



March 10, 2021

Ms. Penny Cox
Treasurer
University of Kentucky
411 South Limestone Street
Peterson Service Building
Lexington, KY 40506

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide to the **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, 2021, and the related notes to the financial statements. We additionally audit the statements of net position and related statements of revenues, expenses and changes in net position and cash flows for the following:

- University of Kentucky WUKY Radio
- Central Kentucky Management Services, Inc.
- UK Research Foundation
- UK Healthcare Hospital System
- UK Mining Engineering Foundation, Inc.
- UK Gluck Equine Research Foundation, Inc.
- UK Humanities Foundation, Inc.
- Kentucky Tobacco Research and Development Center

Our audit will be conducted with the objectives of:

- Expressing an opinion on the financial statements of each of the entities/departamental units noted above
- 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

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- 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) 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 statement of financial position and related statements of activities and cash flows for the UK Alumni Association for the year ending June 30, 2021.

Attestation Engagements

We will also perform an attestation engagement related to the compliance of UK WUKY Radio with the required reporting to the Corporation for Public Broadcasting (CPB). We will examine the written assertion that WUKY Radio prepared the CPB Schedule of Nonfederal Financial Support (NFFS) of the Station and compiled with CPB's fiscal year 2021 Financial Reporting Guidelines governing the amounts reported as NFFS during the year ending June 30, 2021.

We will also perform an attestation engagement related to the compliance of UK with the required compliance with the state of Kentucky's Lease Law (KRS 56.8000 through 56.832 and KRS 48.111). We will examine the written assertion that the schedule of the new and renewed real property leases awarded by the Finance and Administration Cabinet is complete with the requirements of Kentucky Revised Statutes (KRS) 48.111 and 56.800 through 56.832 (Kentucky's Lease Law) as of and for the year ending June 30, 2021.

We will examine the written assertions made by management of UK noted above for CPB reporting and Kentucky's lease law. The objective of our examinations is the expression of an opinion in a written report for the CPB reporting and for Kentucky's lease law about whether the responsible party's assertion is fairly stated, in all material respects, with the applicable criteria against which it is measured or evaluated.

Agreed-Upon Procedures Engagements

As described in the respective separate engagement letters, we will perform certain agreed-upon procedures related to:

- The UK Department of Intercollegiate Athletics' Programs in accordance with the latest version of the National Collegiate Athletic Association (NCAA) Financial Audit Guidelines
- UK Healthcare Hospital System's management of the Eastern State Hospital (ESH) and Central Kentucky Recovery Center (CKRC) compliance with the terms of Commonwealth of Kentucky contract

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- Compliance with the contract between Kentucky Medical Services Foundation, Inc. (KMSF) and UK

Additional Deliverables

The scope of our services will furthermore include:

- Report on compliance with House Bill 622 based upon the audit of financial statements
- Letter to the 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
- Report with regard to the financial data and information provided by UK for the Commonwealth of Kentucky's Annual Financial report (currently AFR 80 through 131) (state consolidation package)
- Letter to the Commonwealth of Kentucky Auditor of Public Accounts reporting 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 General Receipts Bond issue

OUR RESPONSIBILITIES

Financial Statement Audits

We will conduct our audit 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 Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards require that we plan and perform:

- The audit 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
- The audit of compliance with the types of compliance requirements described in the OMB *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

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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 error or fraud. 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.

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 the entity's preparation and fair presentation of the financial statements 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 entity'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 that 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.

Attestation Engagements

We will conduct our examinations for CPB reporting and Kentucky's Lease Law in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable rather than absolute assurance about whether the subject matter is measured or evaluated against the criteria is free of material misstatement.

Because of inherent limitations of an examination engagement, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the examination is properly planned and performed in accordance with the attestation standards.

Mary E McKinley, partner; Joanie Duckworth, director; Jennifer Williams, director; and Bill Leachman, director, are responsible for supervising the engagement team and authorizing the signing of reports.

