

**JUDICIAL BRANCH OF THE
COMMONWEALTH OF KENTUCKY**

FINANCIAL STATEMENT AND
SUPPLEMENTARY INFORMATION

As of and for the Year Ended June 30, 2024

And Report of Independent Auditor

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Report of Independent Auditor

Laurance B. VanMeter
Chief Justice of Kentucky
Lexington, Kentucky

Report on the Audit of the Financial Statement

Opinion

We have audited the accompanying financial statement of the Judicial Branch of the Commonwealth of Kentucky (the “Judicial Branch”), which comprise the statement of receipts, disbursements, and changes in fund balances – regulatory basis, as of and for the year ended June 30, 2024, and the related notes to the financial statement.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balance of the Judicial Branch, as of June 30, 2024, and the cash receipts, disbursements, and changes in fund balance for the year then ended, in accordance with the regulatory basis of 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* section of our report, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Judicial Branch, as of June 30, 2024, or changes in net position, or 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 and the standards applicable to 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 Statement* 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.

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

As described in Note 2, the financial statement is prepared by the Judicial Branch on the regulatory basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Commonwealth of Kentucky. The effects on the financial statement 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 this financial statement in accordance with the financial reporting provisions of the Commonwealth of Kentucky. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is 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 generally accepted auditing standards and *Government Auditing Standards* 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, 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 the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 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 financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, 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, the Schedule of General Fund Disbursements - Budget to Actual, and the Schedule of Agency Revenue Fund Disbursements are fairly stated, in all material respects, in relation to the 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 8, 2024, 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 the Judicial Branch’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Judicial Branch’s internal control over financial reporting and compliance.

Cherry Bekasart LLP

Lexington, Kentucky
October 8, 2024

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES – REGULATORY BASIS

YEAR ENDED JUNE 30, 2024

	General Fund								
	Court Operations	Local Facilities	Judicial Retirement System	Total	Agency Revenue Fund	Federal Fund	Capital Projects Federal Funds	Capital Projects General Fund	Total Funds
Receipts:									
State appropriations	\$ 310,444,500	\$ 127,509,200	\$ 5,305,600	\$ 443,259,300	\$ -	\$ -	\$ -	\$ -	\$ 443,259,300
Program services	-	-	-	-	47,947,215	-	-	-	47,947,215
Grants and awards	-	-	-	-	-	3,469,850	-	-	3,469,850
Total receipts	<u>310,444,500</u>	<u>127,509,200</u>	<u>5,305,600</u>	<u>443,259,300</u>	<u>47,947,215</u>	<u>3,469,850</u>	<u>-</u>	<u>-</u>	<u>494,676,365</u>
Disbursements:									
Personnel costs:									
Salary and wages	171,986,962	-	-	171,986,962	28,278,373	1,047,357	-	-	201,312,692
Payroll taxes	14,467,876	-	-	14,467,876	943,891	85,489	-	-	15,497,256
Fringe benefits	82,141,490	-	-	82,141,490	4,427,310	341,966	-	-	86,910,766
Contracted services	10,162,939	937,278	-	11,100,217	6,409,991	341,089	-	-	17,851,297
Total Disbursements	<u>278,759,267</u>	<u>937,278</u>	<u>-</u>	<u>279,696,545</u>	<u>40,059,565</u>	<u>1,815,901</u>	<u>-</u>	<u>-</u>	<u>321,572,011</u>
Operating costs:									
Utilities and telecommunication	3,291,992	498,966	-	3,790,958	1,590	120	-	-	3,792,668
Real Property Leases	296,376	4,952,440	-	5,248,816	49,344	-	-	-	5,298,160
Use allowance paid to Trustee	-	72,094,257	-	72,094,257	-	-	-	-	72,094,257
Use allowance and operating paid to County	-	35,754,180	-	35,754,180	-	-	-	-	35,754,180
Non-recurring paid to County	-	3,542,043	-	3,542,043	-	-	-	-	3,542,043
Rental of equipment	1,861,289	45,556	-	1,906,845	9,977	-	-	-	1,916,822
Repairs and maintenance	48,795	141,709	-	190,504	765	-	-	-	191,269
Postage	922,152	204	-	922,356	731	-	-	-	923,087
Miscellaneous services	2,206,961	2,066,418	-	4,273,379	586,567	595,349	-	-	5,455,295
Supplies and equipment	7,996,997	465,964	-	8,462,961	202,912	8,573	-	-	8,674,446
Computer and IT costs	8,379,683	-	-	8,379,683	1,168,974	297,777	-	-	9,846,434
Travel	2,973,062	-	-	2,973,062	288,582	360,697	-	-	3,622,341
Substance abuse testing supplies / collections	4,693,940	-	-	4,693,940	7,208	-	-	-	4,701,148
Substance abuse treatment	464,585	-	-	464,585	149,196	310,617	-	-	924,398
Retirement disbursements	-	-	5,305,600	5,305,600	-	-	-	-	5,305,600
Other	780,913	(647,803)	-	133,110	30,397	27,199	-	-	190,707
Total operating costs	<u>33,916,745</u>	<u>118,913,934</u>	<u>5,305,600</u>	<u>158,136,279</u>	<u>2,496,243</u>	<u>1,600,332</u>	<u>-</u>	<u>-</u>	<u>162,232,854</u>
Capital outlays	7,650,408	132,818	-	7,783,226	6,731,253	-	-	-	14,514,479
Capital projects	-	-	-	-	-	-	-	510,439	510,439
Transfer to OFM for bond service	-	-	-	-	659,750	-	-	-	659,750
Total disbursements	<u>320,326,420</u>	<u>119,984,030</u>	<u>5,305,600</u>	<u>445,616,050</u>	<u>49,946,811</u>	<u>3,416,233</u>	<u>-</u>	<u>510,439</u>	<u>499,489,534</u>
Transfer (to) from	-	-	-	-	-	-	-	-	-
Total disbursements and transfers	<u>320,326,420</u>	<u>119,984,030</u>	<u>5,305,600</u>	<u>445,616,050</u>	<u>49,946,811</u>	<u>3,416,233</u>	<u>-</u>	<u>510,439</u>	<u>499,489,534</u>
Net change in fund balances	(9,881,920)	7,525,170	-	(2,356,750)	(1,999,596)	53,617	-	(510,439)	(4,813,169)
Fund balances, beginning of year	9,979,066	17,395,965	-	27,375,031	53,423,855	(624,092)	38,000,000	4,126,020	122,300,814
Lapse of funds required by Budget Bill	-	(15,616,500)	-	(15,616,500)	-	-	-	-	(15,616,500)
Fund balances, end of year	<u>\$ 97,146</u>	<u>\$ 9,304,635</u>	<u>\$ -</u>	<u>\$ 9,401,781</u>	<u>\$ 51,424,258</u>	<u>\$ (570,475)</u>	<u>\$ 38,000,000</u>	<u>\$ 3,615,581</u>	<u>\$ 101,871,145</u>

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

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

NOTES TO THE FINANCIAL STATEMENT

YEAR ENDED JUNE 30, 2024

Note 1—Description of the organization and reporting entity

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 113 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. 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.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 1—Description of the organization and reporting entity (continued)

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 Supreme Court Rule (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, Lurance B. VanMeter, and its daily operations were managed in Fiscal Year 2024 by then-AOC Director, Katie Comstock.

