURCE OF FUNDS	578,921,868	581,709,281	2,787,413
DISBURSEMENTS:			
General Fund - Court Operations			
Personnel	253,361,996	248,984,808	4,377,188
Operating	43,442,499	38,319,222	5,123,277
Capital Outlay	1,750,000	1,271,401	478,599
Total	<u>298,554,495</u>	<u>288,575,430</u>	<u>9,979,065</u>
General Fund - Local Facilities Fund			
Personnel	1,000,000	988,708	11,292
Operating	133,595,544	112,815,325	20,780,219
Capital Outlay	250,000	241,751	8,249
Total	<u>134,845,544</u>	<u>114,045,783</u>	<u>20,799,761</u>
General Fund - Judicial Retirement System	4,981,800	4,981,800	-
Agency Revenue Funds			
Personnel	36,380,492	35,462,816	917,676
Operating	1,971,169	2,885,009	(913,840)
Capital Outlay	500,000	3,159,993	(2,659,993)
Transfer for Bond Service	3,197,500	3,197,530	(30)
Total	<u>42,049,161</u>	<u>44,705,347</u>	<u>(2,656,186)</u>
Federal Funds			
Personnel	2,194,500	1,684,266	510,234
Operating	2,225,666	1,949,060	276,606
Total	<u>4,420,166</u>	<u>3,633,326</u>	<u>786,840</u>
Capital Projects - Federal Funds			
Capital Projects	38,000,000	-	38,000,000
Capital Projects - Local Facility Funds			
Capital Projects	4,189,000	62,980	4,126,020
TOTAL DISBURSEMENTS	527,040,166	456,004,667	71,035,499
Receipts in Excess of Expenses	51,881,702	125,704,614	73,822,912
Required Local Facilities Lapse	-	3,403,800	(3,403,800)
ENDING FUND BALANCE	\$ 51,881,702	\$ 122,300,814	\$ 70,419,112

See independent auditor's report.

**JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
SCHEDULE OF GENERAL FUND DISBURSEMENTS - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2023**

Court Operations:	Budget	Actual	Variance - Favorable (Unfavorable)	% Variance
Supreme Court	\$ 5,088,600	\$ 4,904,016	\$ 184,584	3.63%
Court of Appeals	8,860,500	8,281,407	579,093	6.54%
Circuit Court	28,274,800	27,668,930	605,870	2.14%
Circuit Judges Education	100,000	86,194	13,806	13.81%
Special Judges	735,000	611,682	123,318	16.78%
District Court	23,197,900	22,955,101	242,799	1.05%
District Judges Education	100,000	69,946	30,054	30.05%
Circuit Clerks	110,726,600	109,498,231	1,228,369	1.11%
Circuit Clerks Education	100,000	113,816	(13,816)	-13.82%
Deputy Pool	310,000	174,095	135,905	43.84%
Retired Clerks Program	310,000	83,933	226,067	0.00%
AOC	1,629,900	1,606,056	23,844	1.46%
Director's Office	545,000	621,740	(76,740)	-14.08%
Budget	424,900	252,319	172,581	40.62%
Legal Services	1,129,700	854,542	275,158	24.36%
Human Resources	1,405,600	1,389,805	15,795	1.12%
Public Information	331,400	328,793	2,607	0.79%
Office of Language Access	2,575,400	2,629,474	(54,074)	-2.10%
Auditing Services	978,900	775,342	203,558	20.79%
Facilities Personnel	2,826,300	3,150,432	(324,132)	-11.47%
Finance & Administration	312,700	282,661	30,039	9.61%
Financial Services	187,300	190,621	(3,321)	-1.77%
Accounting	1,308,600	1,207,680	100,920	7.71%
Procurement	599,500	625,779	(26,279)	-4.38%
Judicial Conduct Commission	398,800	373,344	25,456	6.38%
Judicial Ethics	43,700	31,272	12,428	28.44%
Circuit Clerk Conduct Commission	1,000	-	1,000	100.00%
Mental Health Commission	-	208,855	(208,855)	0.00%
Judicial Nominating Commission	-	-	-	0.00%
Compensation Commission	-	-	-	0.00%
Civil Justice Reform Committee	-	404	(404)	0.00%
Pretrial	14,236,900	12,945,016	1,291,884	9.07%
Law Library	1,342,100	1,293,012	49,088	3.66%
Specialty Courts	14,702,500	12,445,850	2,256,650	15.35%
Family & Juvenile Justice	10,755,800	9,401,611	1,354,189	12.59%
Dependent Children Services	715,600	852,486	(136,886)	-19.13%
Teen Court	27,000	12,400	14,600	54.07%
Technology Services	29,139,900	29,280,357	(140,457)	-0.48%
Video Arraignment	5,979,384	481	5,978,903	99.99%
Video Conference	4,251,915	2,233,180	2,018,735	47.48%
SRL Portal	1,525,648	344,991	1,180,657	77.39%
Redaction Software	547,286	593,890	(46,604)	-8.52%
Kiosks	514,746	280,368	234,378	45.53%
Family Court	19,815,500	19,252,837	562,663	2.84%
Carry Forward	1,900,816	(15,457,443)	17,358,259	913.20%
Court Operating Balancing	(26,284,200)	-	(26,284,200)	100.00%
Master Commissioners FICA & KEF	1,500,000	936,708	563,292	37.55%
Programs & Personnel	381,500	350,106	31,394	8.23%
Unfunded Liability	25,000,000	24,833,112	166,888	0.67%
Court Operations Totals	298,554,495	288,575,430	9,979,065	3.34%
Local Facilities Fund				
Facilities - Existing	113,507,700	111,391,070	2,116,630	1.86%
Facilities - Nonrecurring	4,739,100	2,241,807	2,497,293	52.70%
Facilities - AOC Vandalay	492,700	391,419	101,281	20.56%
Facilities - New	2,500,000	21,488	2,478,512	99.14%
Facilities - Carryforward	13,606,044	-	13,606,044	100.00%
Local Facilities Fund Totals	134,845,544	114,045,783	20,799,761	15.42%
Judicial Retirement System	4,981,800	4,981,800	-	0.00%
Total General Fund Disbursements	\$ 438,381,839	\$ 407,603,013	\$ 30,778,826	7.02%

**JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
SCHEDULE OF AGENCY REVENUE FUND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2023**

	FUND 135A	FUND 135B	FUND 135C	FUND 135D	FUND 135E	FUND 13HE	FUND 13HG	FUND 135G	FUND 13M0	FUND 13RR	TOTAL
Disbursements and transfers:											
Salary and wages	\$ 686,940	\$ 777,664	\$ 39,955	\$ 425,526	\$ 141,695	\$ 15,491,241	\$ 8,031,133	\$ -	\$ -	\$ 252,095	\$ 25,846,248
Payroll taxes	50,449	265,257	2,943	31,186	10,559	-	379,629	-	-	18,498	758,521
Fringe benefits	368,185	1,615,738	17,932	113,061	38,074	-	1,520,093	-	-	69,921	3,743,004
Contracted services	-	-	-	5,008,914	-	-	-	-	-	106,128	5,115,042
Utilities and telecommunication	-	60	-	-	-	-	1,020	-	-	840	1,920
Rental of Equipment	-	-	-	-	1,814	-	-	-	-	1,452	3,266
Repairs and Maintenance	-	-	-	-	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-	-	-	574	574
Miscellaneous services	-	32,933	704	-	31,840	-	241,088	-	-	65,614	372,179
Supplies and equipment	-	-	3,147	-	2,012	-	13,200	-	135,300	2,485	156,144
Computer and IT costs	-	-	-	-	-	-	1,705,261	-	130,808	-	1,836,068
Travel	-	5,593	13,189	36,472	-	-	292,796	-	-	4,295	352,345
Other	350	350	473	-	-	-	11,248	16,350	-	1,741	30,511
Real Property	-	-	-	-	-	-	-	-	-	45,232	45,232
Substance Abuse Testing/Treatment	-	-	-	-	3,352	-	83,417	-	-	-	86,769
Capital outlays	-	-	-	298,789	-	-	-	-	2,861,204	-	3,159,993
Technology Bond Payment	-	-	-	-	-	-	3,197,530	-	-	-	3,197,530
Transfer (to) from	-	-	-	-	-	-	-	-	-	-	-
Total Disbursements and Transfers	\$ 1,105,924	\$ 2,697,597	\$ 78,342	\$ 5,913,948	\$ 229,346	\$ 15,491,241	\$15,476,414	\$ 16,350	\$ 3,127,312	\$ 568,874	\$ 44,705,347



Independent Auditor's 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*

Laurance B. VanMeter
Chief Justice of Kentucky

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, (*Government Auditing Standards*), the financial statements of the Judicial Branch of The Commonwealth of Kentucky (the "Judicial Branch"), as of and for the year ended June 30, 2023, and the related notes to the financial statements which collectively comprise the Judicial Branch's basic financial statements, and have issued are report thereon dated October 3, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Judicial Branch's internal control over financial reporting ("internal control") as a basis for designing 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 Judicial Branch's internal control. Accordingly, we do not express an opinion on the effectiveness of the Judicial Branch'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 or significant deficiencies may exist that were not identified.

Independent Auditor's 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* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Judicial Branch'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 financial statements. 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.



Lexington, Kentucky
October 3, 2023