

**Financial Statement and Supplementary Information**

**for**

**JUDICIAL BRANCH OF THE COMMONWEALTH OF  
KENTUCKY**

Year Ended June 30, 2022

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## **Independent Auditor's Report on Financial Statements**

John D. Minton, Jr.  
Chief Justice of Kentucky

### **Report on the Financial Statements**

#### ***Opinions***

We have audited the accompanying 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, 2022, and the related notes to the financial statements, which collectively comprise the Judicial Branch's basic financial statements as listed in the table of contents.

#### ***Unmodified Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balance of the Judicial Branch, as of June 30, 2022, and their cash receipts, disbursements and changes in fund balance for the year then ended, in accordance with the basis of the accounting practices prescribed or permitted by the Commonwealth of Kentucky 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" paragraph, the financial statements referred to above 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, 2022, 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 the financial audits contained in *Government Auditing Standards*, 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 Financial Statements (Continued)**

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

As described in Note 2, 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 Statements*

Management is responsible for the preparation and fair presentation of these 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 Statements*

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 statements.

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 statements.
- 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 statements.
- 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 Financial Statements (Continued)

### *Other Matters*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Judicial Branch's basic financial statements. 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 statements.

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 statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2022 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 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 10, 2022

**JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2022**

	<u>General Fund</u>				<u>Agency Revenue Fund</u>	<u>Federal Fund</u>	<u>Total Funds</u>
	<u>Court Operations</u>	<u>Local Facilities</u>	<u>Judicial Retirement System</u>	<u>Total</u>			
<b>Receipts:</b>							
State appropriations	\$ 285,915,200	\$ 114,618,400	\$ 7,147,500	\$ 407,681,100	\$ -	\$ -	\$ 407,681,100
Program services	-	-	-	-	47,607,745	-	47,607,745
Grants and awards	-	-	-	-	-	3,102,623	3,102,623
Total receipts	<u>285,915,200</u>	<u>114,618,400</u>	<u>7,147,500</u>	<u>407,681,100</u>	<u>47,607,745</u>	<u>3,102,623</u>	<u>458,391,468</u>
<b>Disbursements:</b>							
<b>Personnel costs:</b>							
Salary and wages	140,826,436	-	-	140,826,436	20,160,789	743,091	161,730,316
Payroll taxes	10,957,670	-	-	10,957,670	1,514,275	52,477	12,524,423
Fringe benefits	74,038,126	6	-	74,038,132	8,731,693	334,508	83,104,333
Contracted services	9,057,523	332,614	-	9,390,137	3,751,647	353,540	13,495,325
	<u>234,879,755</u>	<u>332,621</u>	<u>-</u>	<u>235,212,376</u>	<u>34,158,405</u>	<u>1,483,617</u>	<u>270,854,397</u>
<b>Operating costs:</b>							
Utilities and telecommunication	4,672,246	278,388	-	4,950,633	2,981	90	4,953,704
Real property leases	501,636	2,471,635	-	2,973,271	-	-	2,973,271
Use allowance paid to Trustee	-	73,733,719	-	73,733,719	-	-	73,733,719
Use allowance and operating paid to County	-	28,613,857	-	28,613,857	-	-	28,613,857
Non-recurring paid to County	-	1,709,960	-	1,709,960	-	-	1,709,960
Rental of equipment	1,807,218	22,791	-	1,830,009	-	-	1,830,009
Repairs and maintenance	438,948	175,678	-	614,626	-	-	614,626
Postage	2,835,326	76	-	2,835,403	-	20	2,835,422
Miscellaneous services	908,714	772,598	-	1,681,311	398,200	23,939	2,103,450
Supplies and equipment	6,002,938	515,028	-	6,517,966	7,765	33,110	6,558,841
Computer and IT costs	10,813,949	16,836	-	10,830,786	121,325	113,236	11,065,347
Travel	2,224,543	-	-	2,224,543	148,252	294,615	2,667,410
Substance abuse testing supplies/collections	3,164,826	-	-	3,164,826	4,478	1,260	3,170,564
Substance abuse treatment	412,441	-	-	412,441	90,798	1,330,015	1,833,254
Retirement disbursements	-	-	7,147,500	7,147,500	-	-	7,147,500
Other	654,822	(148,235)	-	506,588	(5,887)	10,672	511,372
	<u>34,437,607</u>	<u>108,162,332</u>	<u>7,147,500</u>	<u>149,747,438</u>	<u>767,912</u>	<u>1,806,957</u>	<u>152,322,307</u>
Capital outlays	492,608	500,000	-	992,608	401,551	-	1,394,159
Transfer to OFM for bond service	-	-	-	-	3,196,693	-	3,196,693
Total disbursements	<u>269,809,969</u>	<u>108,994,952</u>	<u>7,147,500</u>	<u>385,952,422</u>	<u>38,524,560</u>	<u>3,290,574</u>	<u>427,767,555</u>
<b>Transfer (to) from</b>							
Total disbursements and transfers	<u>269,809,969</u>	<u>108,994,952</u>	<u>7,147,500</u>	<u>385,952,422</u>	<u>38,524,560</u>	<u>3,290,574</u>	<u>427,767,555</u>
Net change in fund balances	16,105,231	5,623,448	-	21,728,678	9,083,185	(187,951)	30,623,913
Fund balances, beginning of year	8,614,565	5,306,200	-	13,920,765	42,656,553	(118,665)	56,458,653
Lapse of funds required by Budget Bill	(10,000,000)	-	-	(10,000,000)	-	-	(10,000,000)
Fund balances, end of year	<u>\$ 14,719,796</u>	<u>\$ 10,929,648</u>	<u>\$ -</u>	<u>\$ 25,649,443</u>	<u>\$ 51,739,738</u>	<u>\$ (306,616)</u>	<u>\$ 77,082,566</u>

# JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

## Notes to the Financial Statements

### 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 150 judges, of which 55 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 72 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 115 judges from 60 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 Statements, 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; issue drivers' license according to regulations; 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. In FY22, responsibility for drivers' license issuance transitioned from circuit court clerks to the Commonwealth of Kentucky Transportation Cabinet. Effective July 1, 2022, no circuit court clerks issue drivers' licenses.

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, and the Kentucky Access to Justice Commission. The Circuit Court Clerk 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. The Judicial Ethics Committee 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 Access to Justice Commission was formed 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 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, John D. Minton Jr., and its daily operations are managed by the AOC Director, Laurie K. Givens.



# JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

## Notes to the Financial Statements, 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 of the Supreme Court.

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.

#### **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.

# JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

## Notes to the Financial Statements, continued

### 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 of 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.

"Use allowance" means:

- For court facilities renovated or constructed before July 1, 1994 with existing debt, compensation equal to four percent (4%) annually of the total original capital costs and the cost of capitalized renovation of the court facility, except that if indebtedness has been incurred in respect to such capital costs at an interest rate equal to or greater than seven percent (7%), compensation shall be at a rate of eight percent (8%) annually of that portion of the capital costs for which the rate applies.
- For court facilities renovated or constructed between July 1, 1994 and January 1, 2000 with existing debt, the court's proportional share of the annual principal and interest cost in connection with the renovation or construction, but not to exceed eight percent (8%) annually of capital costs.
- For court facility construction or renovation projects authorized prior to the 2000 Regular Session of the General Assembly with no current debt, use allowance is restricted to compensation equal to two percent annually of capital costs to be paid to the county unit of government and two percent annually to be retained by the Administrative Office of the Courts and directed to a separate fund specifically for maintenance of court facilities.
- Beginning with court facility construction or renovation projects authorized by the 2000 Regular Session of the General Assembly, the court's proportional share of the annual principal and interest costs in connection with the construction or renovation of the facility, not to exceed the authorized annual use allowance.

**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, 2022.

## JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

### Notes to the Financial Statements, 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.

Funds in all appropriation units do not lapse and are carried forward into the next fiscal year unless otherwise required by the applicable budget bill. For FY 22, House Bill 195 of the 2021 Regular Session required the Judicial Branch to transfer \$10,000,000 to the General Fund.

#### **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.

Circuit court clerks maintain their own bank accounts in their capacity as state officers, but all funds are fiduciary in nature and are 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.

## JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

### Notes to the Financial Statements, continued

#### **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 11, 2022, 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, 2022 was \$5,793,906.53. At June 30, 2022, the Judicial Branch's share of investments in the Commonwealth of Kentucky's cash and investment pool totaled \$45,690,900.83. 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, 2022 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 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.

## JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

### Notes to the Financial Statements, continued

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 28 federal grants or pass-through funds including State Court Improvement Program funds, Title IV-E funds, Title IV-D funds, VAWA grants, Coronavirus Emergency Supplemental Funding grants, BJA grants and SAMHSA grants.

#### **C. Agency Revenue Fund Receipts**

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

##### Drivers' License

The Finance and Administration Cabinet Division of Local Government Services remits to AOC a portion of fees collected by circuit court clerks for the issuance of standard operator's licenses, instruction permits, and personal identification cards. The fee table can be found in KRS 186.531. These fees are held in a trust and agency account to be used to hire additional deputy circuit court clerks and provide salary adjustments to deputy circuit court clerks. Any interest earnings of the account become a part of the account and do not lapse. Funds do not lapse at the close of a fiscal year and are carried forward to the next fiscal year. The fiscal year ended June 30, 2022 is the final year that fees will be received for drivers' license as, effective July 1, 2022, circuit court clerks are no longer responsible for the issuance thereof.

##### 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.

## JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

### Notes to the Financial Statements, continued

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.

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.

## JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

### Notes to the Financial Statements, continued

#### 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.

#### 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 Statements, continued

The receipts and disbursements for the agency revenue funds for services provided during the year ended June 30, 2022 were as follows:

	<b>Beginning Balance</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Ending Balance</b>
FUND 135A				
Drivers' License	\$176,314	\$1,665,553	\$1,723,830	\$118,037
Court Costs	1,509,820	2,524,828	3,629,253	405,395
Expungements	1,325,974	288,335	1,603,104	11,205
TOTAL FUND 135A	<u>3,012,108</u>	<u>4,478,716</u>	<u>6,956,187</u>	<u>534,637</u>
FUND 135B - Master Commissioner	308,682	2,259,706	1,516,663	1,051,725
FUND 135C - Pretrial Diversion	48,274	161,738	18,246	191,766
FUND 135D - Court Technology	4,491,558	3,734,941	4,017,532	4,208,967
FUND 135E - Drug Court	19,708	173,553	139,579	53,682
FUND 13HE - Civil Filing Fees	13,382,137	15,267,646	15,491,241	13,158,542
FUND 13HG				
Criminal History Records Checks	10,439,598	17,804,472	6,440,156	21,803,914
Mediation	1,203,022	-	11,015	1,192,007
Concealed Weapons	4,155,566	1,193,269	3,307,005	2,041,830
Court Interpreting	75,843	1,974	(60)	77,877
TOTAL FUND 13HG	<u>15,874,029</u>	<u>18,999,714</u>	<u>9,758,117</u>	<u>25,115,626</u>
FUND 13M0 - CourtNet	4,885,720	2,060,689	309,273	6,637,136
FUND 13RR - Office of Bar Admissions	-	340,445	298,035	42,410
FUND 135G - Other	634,338	130,597	19,688	745,247
<b>GRAND TOTAL</b>	<b><u><u>\$42,656,554</u></u></b>	<b><u><u>\$47,607,745</u></u></b>	<b><u><u>\$38,524,560</u></u></b>	<b><u><u>\$51,739,739</u></u></b>

**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, 2022, which was House Bill 195 as supplemented by House Bill 556.



**JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY**

Notes to the Financial Statements, continued

**Note 5 – Capital Assets**

Real property and equipment are included in capital assets. 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, 2022 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets:				
Buildings and improvements	\$ 12,484,885	\$ -	\$ -	\$ 12,484,885
Computers and equipment	17,471,743	2,250,000	(1,490,296.07)	18,231,447
Furniture and equipment	1,026,687	104,925	(53,380.92)	1,078,231
Vehicles	1,353,058	44,415	-	1,397,473
Total, at historical cost	<u>\$ 32,336,373</u>	<u>\$ 2,399,340</u>	<u>\$ (1,543,676.99)</u>	<u>\$ 33,192,036</u>

**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 88 court facilities statewide. The AOC also pays rent for 63 real property leases. Leases are used to house Kentucky Court of Justice programs such as drug courts, pretrial services, and Supreme Court offices when space is not available in a court facility.