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 statement 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 2.5% 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.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

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 statement.

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.

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.

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. 2022 HB 244 allocated \$38,000,000 for a capital project for an electronic court filing system.

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. 2022 HB 244 appropriated \$1,189,000 for a capital project for carpet and paint in the Jefferson County Judicial Center and \$3,000,000 for a capital project for HVAC replacement in the Hardin County Justice Center.

“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.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 2—Summary of significant accounting policies (continued)

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, 2024.

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 then 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 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 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.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 2—Summary of significant accounting policies (continued)

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.

Subsequent Events – Management has evaluated subsequent events for accounting and disclosure requirements through October 8, 2024, the date that the financial statement was available to be issued.

Note 3—Receipts

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.

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.

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 24 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.

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.

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 clerk salaries.

Additionally, the AOC Division of Records Services charged a \$20 fee in Fiscal Year 2024 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.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 3—Receipts (continued)

Clerk Change Fund – Per the *Circuit Court Clerk's Accounting Manual*, a Circuit Court Clerk is responsible for making an allocation of change fund monies to each individual cash drawer in the clerk's office. If additional change is needed to fund a change fund, the clerk notifies the department of Court Services, which initiates a request for disbursement from the Clerks Change Fund. Excess change fund monies from cash drawers may also be remitted by the clerk to the AOC and deposited in the Clerks Change Fund.

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.

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 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 court technology fees collected to the AOC Office of Audits along with monthly reports.

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.

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 STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 3—Receipts (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.

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.

ITS Equipment – The AOC used this fund to track one-time technology equipment expenditures authorized by the AOC Director's office.

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.

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

Senate Bill 90 – Kentucky Acts Chapter 230 (Senate Bill 90, 2022 Regular Session) establishes the Behavioral Health Conditional Dismissal Program as an alternative to incarceration for eligible persons with a behavioral health disorder who have been charged with a qualifying offense and requires the Department for Behavioral Health, Developmental and Intellectual Disabilities (BHDID) to contribute \$500,000 annually to the AOC to cover the cost of data. BHDID also contracts with the AOC to provide services related to the Behavioral Health Conditional Dismissal Program including case navigators who establish eligibility of participants, enter into program agreements and provide other technical assistance as needed.

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 per month through \$250 per month depending on volume of use.

Office of Bar Admissions – The Office of Bar Admissions charges fees to applicants for admission to the Kentucky Bar Association. Fees are set forth in Supreme Court Rule II, *Admission of Persons to Practice Law*. Per SCR 2.002, fees collected by the Kentucky Office of Bar Admissions are deposited in a restricted fund account held by the AOC to provide for the ordinary and necessary expenses of the administration of the bar examination and the operation of the Board of Bar Examiners and the Character and Fitness Committee.

Office of Bar Admissions Bond Account – The Office of Bar Admissions conducts character and fitness investigations for applicants for admission or reinstatement to the Kentucky Bar. Applicants prepay expenses for character and fitness investigations. The amount of the initial deposit, \$2,500, is held in the bond account until completion of the character and fitness investigation. Once a motion is filed certifying the costs, the amount of costs is ordered to be transferred to the Office of Bar Admissions. The remaining unspent balance of the applicant's deposit is released back to the applicant.

Eviction Diversion – The Jefferson County District Court is the recipient of a two-year grant in the amount of \$126,515 from the National Center for State Courts to improve best practices and create permanent changes to high-volume, high-impact eviction dockets.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 3—Receipts (continued)

The receipts and disbursements for the agency revenue funds for services provided during the year ended June 30, 2024 were as follows:

	Beginning Balance	Receipts	Disbursements	Ending Balance
FUND 135A				
Driver's License	\$ (18,762)	\$ -	\$ (18,644)	\$ (118)
Court Costs	2,058,542	2,756,037	2,353,036	2,461,543
Expungements	230,549	314,754	-	545,303
Clerks Change Fund	10,085	1,145	300	10,930
TOTAL FUND 135A	2,280,414	3,071,936	2,334,691	3,017,658
FUND 135B - Master Commissioner	148,586	3,627,020	3,445,727	329,879
FUND 135C - Pretrial Diversion	279,009	155,635	155,476	279,169
FUND 135D - Court Technology	2,260,811	4,117,042	4,951,594	1,426,259
FUND 135E - Drug Court	66,682	400,864	331,970	135,576
FUND 135G - Other	948,354	286,194	198,697	1,035,851
FUND 13HE - Civil Filing Fees	13,135,401	15,468,100	15,491,241	13,112,260
FUND 13HG				
Criminal History Records Checks	26,672,172	16,153,333	14,056,180	28,769,325
ITS Equipment	(1,706,033)	-	1,345,255	(3,051,287)
Concealed Weapons	3,030,102	1,078,938	5,449	4,103,590
Court Interpreting	73,321	2,700	24,807	51,214
Senate Bill 90	(30,736)	434,686	428,240	(24,290)
TOTAL FUND 13HG	28,038,826	17,669,657	15,859,931	29,848,552
FUND 13M0 - CourtNet	5,680,667	2,228,627	6,496,192	1,413,102
FUND 13RR				
Office of Bar Admissions	585,105	820,446	633,829	771,722
Office of Bar Admissions Bond Account	-	14,544	-	14,544
	585,105	834,991	633,829	786,266
FUND 13UJ - Eviction Diversion	-	87,149	47,464	39,686
GRAND TOTAL	\$ 53,423,855	\$ 47,947,215	\$ 49,946,811	51,424,258

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, 2024, which was 2022 House Bill 244.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 4—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.

Note 5—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 95 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 6—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. 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 \$33,791,563 for KERS and \$17,389,660 for CERS for the year ended June 30, 2024.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 6—Retirement plans and other post-employment benefits (continued)

At June 30, 2024, 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	\$339,599,215
CERS net pension liability	\$149,086,290
KERS net OPEB liability	\$35,102,736
CERS net OPEB asset	\$(3,209,330)
TOTAL	\$520,578,911

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

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. Retirement benefits are determined based upon a maximum of 2.2% 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%

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 6—Retirement plans and other post-employment benefits (continued)

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. 1.00% of these contributions are credited to the Insurance Fund. The Judicial Branch's contribution rate for non-hazardous employees was 23.34%, for the year ended June 30, 2024.

