

**MINUTES OF THE AUDIT AND COMPLIANCE SUBCOMMITTEE
OF THE FINANCE COMMITTEE
University of Kentucky Board of Trustees
January 31, 2014, 8:00 am
Suite A, 18th Floor Patterson Office Tower**

Subcommittee Members Present

William Britton, Chair, Angela Edwards, Keith Gannon, Bill Gatton, David Hawpe and James W. Stuckert

Approval of Minutes

The minutes of the December 17, 2013 Audit and Compliance Subcommittee (ACS) meeting were approved as presented.

Reports and Discussion Items

BKD FY 2014 Engagement Letters

Ms. Susan Krauss, Interim Treasurer, reviewed the following BKD Engagement Letters:

- Audit of the FY 2014 financial statements of UK and affiliated corporations—Ms. Krauss reviewed the main sections and mentioned that UK is in year 7 of a possible 8-year term. She noted that BKD's responsibilities were listed on pages 6-7 and UK's responsibilities on pages 7-8. The detail of BKD's engagement fees were listed on pages 10-11.
- Performance of agreed-upon procedures for NCAA compliance—Chair Britton noted that this work is over and above the regular audit work and is listed on pages 25-29.
- Performance of certain procedures to document an analysis of subsequent events—Ms. Krauss noted that this engagement is for the purpose of the upcoming bond issuance.

UK Internal Audit (UKIA) Update

Mr. Joe Reed, Internal Audit Senior Director, reported on the following:

- Internal Audit Introductory Presentation: Mr. Reed gave a presentation that covered UKIA's function, services, governance and report communication. He also covered the ACS meeting elements and UKIA metrics.
- FY 2014 Mid-year Activity Update:
 - Mr. Reed noted that the first quadrant represents the FY 2014 UKIA Approved Work Plan providing a status of each audit project.
 - Mr. Reed reported that the second quadrant represents the FY 2014 Unplanned Reviews and mentioned that unplanned activity hours increased in the second quarter of FY 2014. Chair Britton asked Mr. Reed to explain how unplanned activity is determined. Mr. Reed noted that it will originate from calls to UKIA (including management requests), Comply Line calls and results of UKIA's audit services.
 - Mr. Reed reviewed the third quadrant that lists the FY 2014 UKIA Audit Coverage by Enterprise Division, including the number of projects and project hours.
 - The fourth quadrant lists the FY 2014 UKIA Metric Update. Mr. Reed reported that UKIA is achieving five of the six metrics as of 12.31.13. The Work Plan Completion metric is not being achieved due to unplanned activity.
- UKIA Charter Revision Discussion:
 - Mr. Reed noted that there is a need to revise the UKIA Charter. The Charter contains the signature of the previous Chair and does not reflect the recent ACS Charter changes. Also the IIA professional standards recommend periodic Charter review.

Action Item

ACSR 1 Fiscal Year 2014 UK Internal Audit Work Plan Amendment

Mr. Eric Monday, Executive Vice President for Finance and Administration, recommended that the ACS approve the proposed amendment to the FY 2014 UK Internal Audit Work Plan. Mr. Monday reported that the amendment is due to UKIA's increased unplanned activity. This increase is a positive indication that the UK community continues to engage UKIA. He explained that unplanned activity includes consultations, inquiries and investigations; the request for approval to increase the unplanned activity hours will reduce the hours associated with planned activity related to the FY 2014 UK Internal Audit Work Plan. Mr. Reed noted that UKIA intends to complete the FY 2014 audit projects that have already begun. Mr. Keith Gannon asked if an increase was needed in UKIA resources. Mr. Monday responded that it will be considered during the FY 2015 budget process for the Finance and Administration area.

Other discussion related to unplanned activity included:

- Mr. Monday asked Mr. Reed to elaborate on the Fraud Seminar offered by UKIA. Mr. Reed noted that it was well-attended in January, and demand continues as noted by department requests and full registration for the next session. He mentioned that these seminars are designed to increase knowledge and awareness of potential fraud.
- Chair Britton asked if UKIA was using student interns. Mr. Reed responded that UKIA is using interns on a variety of projects and they are performing well.

Mr. Stuckert moved to approve ACSR1. Seconded by Mr. Gannon. Approved.

There being no further business, the meeting was adjourned.

Next Meeting

Friday, April 1, 2014

- BKD FY 2014 Scope Review
- Internal Audit Charter Revision Draft
- Comply Line Mid-Year Update

Respectfully submitted,

Catherine Miller

December 23, 2013

Susan I. Krauss
Interim Treasurer
University of Kentucky
411 South Limestone Street
Peterson Service Building
Lexington, KY 40506-0005

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide to **UNIVERSITY OF KENTUCKY (UK)**.

ENGAGEMENT OBJECTIVES AND SCOPE

We will audit the basic financial statements of UK as of and for the year ending June 30, 2014, and the related notes to the financial statements. We will also audit the statements of net position and the related statements of revenues, expenses and changes in net position and cash flows for the following:

- WUKY-FM Radio
- Central Kentucky Management Services, Inc.
- UK Research Foundation
- UK HealthCare Hospital System
- UK Mining Engineering Foundation, Inc.
- UK Department of Intercollegiate Athletics
- UK Gluck Equine Research Foundation, Inc.
- UK Center on Aging Foundation, Inc.
- UK Humanities Foundation, Inc.
- The Fund for Advancement of Education and Research in the UK Medical Center
- Kentucky Tobacco Research Development Center

Our audit of UK's financial statements will be conducted with the objectives of:

- ✓ Expressing an opinion on the financial statements
- ✓ Issuing a report on your compliance based on the audit of your financial statements
- ✓ Issuing a report on your internal control over financial reporting based on the audit of your financial statements
- ✓ Expressing an opinion on your compliance, in all material respects, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of your major federal award programs
- ✓ Issuing a report on your internal control over compliance based on the audit of your compliance with the types of compliance requirements that are applicable to each of your major federal award programs
- ✓ Issuing a report on your schedule of expenditures of federal awards

We will audit the statements of financial position and the related statements of activities and cash flows for the following:

- UK Alumni Association for the year ending June 30, 2014

We will also perform an attestation engagement related to the compliance of WUKY-FM Radio with the required reporting to the Corporation for Public Broadcasting and an attestation report on compliance with Kentucky's Lease Law (KRS 56.800 through 56.832 and KRS 48.111). The objective of our examination is the expression of opinions on the conformity of the subject matter of the assertions, in all material respects, with the applicable criteria against which it is measured.

As described in a separate engagement letter, we will also perform certain agreed-upon procedures related to:

- The UK Intercollegiate Athletics Program in accordance with the latest version of NCAA Financial Audit Guidelines

The scope of our services will also include:

- Report on compliance with House Bill 622 based on the audit of financial statements
- Letter report to Commonwealth of Kentucky Auditor of Public Accounts representing the firm is in compliance with generally accepted auditing standards and *Government Auditing Standards* concerning continuing education requirements, independence and peer review
- Letter to the Auditor of Public Accounts reporting the results of subsequent events from the date of the audit report on UK's financial statements to approximately the end of the calendar year

- Reports on estimated bond arbitrage liability for each Consolidated Education Building Revenue Bond, Housing and Dining Revenue Bond and General Receipts Bond issues

OUR RESPONSIBILITIES

We will conduct our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards require that we plan and perform:

- ✓ The audits of the financial statements to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- ✓ The audit of compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* applicable to each major federal award program to obtain reasonable rather than absolute assurance about whether noncompliance having a direct and material effect on a major federal award program occurred.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements or noncompliance having a direct and material effect may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS.