**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 Statements, 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 \$31,369,634 for KERS and \$16,125,160 for CERS for the year ended June 30, 2022.

At June 30, 2022, 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:

<b>Pension Fund</b>	<b>Amount</b>
KERS net pension liability	\$359,292,856
CERS net pension liability	\$153,363,436
KERS net OPEB liability	\$67,425,342
CERS net OPEB liability	\$46,042,579
<b>TOTAL</b>	<b>\$626,124,213</b>

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 Statements, 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:

<b>Year of Service</b>	<b>% Paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deductions</b>
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 26.95%, for the year ended June 30, 2022.

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 Statements, continued

The employer contribution rate is set annually by the Board of Trustees of the Kentucky 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, 2022 the Judicial Branch's proportion of the net pension and OPEB liabilities was 2.41.

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at [www.kyret.ky.gov](http://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 5.20 percent. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 1.92 %, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30 , 2021. 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 Statements, continued

	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
<b>Participation</b>	Prior to 9/1/2008	9/1/2008 – 12/31/2013	1/1/2014 and after
<b>Covered Employees</b>	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.		
<b>Benefit Formula</b>	Final compensation x benefit factor x years of service.		Cash Balance Plan
<b>Final Compensation</b>	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
<b>Benefit Factor</b>	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.
<b>Cost of Living Adjustment (COLA)</b>	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of tier.		

**JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY**

Notes to the Financial Statements, continued

<b>Unreduced Retirement Benefit</b>	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.	
<b>Reduced Retirement Benefit</b>	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.

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) 6968800.

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, 2022, 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 10.10% of covered payroll to the non-hazardous KERS pension and insurance plans for the year ended June 30, 2022. The contribution percentage is an actuarially determined 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, 2022 the Judicial Branch's proportion of the net pension and OPEB liabilities was 2.96.

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

## JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

### Notes to the Financial Statements, continued

June 30, 2020 is the actuarial valuation date upon which the total pension liability is based for the year ended June 30, 2021. No updated procedures were used to determine the total pension liability. 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.

#### **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.

**Supplementary Information**



**SUPPLEMENTARY INFORMATION**  
**JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF RECEIPTS AND DISBURSEMENTS - BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<b>SOURCE OF FUNDS:</b>			
General Fund - Court Operations			
Carryforward from FY 2021	\$ 8,614,565	\$ 8,614,565	\$ -
Appropriation	285,915,200	285,915,200	-
Total	<u>294,529,765</u>	<u>294,529,765</u>	<u>-</u>
General Fund - Local Facilities Fund			
Carryforward from FY 2021	5,306,200	5,306,200	-
Appropriation	114,618,400	114,618,400	-
Total	<u>119,924,600</u>	<u>119,924,600</u>	<u>-</u>
General Fund - Judicial Retirement System	7,147,500	7,147,500	-
Agency Revenue Funds			
Carryforward from FY 2021	42,656,554	42,656,554	-
Revenue	44,272,300	47,607,745	3,335,445
Total	<u>86,928,854</u>	<u>90,264,299</u>	<u>3,335,445</u>
Federal Funds			
Carryforward from FY 2021	(118,665)	(118,665)	-
Revenue	4,205,900	3,102,623	(1,103,277)
Total	<u>4,087,235</u>	<u>2,983,958</u>	<u>(1,103,277)</u>
<b>TOTAL SOURCE OF FUNDS</b>	512,617,954	514,850,122	2,232,168
<b>DISBURSEMENTS:</b>			
General Fund - Court Operations			
Personnel	236,500,865	234,879,755	(1,621,110)
Operating	46,600,400	34,437,606	(12,162,794)
Capital Outlay	500,000	492,608	(7,392)
Total	<u>283,601,265</u>	<u>269,809,969</u>	<u>(13,791,296)</u>
General Fund - Local Facilities Fund			
Personnel	500,000	332,621	(167,379)
Operating	113,618,400	108,162,332	(5,456,068)
Capital Outlay	500,000	500,000	(0)
Total	<u>114,618,400</u>	<u>108,994,952</u>	<u>(5,623,448)</u>
General Fund - Judicial Retirement System	7,147,500	7,147,500	-
Agency Revenue Funds			
Personnel	34,382,400	34,158,405	(223,995)
Operating	4,549,300	767,912	(3,781,388)
Capital Outlay	-	401,551	401,551
Transfer for Bond Service	3,196,700	3,196,693	(8)
Total	<u>42,128,400</u>	<u>38,524,560</u>	<u>(3,603,840)</u>
Federal Funds			
Personnel	1,361,500	1,483,617	122,117
Operating	2,844,400	1,806,957	(1,037,443)
Total	<u>4,205,900</u>	<u>3,290,574</u>	<u>(915,326)</u>
<b>TOTAL DISBURSEMENTS</b>	451,701,465	427,767,555	(23,933,910)
Receipts in Excess of Expenses	60,916,489	87,082,567	26,166,078
Required Lapse	-	(10,000,000)	(10,000,000)
<b>ENDING FUND BALANCE</b>	<u>\$ 60,916,489</u>	<u>\$ 77,082,567</u>	<u>\$ 36,166,078</u>