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 5.00% (nonhazardous) and 8.00% (hazardous) of their creditable compensation each month to their own account, and 1.00% to the Insurance Fund which is not credited to the member's account and is not refundable.

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, 2024 the Judicial Branch's proportion of the net pension and OPEB liabilities was 2.32%.

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.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 6—Retirement plans and other post-employment benefits (continued)

The discount rate used to measure the total pension liability was 6.50%. 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 5.93%. 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 each year. The discount rate determination used an expected rate of return of 6.50%, and a municipal bond rate of 3.86%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2023. 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.

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)

YEAR ENDED JUNE 30, 2024

Note 6—Retirement plans and other post-employment benefits (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 authorized 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.

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 40601-6124 or by calling (502) 696-8800.

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

YEAR ENDED JUNE 30, 2024

Note 6—Retirement plans and other post-employment benefits (continued)

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, 2024, the Judicial Branch employees were required to contribute 5.00% of their annual covered salary for retirement benefits. Employees with a participation date after September 1, 2008 were required to contribute an additional 1.00% 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, 2024. Actuarially determined contributions are 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, 2024 the Judicial Branch's proportion of the net pension liability was 2.76% and 4.47% of the OPEB liability.

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 28-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.

The net pension and OPEB liabilities reported at June 30, 2024 was based on an actuarial valuation date of June 30, 2022 that was rolled forward to the measurement date of June 30, 2023, using generally accepted actuarial principles. No updated procedures were used to determine the total pension liability.

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 7—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.

SUPPLEMENTARY INFORMATION

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
SCHEDULE OF RECEIPTS AND DISBURSEMENTS – BUDGET TO ACTUAL

YEAR ENDED JUNE 30, 2024

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
SOURCE OF FUNDS:			
General Fund - Court Operations			
Carryforward from FY 2023	\$ 9,979,066	\$ 9,979,066	-
Appropriation	310,444,500	310,444,500	-
Total	320,423,566	320,423,566	-
General Fund - Local Facilities Fund			
Carryforward from FY 2023	17,395,965	17,395,965	-
Appropriation	127,509,200	127,509,200	-
Total	144,905,165	144,905,165	-
General Fund - Judicial Retirement System	5,305,600	5,305,600	-
Agency Revenue Funds			
Carryforward from FY 2023	53,423,855	53,423,855	-
Revenue	41,344,891	47,947,215	6,602,324
Total	94,768,746	101,371,070	6,602,324
Federal Funds			
Carryforward from FY 2023	(624,092)	(624,092)	-
Revenue	4,318,200	3,469,850	(848,350)
Total	3,694,108	2,845,758	(848,350)
Capital Projects - Federal Fund			
Carryforward from FY 2023	38,000,000	38,000,000	-
Revenue	-	-	-
Total	38,000,000	38,000,000	-
Capital Projects - General Fund			
Carryforward from FY 2023	4,126,020	4,126,020	-
Revenue	-	-	-
Total	4,126,020	4,126,020	-
TOTAL SOURCE OF FUNDS	611,223,205	616,977,179	5,753,974
DISBURSEMENTS:			
General Fund - Court Operations			
Personnel	277,003,365	278,759,267	(1,755,902)
Operating	35,769,100	33,916,745	1,852,355
Capital Outlay	7,651,100	7,650,408	692
Total	320,423,565	320,326,420	97,145
General Fund - Local Facilities Fund			
Personnel	1,000,000	937,278	62,722
Operating	143,405,160	118,913,934	24,491,226
Capital Outlay	500,000	132,818	367,182
Total	144,905,160	119,984,030	24,921,130
General Fund - Judicial Retirement System	5,305,600	5,305,600	-
Agency Revenue Funds			
Personnel	39,857,341	40,059,565	(202,224)
Operating	827,800	2,496,243	(1,668,443)
Capital Outlay	-	6,731,253	(6,731,253)
Transfer for Bond Service	659,750	659,750	-
Total	41,344,891	49,946,811	(8,601,920)
Federal Funds			
Personnel	2,303,400	1,815,901	487,499
Operating	2,014,800	1,600,332	414,468
Total	4,318,200	3,416,233	901,967
Capital Projects - Federal Funds			
Capital Projects	-	-	-
Capital Projects - General Fund			
Capital Projects	-	510,439	(510,439)
TOTAL DISBURSEMENTS	516,297,416	499,489,534	16,807,882
Receipts in Excess of Expenses Required Local Facilities Lapse	94,925,789 (15,616,500)	117,487,645 (15,616,500)	22,561,856 -
ENDING FUND BALANCE	\$ 79,309,289	\$ 101,871,145	22,561,856