In making our risk assessments, we consider internal control relevant to UK's preparation and fair presentation of the financial statements to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of UK's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements we have identified during the audit. Also, in the future, procedures could become inadequate because of changes in conditions or deterioration in design or operation. Two or more people may also circumvent controls or management may override the system.

We are available to perform additional procedures with regard to fraud detection and prevention at your request, subject to completion of our normal engagement acceptance procedures. The actual terms and fees of such an engagement would be documented in a separate letter to be signed by you and BKD.

Mary McKinley, partner, is responsible for supervising the engagement and authorizing the signing of the reports.

We will issue a written report upon completion of our audits of UK's financial statements. Our reports will be addressed to the board of trustees of UK. We cannot provide assurance an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis of matter or other matter paragraph(s) or withdraw from the engagement. If we discover conditions that may prohibit us from issuing a standard report, we will notify you as well. In such circumstances, further arrangements may be necessary to continue our engagement.

We will also express an opinion on whether the schedule of expenditures of federal awards required by the OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (supplementary information) is fairly stated, in all material respects, in relation to the financial statements as a whole.

YOUR RESPONSIBILITIES

Our audits will be conducted on the basis management acknowledge and understand they have responsibility:

- a. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America
- b. 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
- c. For identifying and ensuring compliance with the laws, regulations, contracts and grants applicable to your activities including your federal award programs
- d. To provide us with:
 - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation and other matters
 - ii. Additional information we may request from management for the purpose of the audit
 - iii. Unrestricted access to persons within the entities from whom we determine it necessary to obtain audit evidence

As part of our audit process, we will request from management written confirmation acknowledging certain responsibilities outlined in this engagement letter and confirming:

- The availability of this information
- Certain representations made during the audits for all periods presented
- The effects of any uncorrected misstatements, if any, resulting from errors or fraud aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

The results of our tests of compliance and internal control over financial reporting performed in connection with our audits of the financial statements may not fully meet the reasonable needs of report users. Management is responsible for obtaining audits, examinations, agreed-upon procedures or other engagements that satisfy relevant legal, regulatory or contractual requirements or fully meet other reasonable user needs.

With regard to supplementary information:

- Management is responsible for its preparation in accordance with applicable criteria
- Management will provide certain written representations regarding the supplementary information at the conclusion of our engagement
- Management will include our report on this supplementary information in any document that contains this supplementary information and indicates we have reported on the supplementary information
- Management will make the supplementary information readily available to intended users if it is not presented with the audited financial statements

Arbitrage Services

Our services and reports are intended solely for the information and assistance of UK, the bond issuers and trustees and are not intended to be and should not be used by anyone other than these specified parties.

We will perform the procedures enumerated below with respect to each bond issue annually:

- Review bond documents for elections made regarding arbitrage
- Review the fund transactions on trustee statements and, if applicable, determine exceptions or exemptions from rebate calculations
- If required, perform arbitrage calculations using methodologies defined by Section 148 of the Internal Revenue Code and related regulations for the computation period

- Provide a written report documenting the results of our procedures and the arbitrage rebate liability, if any, for the computation period solely for the information and assistance of the parties specified above
- Prepare Internal Revenue Service Form 8038-T, if necessary

Because we have not been engaged to and will not perform an audit or examination, we will express no opinion on the information to which our procedures are applied. In addition, we will express no opinion as to whether the investments allocated to gross proceeds of the bonds were acquired and sold at fair market value. In addition, we have no obligation to perform any procedures other than those listed above.

Our engagement is not designed to prevent or discover errors, misrepresentations, fraud or illegal acts and you agree we have no such responsibility.

Regulatory authorities may interpret circumstances differently than we do. In addition, the applicable laws, regulations and regulators' enforcement activities may change over time.

Our services do not include interpretation of legal matters. You should seek the advice of legal counsel in such matters.

We will not make management decisions or perform management functions, the responsibility for which remains with management and the board of trustees.

We will use and rely on information furnished to us by you, your employees and representatives and the bond trustees and on information available from generally recognized public sources. We are not responsible for the accuracy and completeness of the information and are not responsible to investigate or verify it.

We have no responsibility to and will not update our reports for or disclose any event or circumstances after the date of our reports.

You agree management is solely responsible for the sufficiency of the procedures. Consequently, we make no representation regarding the sufficiency of the procedures for the purpose for which the report has been requested or for any other purpose.

You agree to supply us with the necessary information and allow us access to personnel to assist in performing our services. Your failure to fulfill this responsibility in a timely manner may impair our ability to provide service.

You agree to assume full responsibility for the substantive outcomes of the services described above, including any findings that may result. You also acknowledge the services described above are adequate for your purposes and you will establish and monitor the performance of these services to ensure they meet management's objectives. Any and all decisions involving management functions related to these services will be made by you and you accept full responsibility for such decisions. We understand you have designated a management-level individual to be responsible and accountable for overseeing the performance of these services, and you have determined this individual is qualified to conduct such oversight.

OTHER SERVICES

In addition, we may perform other services for you not covered by this engagement letter. You agree to assume full responsibility for the substantive outcomes for any other services we may provide, including any findings that may result. You also acknowledge those services are adequate for your purposes and you will establish and monitor the performance of those services to ensure they meet management's objectives. Any and all decisions involving management functions related to those services will be made by you, and you accept full responsibility for such decisions. We understand you will designate a management-level individual to be responsible and accountable for overseeing the performance of those services and you will have determined this individual is qualified to conduct such oversight.

ENGAGEMENT FEES

The following represents our services to be provided and the associated fees.

Our fees will be based on the following:

Audit of the UK financial statements, House Bill 622, annual financial report to the Commonwealth and Kentucky Lease Law	\$	152,000
Audit of the UK Research Foundation financial statements		7,825
Audit of the UK Department of Intercollegiate Athletics financial statements		9,100
Audit of the Fund for Advancement of Education and Research in the UK Medical Center financial statements		3,400
Audit of the Central Kentucky Management Services, Inc. financial statements		3,400
Audit of the UK Mining Engineering Foundation, Inc. financial statements		3,400