**SUPPLEMENTARY INFORMATION**  
**JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF GENERAL FUND DISBURSEMENTS - BUDGET TO ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2022**

<b>Court Operations:</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance - Favorable (Unfavorable)</b>	<b>% Variance</b>
Supreme Court	\$ 4,786,600	\$ 4,833,710	\$ (47,110)	-0.98%
Court of Appeals	8,363,500	8,116,629	246,871	2.95%
Circuit Court	26,358,600	26,186,378	172,222	0.65%
Circuit Judges Education	95,000	120,671	(25,671)	-27.02%
Special Judges	735,000	732,178	2,822	0.38%
District Court	21,983,800	22,117,795	(133,995)	-0.61%
District Judges Education	95,000	60,359	34,641	36.46%
Circuit Clerks	101,763,200	98,796,922	2,966,278	2.91%
Circuit Clerks Education	95,000	88,018	6,982	7.35%
Deputy Pool	410,000	289,195	120,805	29.46%
Retired Clerks Program	-	1,412	(1,412)	0.00%
AOC	1,035,000	(112,833)	1,147,833	110.90%
Director's Office	512,600	489,368	23,232	4.53%
Budget	316,700	263,663	53,037	16.75%
Legal Services	1,047,900	697,097	350,803	33.48%
Human Resources	1,409,600	1,306,856	102,744	7.29%
Public Information	264,500	285,790	(21,290)	-8.05%
Administrative Services	-	185	(185)	0.00%
Office of Language Access	2,670,900	2,417,572	253,328	9.48%
Auditing Services	996,400	814,226	182,174	18.28%
Facilities Personnel	2,974,300	2,660,548	313,752	10.55%
Finance & Administration	341,300	349,345	(8,045)	-2.36%
Financial Services	120,200	132,015	(11,815)	-9.83%
Accounting	1,279,800	1,183,707	96,093	7.51%
Procurement	479,500	521,950	(42,450)	-8.85%
Judicial Conduct Commission	379,800	366,197	13,603	3.58%
Judicial Ethics	39,300	27,767	11,533	29.35%
Circuit Clerk Conduct Commission	300	756	(456)	-152.00%
Judicial Nominating Commission	300	-	300	100.00%
Compensation Commission	300	-	300	100.00%
Pretrial	13,021,000	11,350,792	1,670,208	12.83%
Law Library	1,446,700	1,290,809	155,891	10.78%
Specialty Courts	14,513,500	11,240,041	3,273,459	22.55%
Family & Juvenile Justice	10,171,200	9,387,524	783,676	7.70%
Dependent Children Services	675,300	553,921	121,379	17.97%
Teen Court	27,000	9,500	17,500	64.81%
Technology Services	26,778,900	31,791,444	(5,012,544)	-18.72%
Video Arraignment	6,000,000	20,616	5,979,384	99.66%
Video Conference	4,600,000	348,085	4,251,915	92.43%
SRL Portal	2,000,000	474,353	1,525,648	76.28%
Redaction Software	1,100,000	552,714	547,286	49.75%
Kiosks	1,000,000	485,254	514,746	51.47%
Family Court	18,253,900	18,157,662	96,238	0.53%
Carry Forward	8,614,565	-	8,614,565	100.00%
Court Operating Balancing	(31,755,800)	(15,491,241)	(16,264,559)	51.22%
Master Commissioners FICA & KERS	2,900,000	1,096,075	1,803,925	62.20%
Programs & Personnel	127,400	221,682	(94,282)	-74.00%
Unfunded Liability	25,573,200	25,573,264	(64)	0.00%
<b>Court Operations Totals</b>	<b>283,601,265</b>	<b>269,809,969</b>	<b>13,791,296</b>	<b>4.86%</b>
<b>Local Facilities Fund</b>				
Facilities - Existing	109,110,900	106,451,306	2,659,594	2.44%
Facilities - Nonrecurring	3,975,900	1,500,450	2,475,450	62.26%
Facilities - AOC Vandalay	530,400	385,717	144,683	27.28%
Facilities - New	1,001,200	657,478	343,722	34.33%
<b>Local Facilities Fund Totals</b>	<b>114,618,400</b>	<b>108,994,952</b>	<b>5,623,448</b>	<b>4.91%</b>
<b>Judicial Retirement System</b>	<b>7,147,500</b>	<b>7,147,500</b>	<b>-</b>	<b>0.00%</b>
<b>Total General Fund Disbursements</b>	<b>\$ 405,367,165</b>	<b>\$ 385,952,422</b>	<b>\$ 19,414,743</b>	<b>4.79%</b>