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
SCHEDULE OF GENERAL FUND DISBURSEMENTS – BUDGET TO ACTUAL

YEAR ENDED JUNE 30, 2024

	Budget	Actual	Variance - Favorable (Unfavorable)	% Variance
Court Operations:				
Supreme Court	\$ 5,673,700	\$ 5,436,170	\$ 237,530	4.19%
Court of Appeals	9,386,200	8,881,339	504,861	5.38%
Circuit Court	31,410,600	30,657,685	752,915	2.40%
Circuit Judges Education	125,000	123,644	1,356	1.09%
Special Judges	635,000	886,579	(251,579)	-39.62%
District Court	24,973,500	24,883,799	89,701	0.36%
District Judges Education	125,000	85,051	39,949	31.96%
Circuit Clerks	121,795,600	116,791,100	5,004,500	4.11%
Circuit Clerks Education	125,000	107,844	17,156	13.73%
Deputy Pool	305,000	157,833	147,167	48.25%
Retired Clerks Program	261,000	17,772	243,228	93.19%
AOC	1,421,100	1,276,240	144,860	10.19%
Director's Office	594,900	593,558	1,342	0.23%
Budget	454,800	335,154	119,646	26.31%
Legal Services	1,209,800	1,080,249	129,551	10.71%
Human Resources	1,633,000	1,568,474	64,526	3.95%
Public Information	607,500	595,194	12,306	2.03%
Office of Language Access	2,867,800	3,023,086	(155,286)	-5.41%
Auditing Services	1,062,300	978,320	83,980	7.91%
Facilities Personnel	4,226,300	3,977,233	249,067	5.89%
Finance & Administration	296,000	315,584	(19,584)	-6.62%
Financial Services	220,100	251,588	(31,488)	-14.31%
Accounting	838,500	927,011	(88,511)	-10.56%
Procurement	743,200	689,467	53,733	7.23%
Judicial Conduct Commission	426,900	314,864	112,036	26.24%
Judicial Ethics	52,200	35,394	16,806	32.19%
Circuit Clerk Conduct Commission	500	-	500	100.00%
Mental Health Commission	521,600	768,049	(246,449)	-47.25%
Judicial Nominating Commission	500	-	500	100.00%
Compensation Commission	500	-	500	100.00%
Civil Justice Reform Committee	500	-	500	100.00%
Pretrial	15,855,900	14,468,574	1,387,326	8.75%
Law Library	1,571,000	1,419,099	151,901	9.67%
Specialty Courts	14,634,200	14,661,032	(26,832)	-0.18%
Family & Juvenile Justice	11,908,300	11,409,718	498,582	4.19%
Dependent Children Services	905,700	895,989	9,711	1.07%
Teen Court	27,000	8,500	18,500	68.52%
Technology Services	30,242,500	30,611,202	(368,702)	-1.22%
Video Conference	7,951,100	8,089,168	(138,068)	-1.74%
SRL Portal	1,180,600	173,442	1,007,158	85.31%
Kiosks	234,300	25,539	208,761	89.10%
Family Court	23,140,600	22,896,319	244,281	1.06%
Court Operating Balancing	(26,015,735)	(15,491,241)	(10,524,494)	40.45%
Intern Program	410,000	372,284	37,716	9.20%
Master Commissioners FICA & KERS	1,000,000	853,680	146,320	14.63%
Programs & Personnel	384,500	341,721	42,779	11.13%
Unfunded Liability	25,000,000	24,833,112	166,888	0.67%
Court Operations Totals	320,423,565	320,326,420	97,145	0.03%
Local Facilities Fund				
Facilities - Existing	121,042,700	116,063,817	4,978,883	4.11%
Facilities - Nonrecurring	6,013,400	3,462,865	2,550,535	42.41%
Facilities - AOC Vandalay	453,100	411,323	41,777	9.22%
Facilities - New	-	46,024	(46,024)	0.00%
Facilities - Carryforward	17,395,960	-	17,395,960	100.00%
Required Lapse	15,616,500	15,616,500	-	0.00%
Local Facilities Fund Totals	160,521,660	135,600,530	24,921,130	15.53%
Judicial Retirement System	5,305,600	5,305,600	-	0.00%
Total General Fund Disbursements	\$ 486,250,825	\$ 461,232,550	\$ 25,018,275	5.15%

JUDICIAL BRANCH OF THE COMMONWEALTH OF KENTUCKY
SCHEDULE OF AGENCY REVENUE FUND DISBURSEMENTS

YEAR ENDED JUNE 30, 2024

	FUND 135A	FUND 135B	FUND 135C	FUND 135D	FUND 135E	FUND 135G	FUND 13HE	FUND 13HG	FUND 13M0	FUND 13RR	FUND 13UJ	TOTAL
	Circuit Clerks	Master Commissioner	Pretrial	Court Technology	Specialty Court	Various Programs	Civil Filing Fees	Court Services	CourtNet	Office of Bar Admissions	Eviction Diversion	
Disbursements and transfers:												
Salary and wages	\$ 1,699,476	\$ 1,444,665	\$ 89,310	\$ 533,569	\$ 174,742	\$ -	\$ 15,491,241	\$ 8,555,957	\$ -	\$ 257,834	\$ 31,579	\$ 28,278,373
Payroll taxes	127,515	280,707	6,340	39,455	13,166	-	-	455,637	-	18,844	2,227	943,891
Fringe benefits	507,331	1,720,211	47,610	139,219	38,241	-	-	1,887,959	-	73,083	13,657	4,427,310
Contracted services	-	-	-	3,869,239	-	-	-	16,470	2,392,202	132,080	-	6,409,991
Utilities and telecommunication	-	-	-	-	-	-	-	840	-	750	-	1,590
Rental of Equipment	-	-	-	-	8,001	-	-	-	-	1,976	-	9,977
Repairs and Maintenance	-	-	-	-	765	-	-	-	-	-	-	765
Postage	-	-	-	-	-	-	-	-	-	731	-	731
Miscellaneous services	-	-	-	-	34,777	175,000	-	301,687	-	75,103	-	586,567
Supplies and equipment	-	-	-	-	12,558	-	-	124,216	61,263	4,875	-	202,912
Computer and IT costs	-	-	-	-	-	-	-	1,168,974	-	-	-	1,168,974
Travel	71	-	11,873	13,849	23,823	2,928	-	221,906	2,805	11,327	-	288,582
Other	299	145	343	5	300	20,769	-	653	-	7,884	-	30,397
Real Property	-	-	-	-	-	-	-	-	-	49,344	-	49,344
Substance Abuse Testing/Treatment	-	-	-	-	25,596	-	-	130,808	-	-	-	156,404
Capital outlays	-	-	-	356,258	-	-	-	2,335,074	4,039,921	-	-	6,731,253
Technology Bond Payment	-	-	-	-	-	-	-	659,750	-	-	-	659,750
Total Disbursements and Transfers	\$ 2,334,691	\$ 3,445,727	\$ 155,476	\$ 4,951,594	\$ 331,970	\$ 198,697	\$ 15,491,241	\$ 15,859,931	\$ 6,496,192	\$ 633,829	\$ 47,464	\$ 49,946,811

Report of Independent Auditor 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 the 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 statement of the Judicial Branch of the Commonwealth of Kentucky (“the Judicial Branch”), as of and for the year ended June 30, 2024, and the related notes to the financial statement, and have issued our report thereon dated October 8, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statement, 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 statement, 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 statement 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Judicial Branch’s financial statement is 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 statement. 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 Judicial Branch'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 Judicial Branch's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Lexington, Kentucky