Audit of the UK Gluck Equine Research Foundation, Inc. financial statements	3,400
Audit of the University of Humanities Foundation, Inc. financial statements	3,400
Audit of the UK Center on Aging Foundation, Inc. financial statements	3,400
Audit of the UK HealthCare Hospital System	54,000
Audit of the Kentucky Tobacco Research and Development Center	3,400
Audit of WUKY-FM Radio and auditor's opinion on Annual Financial Report to the Corporation for Public Broadcasting for WUKY-FM Radio	10,700
Audit of the UK Alumni Association	7,825
Perform certain agreed-upon procedures with regard to the UK Intercollegiate Athletics Program in accordance with the latest version of NCAA Financial Audit Guidelines	11,225
A-133 audit of the UK reports on compliance and internal controls in accordance with <i>Government Auditing Standards</i> and the Requirements of OMB Circular A-133 and the Schedule of Expenditures of Federal Awards and Data Collection Form – this assumes testing of one major program	18,125
Report on estimated bond arbitrage liability for each Consolidated Educational Building Revenue Bond, Housing and Dining Revenue Bond and General Receipts Bond issue	32,100
All auditors reports and management letters required under Statements of Auditing Standards	Included in the UK consolidated audit
Review of preliminary and final official statements with regard to the issuance of UK debt and which will contain UK's most recent audited financial statement total per issue, due on delivery	11,225
Other consulting services	<u>19,500</u>
	<u>\$ 357,425</u>

Our fees are based upon the understanding your personnel will be available to assist us. Our estimate of time assumes no substantial problems with financial statement preparation, obtaining account balance supporting detail and obtaining complete and accurate information with respect to internal control documentation. Assistance from your personnel is expected to include:

- Preparing audit schedules to support all significant balance sheets and certain other accounts
- Responding to auditor inquiries
- Preparing confirmation and other letters
- Pulling selected invoices and other documents from files
- Helping to resolve any differences or exceptions noted
- Preparing all financial statements and related notes
- Preparing the data collection form, schedule of expenditures of federal awards and NCAA statement of revenues and expenses

A detailed list of assistance needed will be provided to you before the audit begins.

Our timely completion of the audit depends on your timely and accurate schedule and analyses preparation for all entities and on the availability of your personnel to provide other assistance. If there are inaccuracies or delays in preparing this material, or if we experience other assistance difficulties that add a significant amount of time to our work, our fees will increase. If these circumstances occur, we will promptly notify you to discuss alternative solutions and the impact on our fees.

Our pricing for this engagement and our fee structure are based upon the expectation that our invoices will be paid promptly. We will issue progress billings during the course of our engagement, and payment of our invoices is due upon receipt. Interest will be charged on any unpaid balance after 30 days at the rate of 10 percent per annum.

Our engagement fee does not include any time for post-engagement consultation with your personnel or third parties, consent letters and related procedures for the use of our reports in offering documents, inquiries from regulators or testimony or deposition regarding any subpoena. Charges for such services will be billed separately.

Our fees may also increase if our duties or responsibilities are increased by rulemaking of any regulatory body or any additional new accounting or auditing standards. We will consult with you in the event any other regulations or standards are issued that may impact our fees.

Should we incur time beyond the scope of the audit for issues such as implementation of new GASB or FASB standards, tests of opening balances, purchase accounting or additional major programs in the A-133 audit, we will discuss with you the nature of the additional work prior to the start of such services. The cost of such additional services will be billed at our standard hourly rates as described in our proposal dated November 28, 2007.

If our invoices for this or any other engagement you may have with BKD are not paid within 30 days, we may suspend or terminate our services for this or any other engagement. In the event our work is suspended or terminated as a result of nonpayment, you agree we will not be responsible for any consequences to you.

OTHER ENGAGEMENT MATTERS AND LIMITATIONS

Our workpapers and documentation retained in any form of media for this engagement are the property of BKD. We can be compelled to provide information under legal process. In addition, we may be requested by regulatory or enforcement bodies to make certain workpapers available to them pursuant to authority granted by law or regulation. You agree we have no legal responsibility to you in the event we provide such documents or information.

UK agrees to be responsible for its own actions, the actions of its affiliates and subsidiaries and its officers, agents and employees to the extent and in the manner provided for by applicable law.

We agree to indemnify and hold harmless UK and its affiliates and subsidiaries and their officers, agents and employees from losses, claims, suits, actions, expenses, damages, costs including attorney fees of attorneys of UK's choice and court costs, expenses, all liability of any nature or kind arising out of or relating to our acts of negligence in performing hereunder.

Limitation on Damages

UK agrees that BKD, its subcontractors and their respective personnel shall not be liable to UK for any claims, liabilities or expenses relating to this engagement (Claims) for an aggregate amount in excess of three times the fees paid by UK to BKD pursuant to this engagement except to the extent finally judicially determined to have resulted primarily from the bad faith or intentional misconduct of BKD or its subcontractors. In no event shall BKD, its subcontractors or their respective personnel be liable for any loss of use, data, goodwill, revenues or profits whether or not deemed to constitute direct Claims or any consequential, special, indirect, incidental, punitive or exemplary loss, damage or expense relating to this engagement. In circumstances where all or any portion of the provision of this paragraph are finally judicially determined to be unavailable, the aggregate liability of BKD, its subcontractors and their respective personnel for any Claim shall not exceed an amount which is proportional to the relative fault that their conduct bears to all other conduct giving rise to such Claim.

You agree any dispute regarding this engagement will, prior to resorting to litigation, be submitted to mediation upon written request by either party. Both parties agree to try in good faith to settle the dispute in mediation. The American Arbitration Association will administer any such mediation in accordance with its Commercial Mediation Rules. The results of the mediation proceeding shall be binding only if each of us agrees to be bound. We will share any costs of mediation proceedings equally.

Either of us may terminate these services at any time. Both of us must agree, in writing, to any future modifications or extensions. If services are terminated, you agree to pay us for time expended to date. In addition, you will be billed travel costs and fees for services from other professionals, if any, as well as an administrative fee of 4 percent to cover such items as copies, postage and other delivery charges, supplies, technology-related costs, such as computer processing, software licensing, research and library databases and similar expense items.

If any provision of this agreement is declared invalid or unenforceable, no other provision of this agreement is affected and all other provisions remain in full force and effect.

This engagement letter, along with UK's General Terms and Conditions Personal Services Contract, Request for Proposal and related addenda, along with BKD's complete technical and financial proposal dated November 28, 2007, to RFP No. UK-0714-8 represents the entire agreement regarding the services described herein and supersedes all prior negotiations, proposals, representations or agreements, written or oral, regarding these services. It shall be binding on heirs, successors and assigns of you and BKD.

We may from time to time utilize third-party service providers, *e.g.*, domestic software processors or legal counsel, or disclose confidential information about you to third-party service providers in serving your account. We remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information. In the event we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider.

We will, at our discretion or upon your request, deliver financial or other confidential information to you electronically via email or other mechanism. You recognize and accept the risk involved, particularly in email delivery as the Internet is not necessarily a secure medium of communication as messages can be intercepted and read by those determined to do so.

You agree you will not modify these documents for internal use or for distribution to third parties. You also understand we may on occasion send you documents marked as draft and understand those are for your review purpose only, should not be distributed in any way and should be destroyed as soon as possible.

If you intend to include these financial statements and our report in an offering document at some future date, you agree to seek our permission to do so at that time. You agree to provide reasonable notice to allow sufficient time for us to perform certain additional procedures. Any time you intend to publish or otherwise reproduce these financial statements and our report and make reference to our firm name in any manner in connection therewith, you agree to provide us with printers' proofs or masters for our review and approval before printing or other reproduction. You will also provide us with a copy of the final reproduced material for our approval before it is distributed. Our fees for such services are in addition to those discussed elsewhere in this letter.

