

**MINUTES OF THE AUDIT AND COMPLIANCE SUBCOMMITTEE  
OF THE FINANCE COMMITTEE  
University of Kentucky Board of Trustees  
December 17, 2013, 8:30 AM  
Suite A, 18<sup>th</sup> Floor Patterson Office Tower**

**Subcommittee Members Present**

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

**Approval of Minutes**

The minutes of the September 10, 2013 Audit and Compliance Subcommittee (ACS) meeting were approved as presented.

**Reports and Discussion Items**

**Discussion with BKD, Certified Public Accountants, External Auditors**

Mary McKinley, BKD Partner, presented highlights to the ACS of the 2013 audited financial statements and other required communications contained in the BKD Report. Ms. McKinley noted that BKD gave an unmodified (formerly unqualified) or “clean” opinion regarding the 2013 financial statements. She then covered the various report sections as follows:

BKD Management Letter (pages 2-7): In the areas of audit emphasis, there were no matters reportable. Significant estimates include the allowance for doubtful accounts, self-insurance reserves and estimated amounts due to/from third-party payers. An unmodified opinion was issued on the financial statements. The BKD audit included reporting on major federal award programs as required by the U.S. Office of Management and Budget Circular A-133; the associated Data Collection Form will be filed by the end of January. Ms McKinley noted that there were no recorded audit adjustments and stated that this was excellent for an organization of this size.

Audited Financial Statements: Ms. McKinley called attention to one new footnote on page 50 of Tab 1. It presents the various entities that are included in the overall University financial statements. She emphasized that the Hospital and Athletics Departments are included in the “UK” column. The other entities include Research Foundation, The Fund, Gluck Equine Research Foundation, Humanities Foundation, Mining Engineering Foundation, Center on Aging, Central Kentucky Management Services and Kentucky Medical Services Foundation (KMSF). She reported that there were a couple of new accounting pronouncements that were effective this year. One of those pronouncements changed the name from “The Statement of Net Assets” to “The Statement of Net Position” as shown on page 16 of Tab 1. She noted that overall the financial statements demonstrate a very solid position. The “Management’s Discussion and Analysis” beginning on page 4 of Tab 1 provides explanation for significant fluctuations in the numbers from the previous year.

Chair Britton asked why KMSF is included in the University’s financial statements. Ms. McKinley reported that KMSF is considered a blended component unit and technically qualifies for inclusion in the financial statements. Ronda Beck, Controller, further explained that KMSF is not a UK affiliate under the Kentucky Revised Statutes (KRS); however, due to its governing board membership, the nature and significance of the relationship and how KMSF exists exclusively for the benefit of UK’s faculty, KMSF warrants inclusion in the University’s financial statements.

Single Audit Reports and Schedule of Expenditures of Federal Awards (A133 Report): Page 32 of Tab 3 summarizes the results of BKD's testing of Federal Awards. An unmodified opinion was given for this report and also the related report on internal control. There were no significant deficiencies or material weaknesses to report.

Discussion ensued. Chair Britton asked about gifts to the University. He requested an explanation regarding how gifts and pledges are recorded in the University's financial statements. Ms. Beck explained that the first distinction is whether it is a capital or an operating gift determined by donor restriction. Pledges are recorded and adjusted annually at the University level. General Accounting receives a listing of pledges to discount them and adjust the pledge receivables at year-end. A small allowance for doubtful accounts is adjusted based on historical data. There was also discussion regarding how gifts/pledges are recorded for the various University departments/divisions such as Athletics, Gatton School of Business and UK Healthcare. Mr. Eric Monday, Executive Vice-President for Finance and Administration agreed to provide a breakdown of UK gifts received (e.g. endowment, capital, etc) as reported by Mr. Mike Richey, Vice-President for Development.

#### **Action Item**

#### **ACSR 1 Retain BKD, LLP for audit of the financial statements for fiscal year 2013-14 (Attachment)**

Ms. Susan Krauss, Interim Treasurer, recommended that the ACS approve retaining BKD for the audit for fiscal year 2014 and authorize Ms. Krauss to execute the engagement letter. It is expected that the BKD audit fees will be similar to fiscal year 2013 (roughly \$347K); the fee terms will be negotiated and Ms. Krauss will bring the engagement letter before the ACS at the next meeting (January 31, 2014).

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

There being no further business, the meeting was adjourned.

#### **Next Meeting**

Friday, January 31, 2014

- BKD FY 2014 Engagement Letter
- UKIA Introductory Presentation
- Internal Audit Charter Revision Discussion Draft
- Internal Audit FY 2014 Mid-year Activity Update

Respectfully submitted,

Catherine Miller