October 8, 2024



**Judicial Branch of The Commonwealth of
Kentucky**
Audit Executive Summary

October 8, 2024



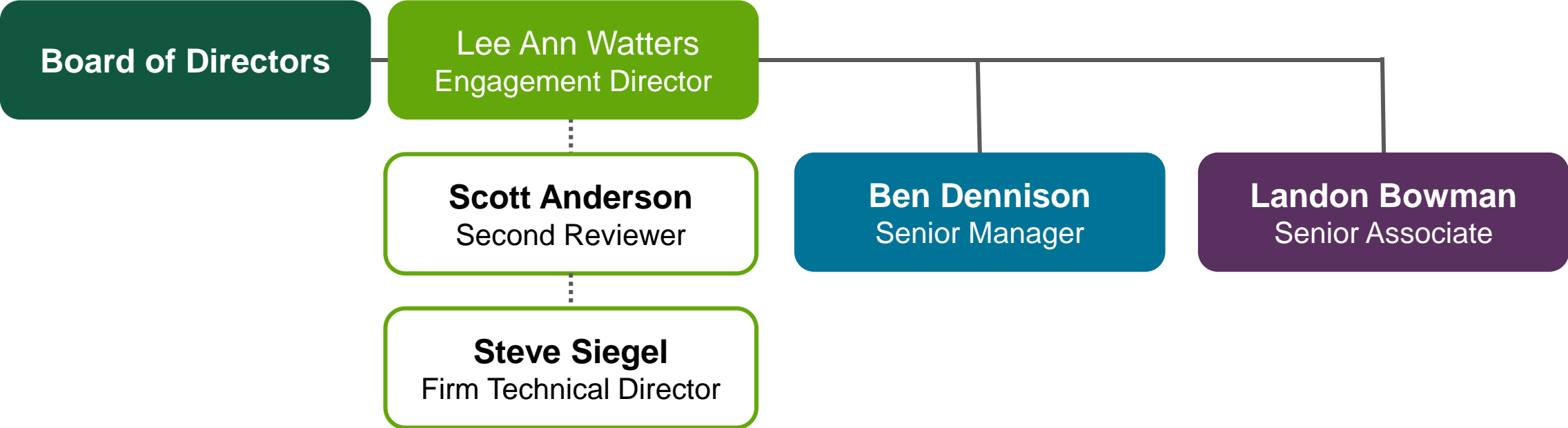
Agenda

- ▶ Client Service Team
- ▶ Results of the Audit
- ▶ Significant Audit Matters
- ▶ Internal Control Communication
- ▶ Corrected and Uncorrected Misstatements
- ▶ Qualitative Aspects of Accounting Practices
- ▶ Independence Considerations
- ▶ Other Required Communications
- ▶ Other Matters

This information is intended solely for the use of Board of Directors and management of Judicial Branch of The Commonwealth of Kentucky and is not intended to be, and should not be, used by anyone other than these specified parties.



Client Service Team

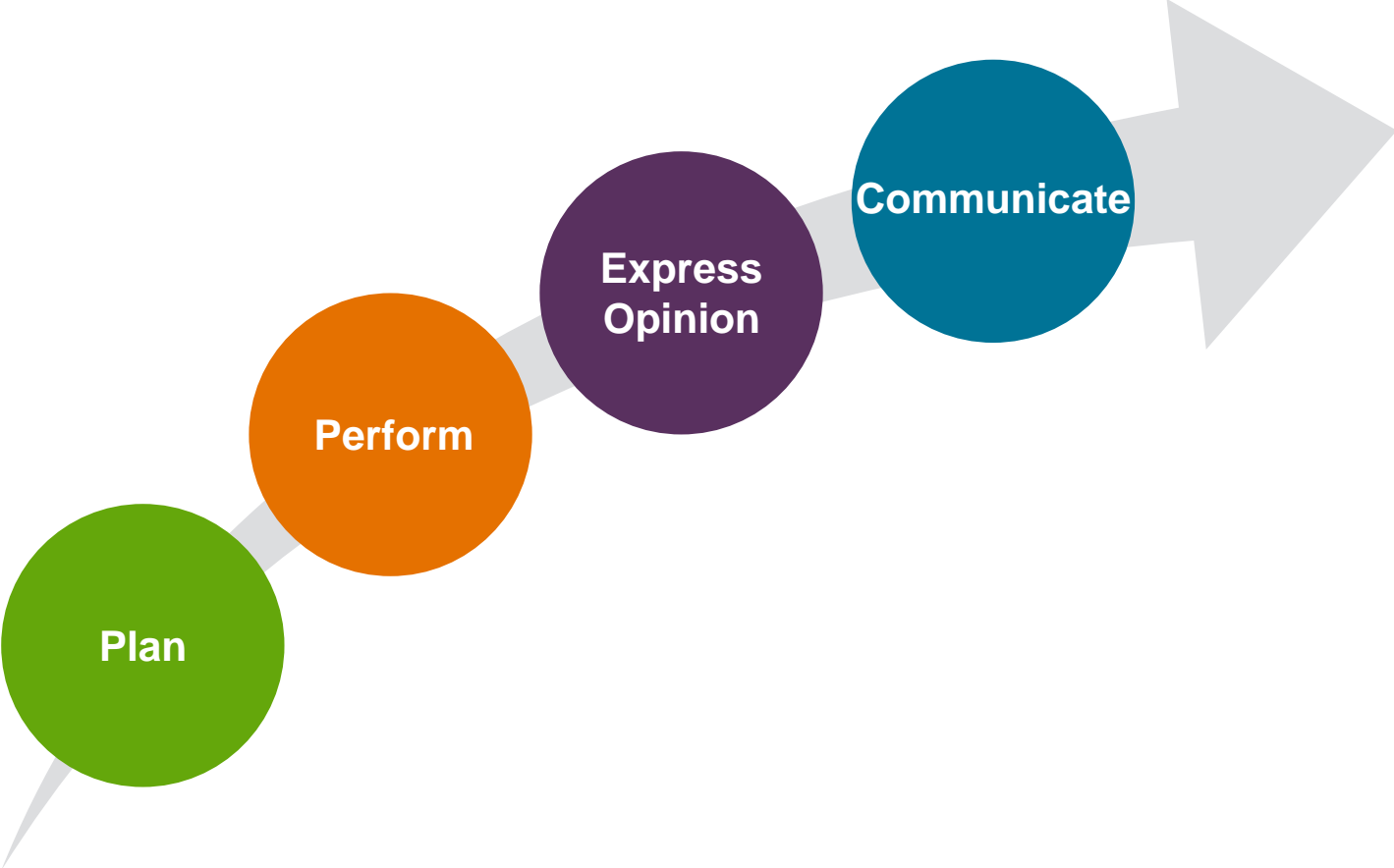


Results of the Audit

We have audited the financial statements of Judicial Branch of The Commonwealth of Kentucky (the “Judicial Branch”) for the year ended June 30, 2024, and we will issued our report thereon dated October 8, 2024.

We will issue an adverse opinion on U.S. Generally Accepted Accounting Principles because the financial statements were prepared under the Commonwealth of Kentucky’s regulatory basis to demonstrate of accounting and budgetary laws.

We intend to issue an unmodified opinion on the financial statements that were prepared in accordance with the prescribed regulatory basis which is a special purpose framework other than U.S. GAAP.



Significant Audit Matters

Management Override of Internal Controls

- ▶ The risk management and/or those charged with governance have the ability to manipulate or override internal controls in order to intentionally misstate the nature and/or timing of revenue or other transactions.