You agree to notify us if you desire to place these financial statements or our report thereon on an electronic site. You recognize we have no responsibility as auditors to review information contained in electronic sites.

Any time you intend to reference our firm name in any manner in any published materials, including on an electronic site, you agree to provide us with draft materials for our review and approval before publishing or posting such information.

BKD is a registered limited liability partnership under Missouri law. Under applicable professional standards, partners of **BKD, LLP** have the same responsibilities as do partners in a general accounting and consulting partnership with respect to conformance by themselves and other professionals in BKD with their professional and ethical obligations. However, unlike the partners in a general partnership, the partners in a registered limited liability partnership do not have individual civil liability, directly or indirectly, including by way of indemnification, contribution, assessment or otherwise, for any debts, obligations or liabilities of or chargeable to the registered limited liability partnership or each other, whether arising in tort, contract or otherwise.

We are an independent accounting firm allowed to use the name Praxity, AISBL in relation to our practice. We are not connected by ownership with any other firm using the name PraxityTM and we will be solely responsible for all work carried out by us on your behalf. In deciding to engage us, you acknowledge we have not represented to you that any other firm using the name Praxity will in any way be responsible for the work that we do.

BKD understands and acknowledges its obligations to comply with all applicable federal, state and local laws and regulations governing nondiscrimination in the workplace and providing equal employment opportunity. BKD does not have an Affirmative Action Plan, but BKD does have affirmative action and equal employment policies.

BKD prohibits discrimination in employment on the basis of an individual's race, color, sex, sexual orientation, age, religion or creed, disability, national origin or any other protected status. This policy is designed to ensure equal employment opportunities including, but not limited to, employee selection, promotion, training and development, compensation, termination and disciplinary action. Our affirmative action/equal employment opportunity (AA/EEO) policy is posted on office bulletin boards or in break rooms.

We monitor this program to make sure it complies with federal, state and local regulations and guidelines and we develop employment programs to comply with all levels. All management and supervisory personnel are responsible for enforcing the firm's AA/EEO policies and practices and being knowledgeable of current legal and regulatory developments in this area.

UK's management agrees the policies and procedures described in the three preceding paragraphs are sufficient to satisfy UK's requirements related to affirmative action and Executive Order 11246 as discussed in UK's General Terms and Conditions and the Personal Services Contract.

BKD will provide to UK waivers of subrogation related to its general liability and automobile insurance. UK's management agrees that no waivers of subrogation are necessary for professional liability, workers' compensation or employer's liability.

HIPAA BUSINESS ASSOCIATE AGREEMENT

We agree not to use or disclose Protected Health Information of your patients/employees (hereinafter referred to as PHI) obtained or produced in any form of media during the course of our work in a manner prohibited by the *Health Insurance Portability and Accountability Act of 1996* (HIPAA), as amended. We may use or disclose PHI for purposes of (a) performing our engagement, (b) management and administration of BKD or (c) carrying out legal responsibilities of BKD. We will not further disclose information except as permitted or required by this contract or as required by law. When using or disclosing PHI in relation to this engagement, we will limit disclosures as required by HIPAA. We will not use PHI in any marketing activities in a manner that would violate HIPAA. We represent to you that we have implemented what we consider to be appropriate administrative, physical and technical safeguards to protect the confidentiality, integrity and availability of your PHI as required for us as a business associate to comply with HIPAA.

With respect to your PHI, we will report to you any breach (as defined in 45 CFR 164.402), material security incident or use or disclosure not authorized by this agreement and, to the extent practical, assist you in mitigating any harmful effects caused by breaches, material security incidents or unauthorized uses or disclosures of which we become aware. To assist you in fulfilling your responsibility to notify impacted individuals and others of a breach involving unsecured PHI (as required under 45 CFR 164.400 et seq.), in this report we will identify to you, to the extent reasonably possible:

1. Each individual whose unsecured PHI was subject to the breach
2. Any other available information you are required to include in your notification to such individual(s) or others under 45 CFR 164.404(c)

We agree that any material violation of these confidentiality provisions by us entitles you to terminate this engagement. Similarly, if we become aware of a violation of HIPAA by you that cannot be or is not timely cured, we may be obligated to terminate this engagement.

BKD agrees to:

1. Upon their request, make available to the Secretary of Health and Human Services (HHS) our internal practices and books and records relating to the use and disclosure of PHI for purposes of determining your compliance with the Security and Privacy Rule, subject to any applicable legal privileges.
2. Make available information necessary for you to make an accounting of disclosures of PHI about an individual.
3. To the extent we maintain information that is part of a Designated Record Set, make available information necessary for you to respond to requests by individuals for access to PHI that is not in your possession but is considered part of a Designated Record Set.
4. Upon receipt of a written request from you, incorporate any amendments or corrections to PHI contained in our workpapers in accordance with the Security and Privacy Rule to the extent such PHI is considered part of a Designated Record Set.

For purposes of this agreement, the term "Security and Privacy Rule" refers to the final rules published to implement the Administrative Simplification provisions of HIPAA, specifically 45 CFR Parts 160 and 164. The terms "Protected Health Information" and "Designated Record Set" have the same meaning as defined in the Security and Privacy Rule.

At the conclusion or termination of this engagement, any PHI retained by us will be subject to the same safeguards as for active engagements.

We will obtain from any agents, including subcontractors, to whom we provide PHI received from you, or created or received by us on behalf of you, an agreement to the same restrictions and conditions that apply to us with respect to such PHI.

To the extent that any relevant provision of HIPAA is eliminated or held to be invalid by a court of competent jurisdiction, the corresponding portion of this agreement shall be deemed of no force and effect for any purpose. To the extent that any relevant provision of HIPAA is materially amended in a manner that changes the obligations of business associates or covered entities that are embodied in term(s) of this engagement, the Parties agree to negotiate in good faith appropriate amendment(s) to this engagement to give effect to such revised obligations. In addition, the terms of this engagement should be construed in light of any interpretation and/or guidance on HIPAA issued by HHS from time to time.

Susan I. Krauss
December 23, 2013
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Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audits of the financial statements including our respective responsibilities. If the signed copy you return to us is in electronic form, you agree such copy shall be legally treated as a "duplicate original" of this agreement.

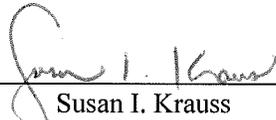
BKD, LLP

BKD, LLP

Acknowledged and agreed to on behalf of

UNIVERSITY OF KENTUCKY

BY



Susan I. Krauss
Interim Treasurer

DATE

12/24/13

December 24, 2013

Susan I. Krauss
Interim Treasurer
University of Kentucky
411 South Limestone Street
Peterson Service Building
Lexington, KY 40506-0005

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide to the following specified users: **UNIVERSITY OF KENTUCKY (UK)**.

OUR SERVICES AND THE RESPONSIBILITIES OF THE PARTIES

We will apply the procedures enumerated in the attachment to this letter to assist UK in complying with the National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.16 for the year ending June 30, 2014, in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the requested procedures is solely the responsibility of the parties to be specified in our report. Consequently, we make no representation regarding the sufficiency of the procedures for the purpose for which the report has been requested or for any other purpose.