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We will issue a written report for UK's financial statements and for each of the separately audited entities/departmental units' financial statements upon completion of our audits. Our report for UK will be addressed to the board of trustees of UK, and our report for each separately audited entity/departmental unit will be addressed to the board of directors for each separately audited entity/departmental unit. You are responsible to distribute our reports to other officials who have legal oversight authority or those responsible for acting on audit findings and recommendations, and to others authorized to receive such reports. We cannot provide assurance that an unmodified opinion will be expressed for each separately audited entity/departmental unit. 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 *Compliance Supplement* ("supplementary information") is fairly stated, in all material respects, in relation to the financial statements as a whole.

With regard to the attestation engagements related to the compliance of University of Kentucky WUKY Radio with the required reporting to the CPB and the attestation report on compliance with Kentucky's Lease Law (KRS 56.800 through 56.832 and KRS 48.111), we will conduct our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable rather than absolute assurance about whether the subject matter as measured or evaluated against the criteria is free of material misstatement.

Because of the inherent limitations of an examination engagement, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the examination is properly planned and performed in accordance with attestation standards.

Our engagement will not include a detailed examination of every transaction and cannot be relied on to disclose all errors, fraud or illegal acts that may exist. However, we will inform you of any such matters, if material, that come to our attention.

We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or withdraw from the engagement. If we discover conditions which may prohibit us from issuing a standard examination report, we will notify you. In such circumstances, further arrangements may be necessary to continue our engagement.

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YOUR RESPONSIBILITIES

Financial Statement Audits

Our audit of each separately audited entity/departmental unit will be conducted on the basis that management acknowledges and understands that they have responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
2. 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;
3. For identifying and ensuring compliance with the laws, regulations, contracts and grants applicable to your activities (including your federal award programs); and
4. To provide us with:
 - a. 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;
 - b. Additional information that we may request from management for the purpose of the audit; and
 - c. Unrestricted access to persons within the entity 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 audit 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.

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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

Attestation Engagements

With regard to the attestation engagements related to the compliance of UK WUKY Radio with the required reporting to the CPB and attestation report on compliance with Kentucky's Lease Law (KRS 56.800 through 56.832 and KRS 48.111), to facilitate our engagement, management is responsible for providing written assertion about the measurement or evaluation of the subject matter against the criteria, supplying us with all necessary information and for allowing us access to personnel to assist in performing our services. It should be understood that management is responsible for the accuracy and completeness of these items, for the subject matter and the written assertion(s) referred to above and for selecting and determining the appropriateness of the criteria.

At the conclusion of our engagement, management will provide to us a letter confirming these responsibilities, whether it is aware of any material misstatements in the subject matter or assertion, and that it has disclosed all known events subsequent to the period (or point in time) of the subject matter being reported on that would have a material effect on the subject matter or assertion.

Management is 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 is also responsible for identifying and ensuring compliance with laws and regulations applicable to your activities and for establishing and maintaining effective control over compliance.

OTHER SERVICES

We will also review the following tax returns. If there are other tax returns you expect us to prepare, please inform us as soon as possible.

- Form 990-T, *Exempt Organization Business Income Tax Return*, for UK

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- Form 990, *Return of Organization Exempt from Income Tax*, for the following:
 - UK Research Foundation
 - UK Gluck Equine Research Foundation
 - UK Mining Engineering Foundation, Inc.
 - UK Humanities Foundation, Inc.
 - Central Kentucky Management Services, Inc.
- Form 990-EZ, *Short Form Return of Organization Exempt from Income Tax*, for the following
 - UK Faculty Club
 - UK Real Estate Foundation

You may be required to file returns in additional jurisdictions, and you are ultimately responsible for meeting your filing requirements. We are not responsible for any returns other than those listed above. However, we are available for consultation regarding your filing responsibilities.

Generally, all U.S. persons are required to file FinCEN Form 114, *Report of Foreign Bank and Financial Accounts* (FBAR), annually if they have a financial interest in or signature authority over, financial accounts, including bank, securities or other types of financial accounts in a foreign country and the aggregate value of these financial accounts exceeded \$10,000 at any time during the calendar year. Failure to file an FBAR when required may potentially result in civil penalties, criminal penalties or both. We have not been engaged to prepare your FBAR. However, we are available to assist you in meeting this filing obligation at your request. If you wish to engage us to assist with your FBAR filing, additional fees at our standard billing rates will apply. It is your responsibility to inform us of all financial interests in or signature authority over foreign financial accounts.