Internal Control Communication

In planning and performing our audit, we considered 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

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.



Internal Control Communication

Material Weakness

- ▶ 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 Judicial Branch's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant Deficiency

- ▶ 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.

We did not identify any control deficiencies that we believe to be material weaknesses.



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Corrected Misstatements

- ▶ None noted.



Corrected and Uncorrected Misstatements

Uncorrected Misstatements

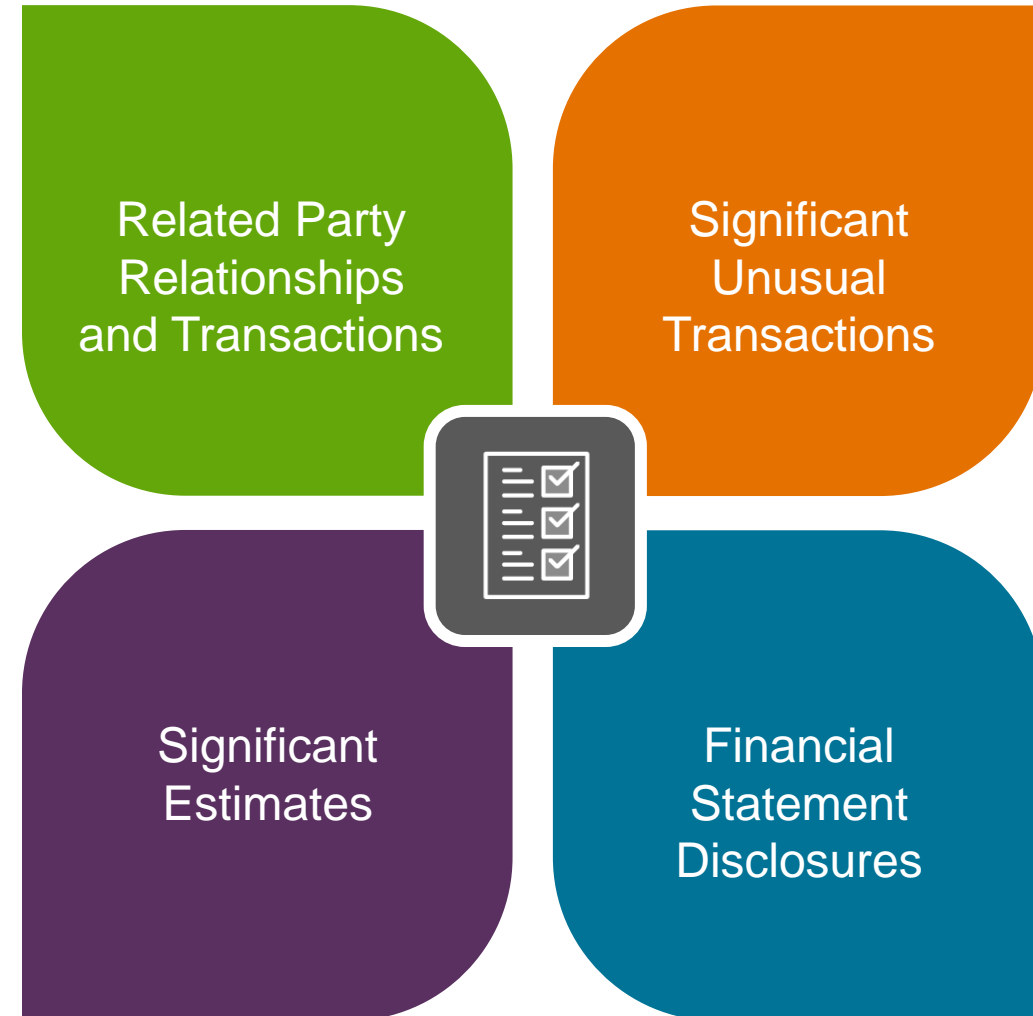
▶ None noted.



Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Judicial Branch are described in Note 2 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during the year. We noted no inappropriate accounting policies or practices.

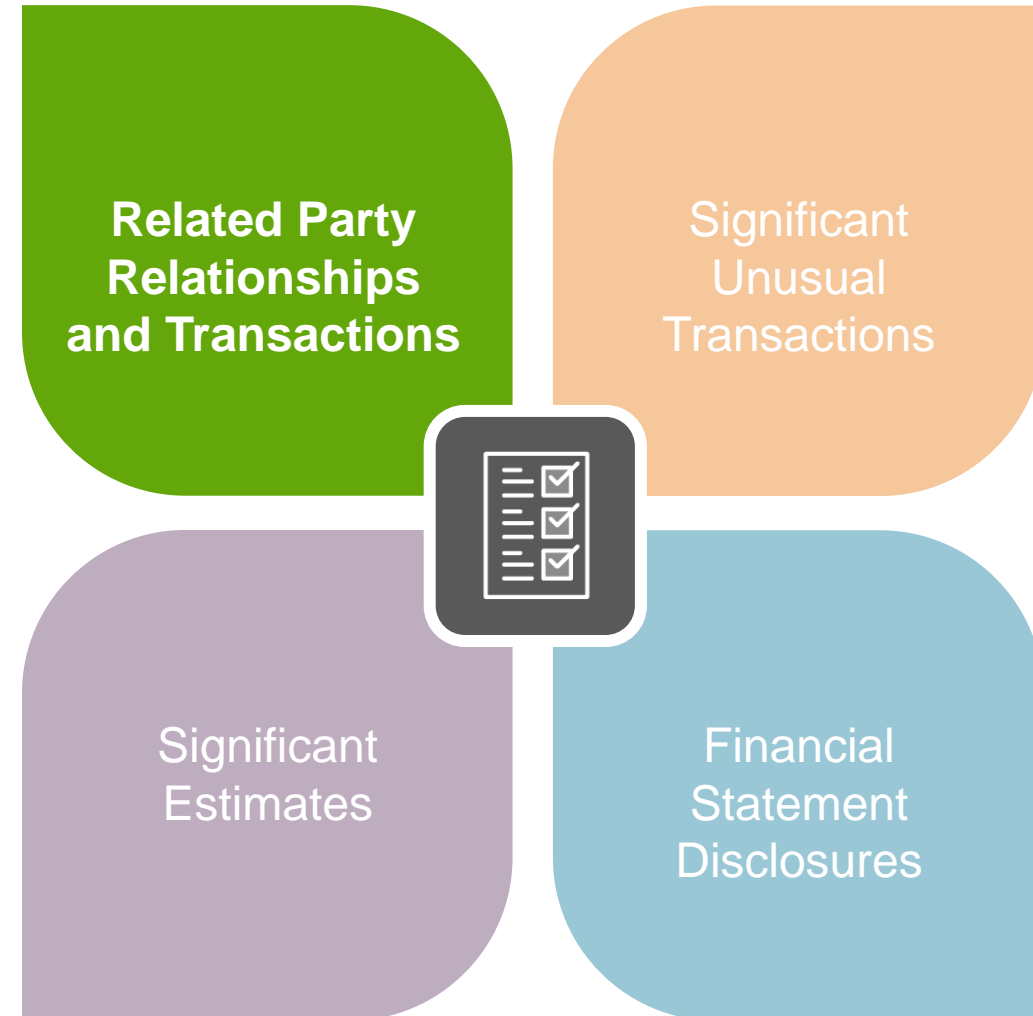


Qualitative Aspects of Accounting Practices

As part of our audit, we evaluated the Judicial Branch's identification of, accounting for, and disclosure of the Judicial Branch's relationships and transactions with related parties as required by professional standards.