Because we have not been engaged to conduct an examination, we will not express an opinion on specified elements, accounts or items referred to above. In addition, we have no obligation to perform any procedures beyond those listed in the attachment to this letter.

Our engagement will not include a detailed examination of all transactions and cannot be relied upon to disclose misstatements that might exist due to error, fraud and illegal acts. However, we will inform you of any such matters, if material, that come to our attention.

It should be understood that management of UK is responsible for the proper recording of transactions and preparation of financial statements. Management of UK is also responsible for establishing and maintaining effective internal control over financial reporting and setting the proper tone, creating and maintaining a culture of honesty and high ethical standards and establishing appropriate controls to prevent, deter and detect fraud and illegal acts. Management of UK is also responsible for identifying and ensuring compliance with laws and regulations applicable to its activities and for establishing and maintaining effective internal control over compliance.

We will submit a report summarizing the procedures performed and the results of those procedures. The report is intended solely for the information and use of UK and is not intended to be and should not be used by anyone other than these specified parties.

Mary McKinley is responsible for supervising the engagement and authorizing the signing of the report or reports.

If, for any reason, we are unable to complete our procedures, we may decline to issue a report as a result of this engagement.

OTHER SERVICES

We may perform other services for you not covered by this engagement letter. You agree to assume full responsibility for the substantive outcomes of those services, including any findings that may result. You also acknowledge those services are adequate for your purposes and you will establish and monitor the performance of those services to ensure they meet management's objectives. Any and all decisions involving management functions related to those services will be made by you, and you accept full responsibility for such decisions. We understand you will designate a management-level individual to be responsible and accountable for overseeing the performance of those services, and you have determined this individual is qualified to conduct such oversight.

ENGAGEMENT FEES

Our fees for the 2014 engagement for UK are detailed in a separate engagement letter dated December 23, 2013.

Our fees are based upon the understanding the personnel of UK will be available to assist us. Assistance is expected to include:

- Preparing schedules and analyses
- Responding to inquiries
- Pulling selected documents from files
- Helping to resolve any difficulties encountered

Our timely completion of the engagement depends on timely and accurate schedule and analyses preparation and on the availability of UK personnel to provide other assistance. If there are inaccuracies or delays in preparing this material, or if we experience other assistance difficulties that add a significant amount of time to our work, our fees will increase. If these circumstances occur, we will promptly notify you to discuss alternative solutions and impact on our fees.

Our pricing for this engagement and our fee structure are based upon the expectation that our invoices will be paid promptly. We will issue progress billings during the course of our engagement, and payment of our invoices is due upon receipt. Interest will be charged on any unpaid balance after 30 days at the rate of 10 percent per annum.

Our engagement fee does not include any time for post-engagement consultation with your personnel or third parties, inquiries from regulators or testimony or deposition regarding any subpoena. Charges for such services will be billed separately.

If our invoices for this or any other engagement you may have with BKD are not paid within 30 days, we may suspend or terminate our services for this or any other engagement. In the event our work is suspended or terminated as a result of nonpayment, you agree we will not be responsible for any consequences to you.

OTHER ENGAGEMENT MATTERS AND LIMITATIONS

Our workpapers and documentation retained in any form of media for this engagement are the property of BKD. We can be compelled to provide information under legal process. In addition, we may be requested by regulatory or enforcement bodies to make certain workpapers available to them pursuant to authority granted by law or regulation. You agree we have no legal responsibility to you in the event we provide such documents or information.

UK agrees to be responsible for its own actions, the actions of its affiliates and subsidiaries and its offices, agents and employees to the extent and in the manner provided for by applicable law.

We agree to indemnify and save harmless UK, its affiliates and subsidiaries and their officers, agents and employees from losses, claims, suits, actions, expenses, damages, costs (including attorney fees of UK's choice and court costs), expenses and all liabilities of any nature or kind arising out of or relating to our acts of negligence in performing hereunder.

Limitations on Damages

UK agrees BKD, its subcontractors and their respective personnel shall not be liable to UK for any claims, liabilities or expenses relating to this engagement (Claims) for an aggregate amount in excess of three times the fees paid by UK to BKD pursuant to this engagement, except to the extent finally judicially determined to have resulted primarily from the bad faith or intentional misconduct of BKD or its subcontractors. In no event shall BKD, its subcontractors or their respective personnel be liable for any loss of use, data, goodwill, revenues or profits (whether or not deemed to constitute direct Claims) or any consequential, special, indirect, incidental, punitive or exemplary loss, damage or expense relating to this engagement. In circumstances where all or any portion of the provision of this paragraph are finally judicially determined to be unavailable, the aggregate liability of BKD, its subcontractors and their respective personnel for any Claims shall not exceed an amount which is proportional to the relative fault that their conduct bears to all other conduct giving rise to such Claims.

You agree any dispute regarding this engagement will, prior to resorting to litigation, be submitted to mediation upon written request by either party. Both parties agree to try in good faith to settle the dispute in mediation. The American Arbitration Association will administer any such mediation in accordance with its Commercial Mediation Rules. The results of the mediation proceeding shall be binding only if each of us agrees to be bound. We will share any costs of mediation proceedings equally.

Either of us may terminate these services at any time. Both of us must agree, in writing, to any future modifications or extensions. If services are terminated, you agree to pay us for time expended to date.

If any provision of this agreement is declared invalid or unenforceable, no other provision of this agreement is affected and all other provisions remain in full force and effect.

This engagement letter, along with UK's General Terms and Conditions Request for Proposal and related addenda along with BKD's complete technical and financial proposal dated November 28, 2007, to RFP No. UK-0714-8, represents the entire agreement regarding the services described herein and supersedes all prior negotiations, proposals, representations or agreements, written or oral, regarding these services. It shall be binding on heirs, successors and assigns of you and BKD.

We may from time to time utilize third-party service providers, *e.g.*, domestic software processors or legal counsel, or disclose confidential information about you to third-party service providers in serving your account. We remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information. In the event we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider.

We will, at our discretion or upon your request, deliver financial or other confidential information to you electronically via email or other mechanism. You recognize and accept the risk involved, particularly in email delivery as the Internet is not necessarily a secure medium of communication as messages can be intercepted and read by those determined to do so.

You agree you will not modify these documents for internal use or for distribution to third parties. You also understand we may on occasion send you documents marked as draft and understand those are for your review purpose only, should not be distributed in any way and should be destroyed as soon as possible.

Any time you intend to reference our firm name in any manner in any published materials, including on an electronic site, you agree to provide us with draft materials for our review and approval before publishing or posting such information.

BKD is a registered limited liability partnership under Missouri law. Under applicable professional standards, partners of **BKD, LLP** have the same responsibilities as do partners in a general accounting and consulting partnership with respect to conformance by themselves and other professionals in BKD with their professional and ethical obligations. However, unlike the partners in a general partnership, the partners in a registered limited liability partnership do not have individual civil liability, directly or indirectly, including by way of indemnification, contribution, assessment or otherwise, for any debts, obligations or liabilities of or chargeable to the registered limited liability partnership or each other, whether arising in tort, contract or otherwise.