Management has the final responsibility for the income tax returns and representations therein and, therefore, should review them carefully before signing. Management is also responsible for timely filing of returns and timely payment of any amounts due.

It is your responsibility to provide all the information required for the preparation of complete and accurate returns. You should retain all the documents, canceled checks and other data that form the basis of income and deductions. These may be necessary to prove the accuracy and completeness of your returns to a taxing authority.

Your returns may be selected for review by the taxing authorities. Any proposed adjustments by the examining agent are subject to certain rights of appeal. In the event of such government tax examination, we will be available upon request to assist you and will render additional invoices for the time and expenses incurred.

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While preparing your returns, we will inform you of any material tax positions of which we are aware that, in our judgment, do not meet thresholds established by law or professional standards. Tax law or professional standards may require disclosure of such positions as a part of your federal tax return. You agree to inform us of any tax positions of which you are aware would likely *not* succeed in the event of a challenge by taxing authorities.

The law provides for a penalty as high as \$200,000 per transaction for failure to adequately disclose certain transactions the U.S. Department of Treasury designates as “reportable transactions.” A description of these transactions is available at <https://www.bkd.com/services/reportable-transactions>, or you may request a paper version from us. Unless notified in writing, we will prepare your return with the assumption you have not engaged in any reportable transaction.

This engagement does not include any tax services not specifically stated above. However, we would be pleased to research and/or consult with you regarding other income tax matters, such as proposed or completed transactions or income tax projections. We will render additional invoices for such services at our standard billing rates.

ARBITRAGE SERVICES

Our services and report 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 the Bond Issue for the Computation Period.

1. Review bond documents for elections made regarding arbitrage.
2. Review the fund transactions on trustee statements and, if applicable, determine exceptions or exemptions from rebate calculations.
3. If required, perform arbitrage calculations using methodologies defined by Section 148 of the Code and related regulations for the Computation Period.
4. Provide a written report documenting the results of our procedures for the Computation Period solely for the information and assistance of the parties specified above.
5. 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.

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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 responsibilities, 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 trustee 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 report for or disclose any event or circumstances after the date of our report.

You agree that 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.

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 of the services described above and for any other services that we may provide, including any findings that may result. You also acknowledge that those services are adequate for your purposes and that you will establish and monitor the performance of those services to ensure that they meet management's objectives. Any and all decisions involving management responsibilities related to those services will be made by you, and you accept full responsibility for such decisions. We understand that you will designate a management-level individual to be responsible and accountable for overseeing the performance of those services, and that 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:

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Audit for the UK financial statements, House Bill 622 and annual financial report to the Commonwealth of Kentucky Lease Law	\$ 185,660
Audit of the UK Research Foundation financial statements	8,915
Audit of the UK Gluck Equine Research Foundation, Inc. financial statements	3,800
Audit of the UK Humanities Foundation, Inc. financial statements	3,800
Audit of the UK Mining Engineering Foundation, Inc. financial statements	3,800
Audit of the Central Kentucky Management Services, Inc. financial statements	3,940
Audit of the UK HealthCare Hospital System financial statements	61,200
Audit of the Kentucky Tobacco Research and Development Center financial statements	\$ 3,800
Audit of the UK WUKY Radio financial statements and auditor's opinion on Annual Financial Report to the Corporation for Public Broadcasting	12,050
Audit of the UK Alumni Association financial statements	8,910
Perform certain agreed-upon procedures with regard to UK HealthCare Hospital System's management of the ESH and CKRC compliance with terms of the Commonwealth of Kentucky contract	5,795
Perform certain agreed-upon procedures with regard to the UK Department of Intercollegiate Athletics' Program in accordance with the latest version of NCAA Financial Audit Guidelines	12,700
Audit of the UK reports on compliance and internal controls in accordance with <i>Government Auditing Standards</i> , Uniform Guidance and Schedule of Expenditures of Federal Awards and Data Collection Form – this assumes testing of the SFA program and one other major program	24,780
Audit of third additional major program	7,325
Review of UK staff-prepared Form 990-T and affiliates' Form 990 and Form 990-EZ	21,710
Report with regard to the financial data and information provided by UK for the Commonwealth of Kentucky's Annual Financial Report (currently AFR 80 through 131) (State consolidation package)	3,600
Perform certain agreed-upon procedures with regard to the KMSF contract compliance with UK	2,575
Report on estimated bond arbitrage liability for each Housing and Dining Revenue Bond and General Receipts Bond issue	25,130