We noted none of the following:

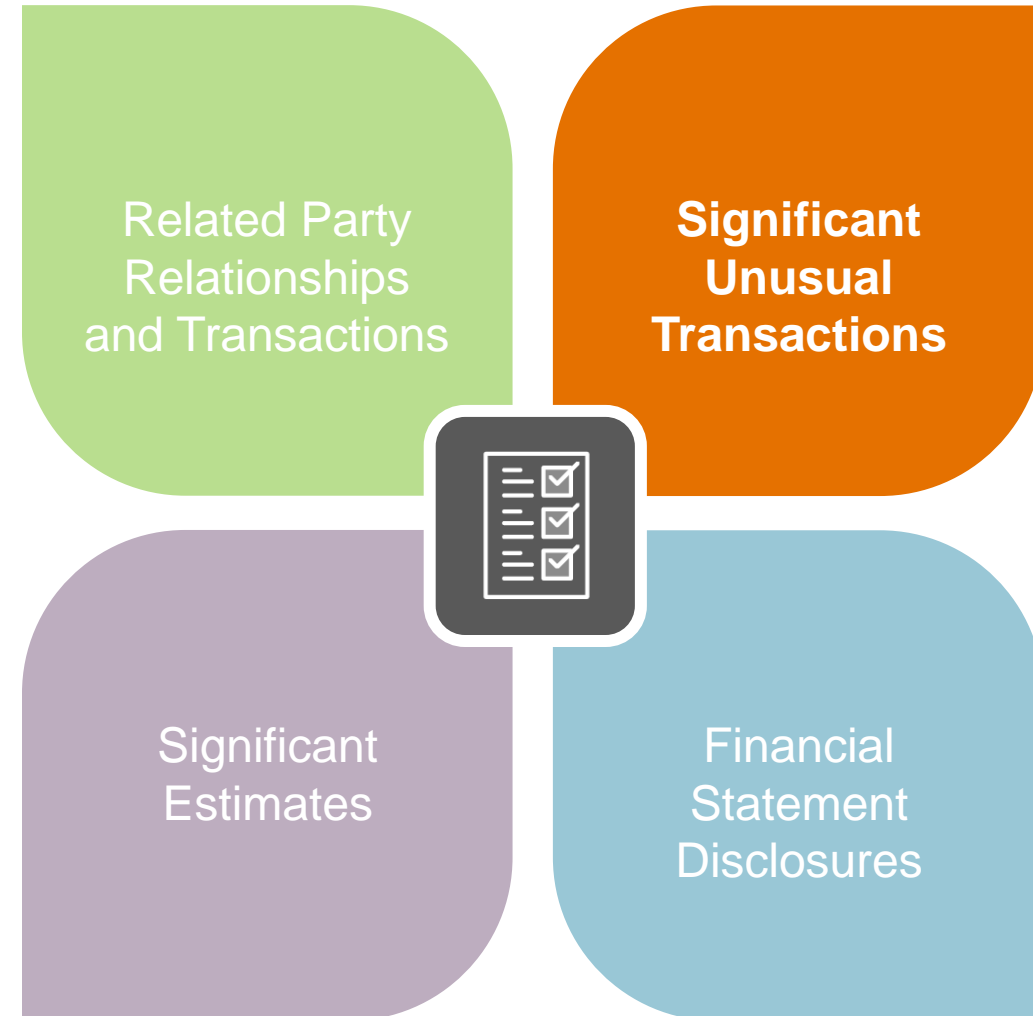
- Related parties or related party relationships or transactions that were previously undisclosed to us;
- Significant related party transactions that have not been approved in accordance with the Judicial Branch's policies or procedures or for which exceptions to the Judicial Branch's policies or procedures were granted;
- Significant related party transactions that appeared to lack a business purpose;
- Noncompliance with applicable laws or regulations prohibiting or restricting specific types of related party transactions; and
- Difficulties in identifying the party that ultimately controls the Judicial Branch.



Qualitative Aspects of Accounting Practices

We noted no transactions entered into by the Judicial Branch during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