We are an independent accounting firm allowed to use the name Praxity, AISBL in relation to our practice. We are not connected by ownership with any other firm using the name Praxity™ and we will be solely responsible for all work carried out by us on your behalf. In deciding to engage us, you acknowledge we have not represented to you that any other firm using the name Praxity will in any way be responsible for the work that we do.

BKD understands and acknowledges its obligations to comply with all applicable federal, state and local laws and regulations governing nondiscrimination in the workplace and providing equal employment opportunity. BKD does not have an Affirmative Action Plan, but BKD does have affirmative action/equal employment opportunity (AA/EEO) policies.

BKD prohibits discrimination in employment on the basis of an individual's race, color, sex, sexual orientation, age, religion or creed, disability, national origin or any other protected status. This policy is designed to ensure equal employment opportunities including, but not limited to, employee selection, promotion, training and development, compensation, termination and disciplinary action. Our AA/EEO policy is posted on office bulletin boards or in break rooms.

We monitor this program to make sure it complies with federal, state and local regulations and guidelines and we develop employment programs to comply with all levels. All management and supervisory personnel are responsible for enforcing the firm's AA/EEO policies and practices and being knowledgeable of current legal and regulatory developments in this area.

UK's management agrees the policies and procedures described in the three preceding paragraphs are sufficient to satisfy UK's requirements related to affirmative action and Executive Order 11246 as discussed in UK's General Terms and Conditions, the Personal Services Contract and the Request for Proposal.

We will be pleased to discuss this letter with you at any time and look forward to the opportunity of serving you. If the above arrangements are acceptable to you, please sign the enclosed copy of this letter and return it to us. If the signed copy you return to us is in electronic form, you agree such copy shall be legally treated as a "duplicate original" of this agreement.

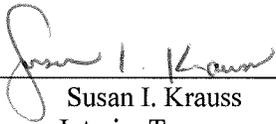
BKD, LLP

BKD, LLP

Susan I. Krauss
December 24, 2013
Page 6

The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

UNIVERSITY OF KENTUCKY

BY  _____
Susan I. Krauss
Interim Treasurer

DATE 12/24/13

University of Kentucky
Agreed-Upon Procedures
Attachment to Engagement Letter Dated December 24, 2013

We will obtain the statement of revenue and expenses (Statement), as prepared by the administration of the University of Kentucky (UK). We will compare the amounts disclosed in the Statement to UK's general ledger. For relevant revenue and expense categories, we will perform the following:

1. We will compare the amount of each operating revenue and expense category reported in the Statement during the year ending June 30, 2014, to supporting schedules provided by the administration of UK.
2. We will compare each revenue and expense amount to prior year amounts and current year budget estimates. We will obtain and document an understanding of any significant variances (\$1,000,000 and 20 percent) from prior year amounts or current year budget estimates.

Operating Revenues

3. *Ticket Sales* – We will compare the detail of revenue related to tickets sold, complimentary tickets provided and unsold tickets per the supporting schedule during the year ending June 30, 2014, to the related revenue reported in the Statement. For football and men's basketball ticket revenue, we will compare the detail of the number of tickets multiplied by ticket prices, to the detail of revenues for those sports.
4. *Student Fees* – We will obtain a schedule of student fees during the year ending June 30, 2014, and we will compare the amount per the detail with the amount per the Statement. We will obtain and document an understanding of UK's methodology for allocating student fees to intercollegiate athletics programs and inquire of UK's management if there were any significant changes from the prior year.
5. *Guarantees* – We will select one contractual agreement pertaining to revenues derived from guaranteed contests and agree it to the supporting schedules and to the contract.
6. *Contributions* – We will compare supporting documentation for any contributions received directly from the Intercollegiate Athletics Department organizations (K-Men and Committee 101) established specifically to support athletics with such amounts reported in the Statement. We will inquire of UK's management whether there were any single contributions that constituted 10 percent or more of all contributions received during the year ending June 30, 2014.
7. *Compensation and Benefits Provided by a Third Party* – We will obtain a summary of compensation and benefits revenue received from outside organizations for the year ending June 30, 2014, from UK's management.
8. *Direct State or Other Governmental Support* – We will inquire of UK management whether the Intercollegiate Athletics Department received any direct state or other governmental support.
9. *Direct Institutional Support* – We will inquire of UK management whether the Intercollegiate Athletics Department received any direct institutional support.

University of Kentucky
Agreed-Upon Procedures
Attachment to Engagement Letter Dated December 24, 2013

10. *Indirect Facilities and Administrative Support* – We will inquire of UK management whether the Intercollegiate Athletics Department received any indirect facilities and administrative support.
11. *NCAA/Conference Distributions Including All Tournament Revenues* – We will obtain a supporting schedule relating to UK's allocation of revenues for regular season football television, SEC football championship game, post-season bowl games, regular season basketball games, the SEC basketball tournament and the NCAA basketball tournament. We will agree the related revenues to the Statement. We will obtain the compiled financial statements of the SEC distribution agreement and compare the amount for football television distributions per the compiled financial statements to the supporting schedule.
12. *Broadcast, Television, Radio and Internet Rights* – We will obtain and read the agreement for UK's broadcast, television, radio and Internet rights and gain an understanding of the relevant terms and conditions. We will obtain supporting detail of the revenues earned for the broadcast, television, radio and Internet rights and compare the revenues to the Statement.
13. *Program Sales, Concessions, Novelty Sales and Parking* – We will obtain supporting schedules for revenue reported in the Statement from program sales, concessions, novelty sales and parking and agree the amounts to the Statement. We will select a sample of two revenue items from the supporting schedules and compare them to supporting documentation (check copies and payment schedules).
14. *Royalties, Advertisements and Sponsorships* – We will obtain all agreements related to UK's participation in revenues from royalties, advertisements and sponsorships during the year ending June 30, 2014, and gain an understanding of the relevant terms and conditions. We will agree the supporting schedule of such revenues to the Statement.
15. *Sports Camp Revenues* – We will obtain an understanding of UK's methodology for recording revenues from sports camps and obtain schedules for camp participants and note whether there are any significant changes from the prior year. We will select a sample of two individual camp participant cash receipts from the schedule of camp participants and agree each selection to UK's supporting schedules.
16. *Endowment and Investment Income* – We will obtain an understanding of UK's endowment agreements, noting if there are any significant changes from the prior year. We will agree a sample of one endowment agreement to the classification and use of endowment and investment income reported in the Statement for the year ending June 30, 2014, to the uses of income defined within the related endowment agreement.
17. *Other Income* – We will obtain supporting schedules for other income reported in the Statement.