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All auditors' reports and management letters required under Statements of Auditing Standards	<i>Included in the UK audit above</i>
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	12,675
Other consulting services	<u>30,700</u>
Total	<u>\$ 442,865</u>

Our fees are based upon the understanding that your personnel will be available to assist us. Our estimate of time assumes no substantial problems with preparing the financial statements, 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 sheet 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 all the data collection form, schedule of expenditures of federal awards, NCAA statement of revenues and expenses, and ESH and CKRC budget-to-actual schedules

We will provide you with a detailed list of assistance and schedules required and the date such assistance and schedules are to be provided before the audit begins. All schedules should be provided in electronic form unless indicated otherwise.

Our timely completion of the audit depends on your timely and accurate schedule and analyses preparation 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 fees do not consider additional efforts related to the SARS-CoV-2 virus and the incidence of COVID-19 environment and the impact of accounting and auditing issues such as going concern, other-than-temporary impairment of investments, impairment of intangibles, collectability of

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receivables, inventory valuation, compliance with debt agreements, modification of lease terms, additional major programs subject to Single Audit, etc. Such amounts will be billed based on time expended.

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% per annum, or as allowed by law at the earliest date thereafter, and highest applicable rate if less than 10%.

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 such issues as implementation of new Government Accounting Standards Board (GASB) or Financial Accounting Standards Board standards, tests of opening balances, purchase accounting or additional major programs in the Uniform Guidance 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 December 15, 2015.

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.

IMPLEMENTATION OF FIDUCIARY ACTIVITIES STANDARD

GASB Board Statement No. 84, *Fiduciary Activities*, is effective for reporting periods beginning after December 15, 2019, with retrospective application in the year the update is first applied. The Statement is expected to significantly change how entities evaluate and report fiduciary activities.

Assistance and additional time as a result of the adoption are not included within our standard engagement fees. Our fees as a result of the adoption of the Standard will be based on time expended and will vary based on the level of assistance and procedures required. We will need input and assistance from the accounting department throughout the process of implementation.

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IMPLEMENTATION OF NEW LEASES STANDARD

GASB Statement No. 87, *Leases*, is effective for fiscal years beginning after June 15, 2021. Early application is encouraged.

Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Assistance and additional time as a result of the adoption of the Statement are not included within our standard engagement fees. Our fees as a result of the adoption of the Statement will be based on time expended and will vary based on the level of assistance and procedures required, which may include but are not limited to:

- Assisting the entity with the evaluation of its current controls and policies for leases and recommended enhancements needed to implement the Statement
- Evaluating and documenting new and revised controls and policies for leases under the Statement
- Assisting the entity with the information gathering necessary to implement the Statement
- Assisting the entity with the evaluation of its current method for calculating and recognizing lease payments
- Assisting the entity with documenting changes from the previous method needed to implement the Statement
- Assistance with drafting of the required disclosures

The time it will take to perform the above assistance and our additional audit procedures relating to the adoption of the Statement, and any time to assist you with the adoption, may be minimized to the extent your personnel will be available to provide timely and accurate documentation and information as requested by BKD.

OTHER ENGAGEMENT MATTERS AND LIMITATIONS

BKD is not acting as your municipal advisor under Section 15B of the *Securities Exchange Act of 1934*, as amended. As such, BKD is not recommending any action to you and does not owe you a fiduciary duty with respect to any information or communications regarding municipal financial products or the issuance of municipal securities. You should discuss such information or communications with any and all internal or external advisors and experts you deem appropriate before acting on any such information or material provided by BKD.

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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 that we have no legal responsibility to you in the event we provide such documents or information.

Limitation on Damages

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, 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.