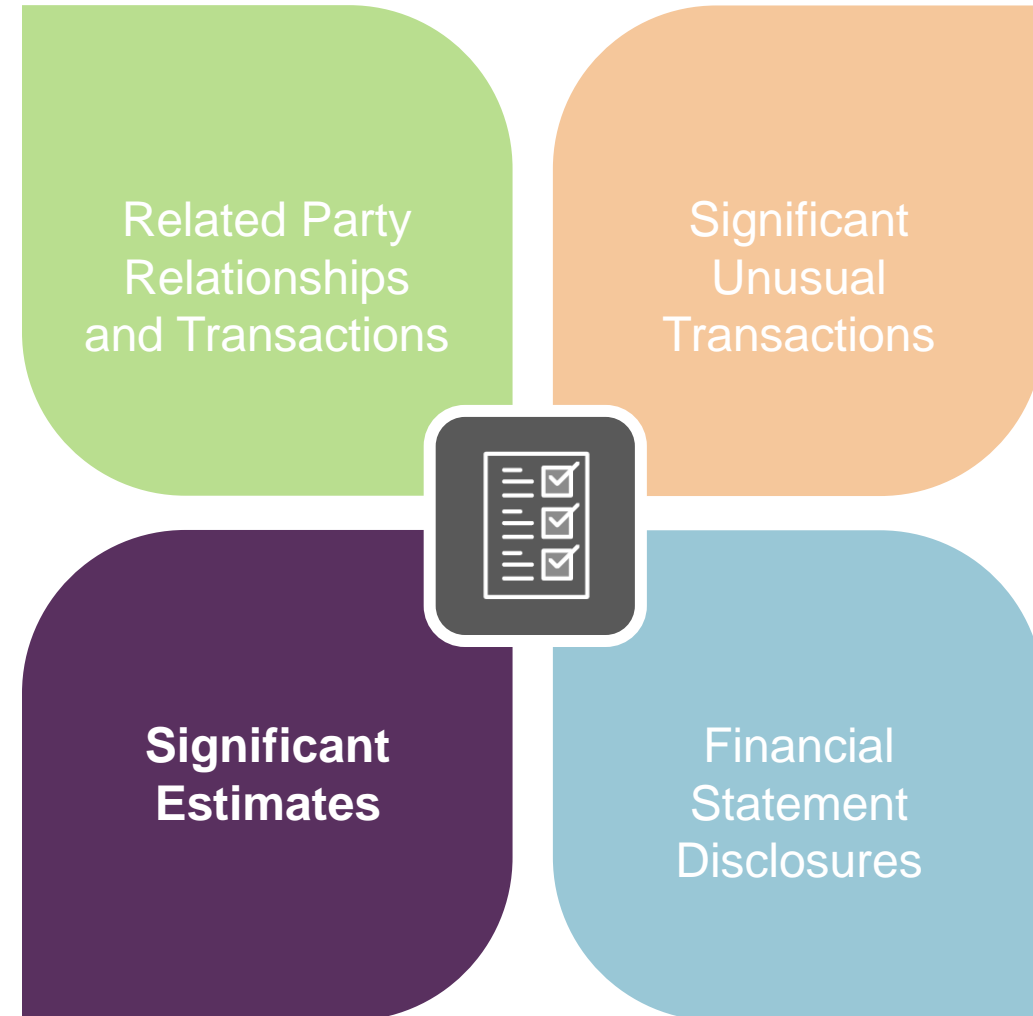
For purposes of this presentation, professional standards define significant unusual transactions as transactions that are outside the normal course of business for the Judicial Branch or that otherwise appear to be unusual due to their timing, size, or nature. We noted no significant unusual transactions during our audit.



Qualitative Aspects of Accounting Practices

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- The notes to the financial statement include information related to the Judicial Branch's proportionate share of the net pension liability/asset and the net other post-employment benefit liability of the Kentucky Employees Retirement System and the County Employees Retirement System. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable.

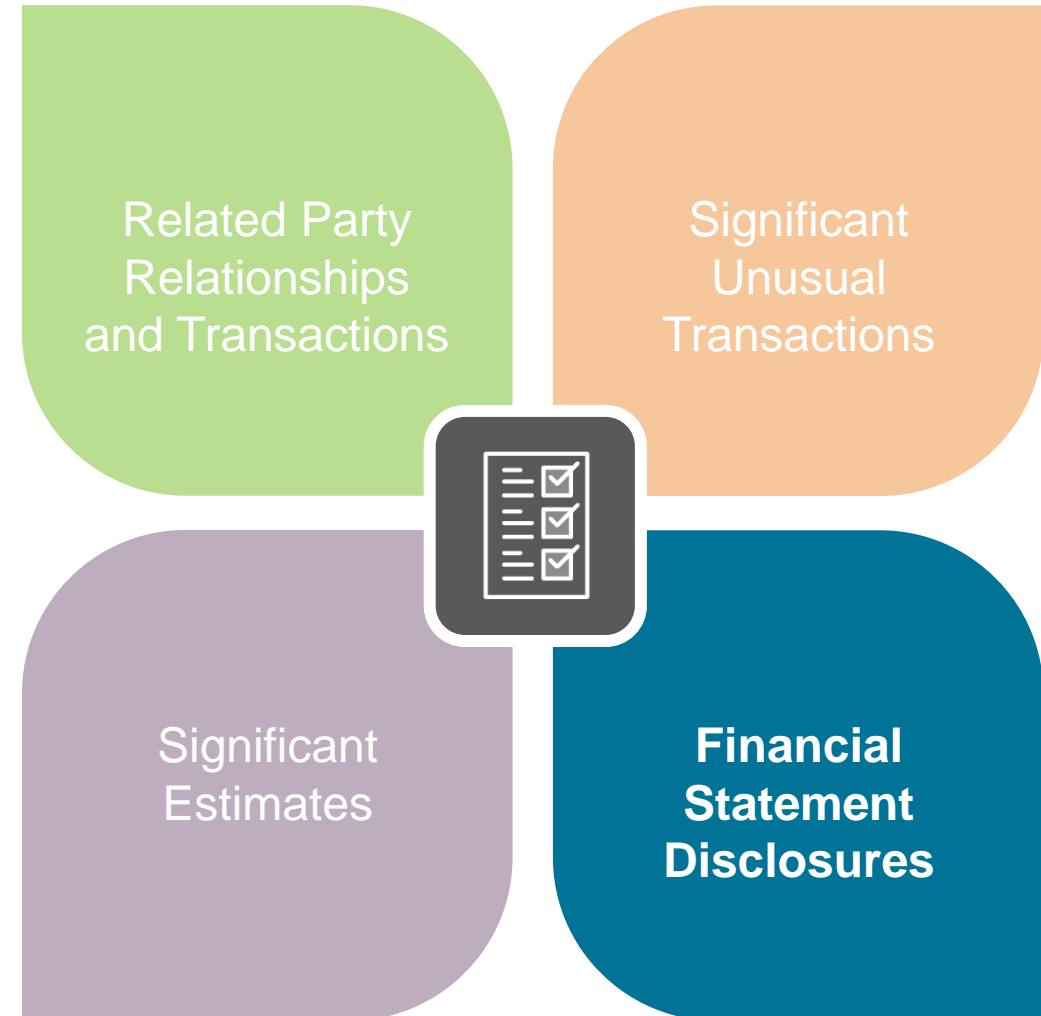


Qualitative Aspects of Accounting Practices

The financial statement disclosures are neutral, consistent, and clear.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Retirement plans and other post-employment benefits (Note 6)



Independence Considerations

Nonattest Services

- ▶ We did not provide any nonattest services to the Judicial Branch.

Independence Conclusion

- ▶ We are not aware of any other circumstances or relationships that create threats to auditor independence.
- ▶ We are independent of the Judicial Branch and have met our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.



Other Required Communications

Difficulties Encountered

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

Includes disagreements on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Auditor Consultations

We noted no matters that are difficult or contentious for which the auditor consulted outside the engagement team.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 8, 2024.



Other Required Communications

Management Consultations

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations.

To our knowledge, there were no such consultations with other accountants.

Other Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year.

These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Fraud and Illegal Acts

As of the date of this presentation, no fraud, illegal acts, or violations of laws and regulations noted.

Going Concern

No events or conditions noted that indicate substantial doubt about the Judicial Branch’s ability to continue as a going concern.



Questions

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About Cherry Bekaert LLP

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