University of Kentucky
Agreed-Upon Procedures
Attachment to Engagement Letter Dated December 24, 2013

Operating Expenses

18. *Athletic Student Aid* – We will select a sample of three students from the listing of UK student aid recipients. We will obtain individual student account detail for each selection and compare total aid allocated from the related award letter to the student’s account.
19. *Guarantees* – We will obtain and inspect two contractual agreements pertaining to expenses recorded by UK from guaranteed contests during the year ending June 30, 2014. We will agree related contract expense amounts to UK’s general ledger detail.
20. *Coaching Salaries, Benefits and Bonuses Paid by UK and Related Entities* – We will obtain a listing of coaches employed by UK during the year ending June 30, 2014. We will select a sample of four coaches’ contracts that include football and men’s and women’s basketball. We will agree the financial terms and conditions, primarily related to base salary, certain bonuses, broadcasting and endorsements, of each selection to the related coaching salaries, benefits and bonuses recorded by UK in the Statement during the year ending June 30, 2014. We will inquire of UK management whether there were any coaches employed by related entities.
21. *Coaching Other Compensation and Benefits Paid by a Third Party* – We will inquire of UK management whether there are any coaches employed by third parties.
22. *Support Staff/Administrative Salaries, Benefits and Bonuses Paid by UK* – We will select a sample of two athletic support staff/administrative personnel employed by UK. We will obtain supporting salary information for each selection and agree the information to the expense recorded by UK in the statement.
23. *Support Staff/Administrative Other Compensation and Benefits Bonuses Paid by a Third Party* – We will inquire of UK management whether there were any support staff or administrative personnel employed by third parties.
24. *Severance Payments* – We will obtain a listing of all severance paid by UK during the year ending June 30, 2014. We will select an employee receiving severance and obtain the related employment contract noting whether the severance payments were in accordance with the contract terms.
25. *Equipment, Uniforms and Supplies* – We will agree a sample of two expenses from the supporting schedules to supporting documentation.
26. *Game Expenses* – We will agree a sample of two expenses from the supporting schedules to supporting documentation.
27. *Fundraising, Marketing and Promotion* – We will agree a sample of two expenses from the supporting schedules to supporting documentation.

University of Kentucky
Agreed-Upon Procedures
Attachment to Engagement Letter Dated December 24, 2013

28. *Sports Camp Expenses* – We will compare a sample of two expenses from the supporting schedules to supporting documentation.
29. *Direct Facilities, Maintenance and Rental* – We will agree a sample of two expenses from the supporting schedules to supporting documentation. We will also select two transfers for principal and interest payments and compare the selected items to supporting schedules, such as debt service payments.
30. *Spirit Groups* – We will inquire of UK management whether there were any expenses incurred for spirit groups.
31. *Indirect Facilities and Administrative Support* – We will inquire of UK management whether there were any expenses incurred for indirect facilities and administrative management.
32. *Medical Expenses and Medical Insurance* – We will compare a sample of two expenses from the supporting schedules to supporting documentation.
33. *Other Operating Expenses* – We will compare a sample of two expenses from the supporting schedules to supporting documentation.
34. *Transfer to Institutions* – We will obtain the detail of transfers to institutions and compare the detail to the amount reported in the Statement.
35. *Recruiting* – We will obtain and document an understanding of UK’s recruiting expense policies and compare and agree to existing UK- and NCAA-related policies.
36. *Team Travel* – We will obtain and document an understanding of UK’s team travel policies and compare and agree to existing UK- and NCAA-related policies.

Capitalized Assets

37. We will obtain a schedule of total intercollegiate athletics capitalized assets, additions and improvements of facilities and agree two items from the schedule to UK’s general ledger.
38. We will obtain an understanding of UK’s policies and procedures for approving, acquiring, depreciating and disposing of intercollegiate athletics-related assets.

University of Kentucky
Agreed-Upon Procedures
Attachment to Engagement Letter Dated December 24, 2013

Agreed-Upon Procedures Related to Affiliated and Outside Organizations

39. UK will identify all intercollegiate athletics-related outside organizations incurring expenses on behalf of the Intercollegiate Athletics Department which are not under UK's accounting control. We will obtain statements of expenses incurred on behalf of the Intercollegiate Athletics Department. We will agree the amounts reported in those statements to inclusion in the Statement.

Agreed-Upon Procedures Related to Internal Control Over Compliance

40. We will make inquiries of the controller's office and Intercollegiate Athletics Department personnel relating to the procedures and internal accounting controls unique to the Intercollegiate Athletics Department, specifically, departmental organization, control consciousness of staff, use of internal auditors in the department, competency of personnel, adequate safeguarding and control of records and assets and controls over interactions with the information technology department. We will inquire whether there were any significant changes from the prior year. We will document our understanding of these internal controls.

December 24, 2013

Susan I. Krauss
Interim Treasurer
University of Kentucky
411 South Limestone Street
Peterson Service Building
Lexington, KY 40506-0005

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide to **UNIVERSITY OF KENTUCKY**.

OUR SERVICES AND RESPONSIBILITIES

We will perform certain procedures to document our analysis of events occurring subsequent to the issuance of our report dated October 1, 2013, on your financial statements.

The objective of our engagement is to provide a basis for the subsequent use of our previously issued report in connection with the planned prospectuses containing offers of securities exempt from registration with the Securities and Exchange Commission.

Although we will read interim financial statements, if any, included in the offering documents, our work will not be sufficient to express any opinion or assurances, and as such, we will not issue any report thereon. All interim information included with the financial statements upon which we reported, must therefore be labeled **UNAUDITED**.

YOUR RESPONSIBILITIES

You agree to provide to us copies of all drafts of the offering document in which our report and the related financial statements will be presented. You further agree to provide an update to us of the management representation letter associated with the original engagement upon which we issued our report.

You understand we will also require updates to any legal representation letters we originally received in connection with our original engagement and we may require further communications with current counsel, underwriters or management as appropriate. You also agree to provide certain documents and information generated subsequent to our report including the minutes of board of trustees or other meetings and interim and current financial statements as well as to respond to those inquiries we deem necessary regarding events subsequent to our report.

Susan I. Krauss
Interim Treasurer
University of Kentucky
December 24, 2013
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ENGAGEMENT FEES

Our fees will be based on time expended, not to exceed \$11,225. Our pricing for this engagement and our fee structure are based upon the expectation that our invoices will be paid promptly. We will issue progress billings during the course of our engagement, and payment of our invoices is due upon receipt. Interest will be charged on any unpaid balance after 30 days at the rate of 10 percent per annum.

Our engagement fee does not include any time for post-engagement consultation with your personnel or third parties, inquiries from regulators or testimony or deposition regarding any subpoena. Charges for such services will be billed separately.

If our invoices for this or any other engagement you may have with BKD are not paid within 30 days, we may suspend or terminate our services for this or any other engagement. In the event our work is suspended or terminated as a result of nonpayment, you agree we will not be responsible for any consequences to you.

OTHER ENGAGEMENT MATTERS AND LIMITATIONS

The limitations and responsibilities included in the engagement letter dated January 15, 2013, associated with our previously issued report are incorporated by reference in this related engagement.

BKD is a registered limited liability partnership under Missouri law. Under applicable professional standards, partners of **BKD, LLP** have the same responsibilities as do partners in a general accounting and consulting partnership with respect to conformance by themselves and other professionals in BKD with their professional and ethical obligations. However, unlike the partners in a general partnership, the partners in a registered limited liability partnership do not have individual civil liability, directly or indirectly, including by way of indemnification, contribution, assessment or otherwise, for any debts, obligations or liabilities of or chargeable to the registered limited liability partnership or each other, whether arising in tort, contract or otherwise.