UK agrees that BKD, its subcontractors and their respective personnel shall not be liable to UK for any claims, liabilities or expenses relating to the 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 their conduct bears to all other conduct giving rise to such Claim.

You agree that 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% 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.

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This engagement letter, along with UK's General Terms and Conditions, Personal Services Contract, Request for Proposal and related addenda, in addition to BKD's complete technical and financial proposal dated December 15, 2015, to RFP No. UK-1637-16, 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.

You agree to assume full responsibility for maintaining your original data and records and that BKD has no responsibility to maintain this information. You agree you will not rely on BKD to provide hosting, electronic security or backup services, *e.g.*, business continuity or disaster recovery services, to you unless separately engaged to do so. You understand that your access to data, records and information from BKD's servers, *i.e.*, BKDconnect, can be terminated at any time and you will not rely on using this to host your data and records.

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 that we may on occasion send you documents marked as draft and understand that those are for your review purpose only, should not be distributed in any way and should be destroyed as soon as possible.

The entity may wish to include our report on these financial statements in an exempt offering document. The entity agrees that the aforementioned auditor's report, or reference to our firm, will not be included in any such offering document without notifying us. Any agreement to perform work in connection with an exempt offering document, including providing agreement for the use of the auditor's report in the exempt offering document, will be a separate engagement.

Any exempt offering document issued by the entity with which we are not involved will clearly indicate that we are not involved by including a disclosure such as, "**BKD, LLP**, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. **BKD, LLP**, also has not performed any procedures relating to this offering document."

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You agree to notify us if you desire to place these financial statements or our report thereon along with other information, such as a report by management or those charged with governance on operations, financial summaries or highlights, financial ratios, etc., on an electronic site. You recognize that 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” 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 that 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.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our most recent peer review report accompanies this letter.

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

As it relates to RFP No. UK-1637-16, Section 6.22, BKD requests the following alternative language:

- UK understands that workpapers resulting from services performed under this contract are the property of the auditor and may be made available upon reasonable request.

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Client lists or other confidential or proprietary information confidentially disclosed as part of the solicitation process shall not be deemed as directly pertinent to the contract and shall be exempt from disclosure as provided by the *Kentucky Open Records Act*. Additionally, the contractor recognizes that any books, documents, papers, records or other evidence received during a financial audit or program review shall be subject to the *Kentucky Open Records Act*.

As it relates to UK's General Terms and Conditions Section 32 (c), (e), and (f), BKD requests the following alternative language:

- Upon UK's request, service provider will provide UK with copy of its information security program overview and make the service provider's information security officer available to UK for questions.
- Service provider shall defend, indemnify and hold harmless UK, its agents, officers, board members and employees from and against any and all claims, damages. Losses and expenses, including reasonable attorney's fees, for any claims arising out of or in any way relating to all allegations of security breaches, violations of the Safeguard Rule, to the extent caused by service provider.
- Service provider shall reimburse UK for any reasonable damages, including, but not limited to, any costs it may incur required to reconstruct lists or altered information, resulting from any security breach, loss or alteration of customer information.

HIPAA BUSINESS ASSOCIATE AGREEMENT

We agree not to use or disclose Protected Health Information of your patients (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:

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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 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 the Secretary of HHS from time to time.

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Please sign and return the enclosed copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities. If the signed copy you return to us is in electronic form, you agree that 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  Penny Cox
Treasurer

DATE 3/10/2021

Attachment



8550 United Plaza Blvd., Ste. 1001 – Baton Rouge, LA 70809
225-922-4600 Phone – 225-922-4611 Fax – pncpa.com

Postlethwaite & Netterville and Associates, L.L.C.

Report on the Firm's System of Quality Control

To the Partners of BKD, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of BKD, LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended May 31, 2020. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans, audits performed under FDICIA, an audit of a broker-dealer, and examinations of service organizations [SOC 1 and SOC 2 engagements].

As part of our peer review, we considered reviews by regulatory entities as communicated to the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of BKD, LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended May 31, 2020, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. BKD, LLP has received a peer review rating of *pass*.

Postlethwaite & Netterville

Baton Rouge, Louisiana
November 2, 2020