**SUPPLEMENTARY INFORMATION**  
**JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY**  
**SCHEDULE OF AGENCY REVENUE FUND DISBURSEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2022**

	<b>FUND 135A</b>	<b>FUND 135B</b>	<b>FUND 135C</b>	<b>FUND 135D</b>	<b>FUND 135E</b>	<b>FUND 13HE</b>	<b>FUND 13HG</b>	<b>FUND 135G</b>	<b>FUND 13MO</b>	<b>FUND 13RR</b>	<b>TOTAL</b>
<b>Disbursements and Transfers:</b>											
Salary and wages	\$ 6,364,513	\$ (829,512)	\$ 10,980	\$ 449,453	\$ 62,039	\$ 10,185,017	\$ 3,728,307	\$ 28,333	-	\$ 161,659	\$ 20,160,789
Payroll taxes	102,316	306,411	821	33,310	9,534	779,154	270,861	-	-	11,868	1,514,275
Fringe benefits	488,783	1,928,895	6,154	141,182	45,868	4,527,070	1,469,038	195	-	124,508	8,731,693
Contracted services	-	57,599	-	3,134,643	-	-	559,405	-	-	-	3,751,647
Utilities and telecommunication	-	555	-	-	-	-	2,426	-	-	-	2,981
Rental of equipment	-	-	-	-	-	-	-	-	-	-	-
Repairs and maintenance	-	-	-	-	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous services	-	32,933	-	-	14,520	-	350,747	-	-	-	398,200
Supplies and equipment	-	-	-	-	1,296	-	6,469	-	-	-	7,765
Computer and IT costs	-	-	-	76,225	-	-	-	-	45,100	-	121,325
Travel	-	19,488	291	45,341	-	-	83,593	(460)	-	-	148,252
Other	575	295	-	-	1,618	-	5	(8,380)	-	-	(5,887)
Drug treatment	-	-	-	-	4,704	-	90,572	-	-	-	95,276
Capital outlays	-	-	-	137,378	-	-	-	-	264,173	-	401,551
Technology bond payment	-	-	-	-	-	-	-	-	-	-	-
Transfer (to) from	-	-	-	-	-	-	3,196,693	-	-	-	3,196,693
<b>Total Disbursements and Transfers</b>	<b>\$ 6,956,187</b>	<b>\$ 1,516,663</b>	<b>\$ 18,246</b>	<b>\$ 4,017,532</b>	<b>\$ 139,579</b>	<b>\$ 15,491,241</b>	<b>\$ 9,758,117</b>	<b>\$ 19,688</b>	<b>\$ 309,273</b>	<b>\$ 298,035</b>	<b>\$ 38,524,560</b>



**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***

John D. Minton, Jr.  
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, the financial statements of the Judicial Branch of The Commonwealth of Kentucky (the "Judicial Branch"), as of and for the year ended June 30, 2022, 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 11, 2022.

**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") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been 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 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.



Lexington, Kentucky

October 10, 2022