If the above arrangements are acceptable to you, please sign the enclosed copy of this letter and return it to us. If the signed copy you return to us is in electronic form, you agree such copy shall be legally treated as a "duplicate original" of this agreement.

BKD, LLP

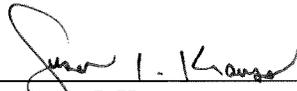
BKD, LLP

Susan I. Krauss
Interim Treasurer
University of Kentucky
December 24, 2013
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The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

UNIVERSITY OF KENTUCKY

BY



Susan I. Krauss
Interim Treasurer

DATE

12/24/13

UK Internal Audit (UKIA) Update for FY 2014 (as of 12-31-2013)

	Not Engaged	In Progress	Reporting Phase	Report Issued	Metric Achieved	Metric Not Achieved
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FY 2014 UKIA Approved Work Plan		
Compliance Program		
1	Continuous Auditing	
2	Continuous Audits	
Business/Operations Audits		
3	College of Engineering	
4	Pharmaceutical Management	
5	Undergraduate Education	
6	FERPA (Family Education Rights & Privacy Act)	
7	Athletics	
7	Student Affairs	
8	Center for Excellence in Rural Health	
9	Student Financial Aid	
10	Hospital Cash Operations	
11	Grants	
12	Follow-up Audits	
Information Technology Audits		
11	Research (UKRF)	
12	HIPAA	

FY 2014 UKIA Unplanned Reviews		
1	Lockbox Inventory	
2	Consultation - Fundraising Raffle	
3	Consultation - Business Continuity Plan	
4	Consultation - Year-end Credit Card Gifts	
5	Consultation - Procard Documentation	
6	Consultation - Reconciling Gift & Endowment Income	
7	Consultation - Payroll Authorization Record Process	
8	Consultation - E-Record Retention of Timecards	
9	Consultation - Procard Editing Process	
10	Consultation - Retention of Check Copies	
11	Advisory Review - Electronic Document Retention	
12	Advisory Review - Integrated Business Units	
13	Advisory Review - Pledges	
14	Advisory Review - Supply Center Emergency Purchase Orders	
15	Investigation - Mining Engineering Department	
16	Comprehensive Review - College of Dentistry Billings & Collections	
17	Inquiry - Donovan Fellowship	
18	Other External Activities	

FY 2014 UKIA Audit Coverage By Enterprise Division		
Academic Coverage		
Number of Reviews, Committees, Consultations	10	
Project Hours	3,061	
UK HealthCare		
Number of Reviews, Committees, Consultations	12	
Project Hours	961	
Finance and Administration		
Number of Reviews, Committees, Consultations	23	
Project Hours	1,142	
Campus		
Number of Reviews, Committees, Consultations	12	
Project Hours	548	
UK Administration (Includes Athletics)		
Number of Reviews, Committees	7	
Project Hours	505	
Affiliates		
Number of Reviews, Committees	2	
Project Hours	50	

FY 2014 UKIA Metric Update	
Productivity	
Goal @ 75%	
Performance @ 82% (6,751 Direct Hours; 8,248 Total Hours)	
Infrastructure	
Hours vs. Direct Hours - Goal @ 5% of Direct Hours	
Performance @ 7% (Infrastructure 484 Hrs; 6,751 Direct Hrs)	
Recommendations Accepted (Requiring Management Response)	
Goal @ 75%	
Performance @ 100%	
Survey Results	
Goal @ 3.0 (average scale 1 is not satisfied and 4 is very satisfied)	
Performance @ 3.21 average	
Audit Duration	
Goal @ 6 - 12 weeks	
Performance @ 4 weeks	
Work Plan Completion Rate	
Goal @ 100%	
Performance @ 8%	

ACSR 1

Office of the President
January 31, 2014

Members, Audit and Compliance Subcommittee:

FISCAL YEAR 2014 UK INTERNAL AUDIT WORK PLAN AMENDMENT

Recommendation: that the Audit and Compliance Subcommittee approve the amended Fiscal Year 2014 UK Internal Audit Work Plan effective immediately. UK Internal Audit is proposing Fiscal Year 2014 Work Plan amendments for the Audit and Compliance Subcommittee's approval due to an increase in unplanned activity.

Background: The Fiscal Year 2014 UK Internal Audit Work Plan, as required by the Audit and Compliance Subcommittee and UK Internal Audit charters was approved on June 11, 2013. Both charters require that any subsequent Work Plan amendments be properly reviewed and approved.

The proposed Work Plan amendment is attached.

Action taken: Approved Disapproved Other _____

FY 2014 Work Plan Amendment for Approval

	Compliance Program	Total Assignments	Approved Hours Forecast	Actual Hours as of 12.31.13	Completed Assignments	Amended Assignments	Amended Hours	Description / Risk
1	Cash Handling	20	1,000	620	5	10	1,220	Most common form of theft / Last Audit
2	Human Resources	2	300			3	900	Penalties for non-adherence / External Factors
3	Vendor / Employee Match	1	200	16		1	116	Fraud Prevention/Detection / Last Audit
4	Duplicate Vendors	1	200	13		1	103	Fraud Prevention/Detection / Last Audit
				649	5	15	2,339	

	Business/Operations Audits	Total Assignments	Approved Hours Forecast	Actual Hours	Completed Assignments	Amended Assignments	Amended Hours	Description / Risk
1	College of Engineering	1	600	380		1	825	Leadership Change / Control Environment
2	Pharmaceutical Management	1	350	15		1	415	Data Integrity and Regulatory Adherence
3	Athletics	4	400	232		2	427	Camps, IMG Contract review / Audit Cycle
4	Student Affairs	1	400	21		1	221	Disability Resource Center / Audit Cycle
5	Center for Excellence in Rural Health	1	100	156	1	1	156	State-mandated review / External Factors
6	Follow-up Audits	5	500	5	1	2	230	Review resolutions for initial audit findings
				809	2	8	2,274	

	Information Technology Audits	Total Assignments	Approved Hours Forecast	Actual Hours	Completed Assignments	Amended Assignments	Amended Hours	Description / Risk
1	Research UKRF	1	200	11		1	211	IT Infrastructure / Last Audit
2	HIPAA	4	400	28		3	328	Applications, Privacy Rule / Audit Cycle
3	Carryover Comprehensive Audits	4	600	115		2	265	Leadership Change / Control Environment
4	Comprehensive Audits	4	800	172	1	2	322	IT review of Business Applications
5	Continuous Auditing	5	400	264		2	414	Fraud Prevention/Detection / Last Audit
6	Follow-up Audits	5	200	3		2	153	Review resolutions for initial audit findings
				664	1	12	1,764	

	Unplanned Activity and UKIA Infrastructure	Total Assignments	Approved Hours Forecast	Actual Hours	Completed Assignments	Amended Assignments	Amended Hours	Description / Risk
1	Unplanned Activity		2,500	2,839	10	15	4,813	Investigations, inquiries and consultations
2	UKIA Continuous Improvement		930	484			784	Infrastructure, Operations and Quality
3	FY 2013 Work Plan carryover hours			1,306	17	17	1,306	FY 2013 Work Plan Activity
				4,629	27	32	6,903	

Total Hours	13,280	6,751	35	67	13,280
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