

March 28, 2019

Ms. Susan I. Krauss
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 user: **UNIVERSITY OF KENTUCKY (UK)** and authorized representatives of the **NATIONAL COLLEGIATE ATHLETIC ASSOCIATION (NCAA)**.

ENGAGEMENT OBJECTIVES AND SCOPE

We will apply the procedures enumerated in the attachment to this letter to assist UK in evaluating whether the Statement of Revenues and Expenses (Statement) of UK and related notes are in compliance with National Collegiate Athletic Association (NCAA) Bylaw 3.2.4.15 for the year ending June 30, 2019. The sufficiency of these requested procedures is solely the responsibility of the specified party listed above. 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. The procedures included in the attachment are based upon the NCAA's 2018 Agreed-Upon Procedures Guide and, accordingly, the procedures in the attachment may be modified to be in agreement with the 2019 Guide.

Because we have not been engaged to conduct an examination or review, we will not express an opinion or conclusion, respectively, on UK's compliance with NCAA Bylaw 3.2.4.15. In addition, we have no obligation to perform any procedures beyond those listed in the attachment to this letter.

OUR RESPONSIBILITIES

We will conduct our agreed-upon procedures engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants.

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.

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 the NCAA and is not intended to be and should not be used by anyone other than these specified parties.

Mary McKinley, partner, will oversee and coordinate the engagement. Joanie Duckworth, director, is responsible for supervising the engagement team 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.

YOUR RESPONSIBILITIES

It should be understood that the 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.

To facilitate our engagement, management is responsible for providing a 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 the availability of this information, the written assertion(s), certain representations made during the engagement and acknowledging certain responsibilities outlined in this engagement letter.

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 responsibilities 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

Our fees for this agreed-upon procedures engagement are included in the 2019 UK engagement letter dated March 28, 2019.

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

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

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 engagement begins. All schedules should be provided in electronic form unless indicated otherwise.

Our timely completion of the engagement depends on timely and accurate schedule and analyses preparation and on the availability of the 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% 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, 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 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 items such 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 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.

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.

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.

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 or 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.

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 a copy of its Information Security Program overview and make the service provider's information security office available to UK for questions.

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- 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 any 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 lost or altered information, resulting from any security breach, loss or alteration of customer information.

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 that such copy shall be legally treated as a "duplicate original" of this agreement.

BKD, LLP

BKD, LLP

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

Susan I. Krauss
Treasurer

DATE

3/29/19

Attachment

University of Kentucky

Agreed-Upon Procedures

Attachment to Engagement Letter Dated March 28, 2019

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, which are greater than 4.0% of total operating revenues and operating expenses, 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, 2019, to supporting schedules provided by the administration of UK.
2. We will compare the operating revenue and operating expense lines items in the Statement with those in the NCAA Guide, and inquire of UK's management whether there were any operating revenues or expenses omitted from the Statement.
3. We will compare each revenue and expense amount over 10% of the total revenues or expenses in the Statement to prior year amounts and current year budget estimates. We will obtain and document an understanding of any significant variances greater than 10% from prior year amounts or current year budget estimates.

Operating Revenues

4. *Ticket Sales* – We will compare the detail of revenue related to tickets sold, complementary tickets provided and unsold tickets per the supporting schedule during the year ending June 30, 2019, 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.
5. *Contributions* – We will obtain detail for contributions received specifically to support athletics for the year ending June 30, 2019. We will inquire of UK's management whether there were any single contributions that constituted 10% or more of all contributions received during the year ending June 30, 2019.
6. *Media Rights* – We will obtain and read the agreement with JMI Sports 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. We will also obtain the compiled financial statements of the SEC memorandum from the SEC Commissioner and compare the amounts recorded per the memorandum to the supporting schedule for television distributions.

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Agreed-Upon Procedures
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7. *Conference Distributions* – We will obtain a supporting schedule relating to UK's allocation of revenues for SEC football championship game, post-season bowl games and the SEC basketball tournaments. We will agree the related revenues to the Statement and to the SEC memorandum from the SEC Commissioner supporting schedule.
8. *Royalties, Licensing, Advertisement and Sponsorships* – We will obtain all agreements related to UK's participation in revenues from royalties, licensing, advertisement and sponsorships during the year ending June 30, 2019, and gain an understanding of the relevant terms and conditions. We will agree the supporting schedule of such revenues to the Statement.

Operating Expenses

9. *Athletic Student Aid* – As UK utilizes the NCAA compliance assistant (CA) software, we will select a sample of 10% of students from the listing of UK student aid recipients, with a maximum sample size of 40. We will obtain individual student account detail for each selection and compare total aid in UK's student system to the student's detail in CA. For each student selected we will agree the following information:
 - a. We will compare the equivalency value in the CA software for each student athlete (rounded to two decimal places) to supporting documentation.
 - b. We will inquire if an athlete participates in more than one sport, and if the award was only included in one sport.
 - c. The grant amount represented the full cost of tuition for an academic year, rather than a semester.
 - d. We will inquire if any sports were discontinued during fiscal year 2018.
 - e. We will inquire if any athlete had exhausted their athletics eligibility.
 - f. Athletic grants were awarded in sports which the NCAA conducts championship competitions, emerging sports for women or football.
 - g. If a selected student received a Pell Grant, the value of the grant was not included in the calculation of equivalencies or the total dollar amount of student athletic aid expense for the institution.
 - h. We will inquire if UK has submitted the NCAA report to agree the student's Pell grant, to agree to the total number and total value of Pell Grants reported for revenue distribution purposes in the NCAA Membership Financial Reporting System.

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Agreed-Upon Procedures

Attachment to Engagement Letter Dated March 28, 2019

10. *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, 2019. 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, 2019. We will obtain and agree payroll summary registers for the reporting year for each selection to the related coaching salaries, benefits and bonuses paid by UK. We will inquire of UK management whether there were any coaches employed by related entities.
11. *Support Staff Administrative Compensation, Benefits and Bonuses Paid by UK and Related Entities* – 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.
12. *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. We will obtain general ledger detail and compare to the amount reported in the Statement.
13. *Game Expenses* – We will obtain general ledger detail and compare to the amount reported in the Statement. We will agree a sample of two expenses from the supporting schedules to supporting documentation.
14. *Athletic Facilities Debt Service, Leases and Rental Fees* – We will obtain the detail of athletic facilities debt service, leases and rental fee and compare the detail to the amount reported in the Statement. We will compare a sample of two highest payments of debt service for principal and interest and compare the selected items to supporting schedules, such as scheduled debt service payments.
15. *Direct Overhead and Administrative Expenses* – We will obtain general ledger detail and compare to the amount reported in the Statement. We will compare a sample of two expenses from the supporting schedules to supporting documentation.
16. *Other Operating Expenses* – We will obtain general ledger detail and compare to the amount reported in the Statement. We will compare a sample of two expenses from the supporting schedules to supporting documentation.

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Agreed-Upon Procedures Related to Affiliated and Outside Organizations

17. 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

18. 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 changes from the prior year. We will document our understanding of these internal controls.

Agreed-Upon Procedures Related to Grants in Aid, Sports Sponsorships and Pell Grants

19. We will obtain and agree the sports sponsored reported in the NCAA Membership Financial Reporting System to the squad lists of UK.
20. We will obtain UK's Sports Sponsorship and Demographics Forms Report for the reporting year. We will compare the countable sports reported by UK with the minimum requirements set forth in Bylaw 20.9.6.3 for the number of contests and the number of participants in each contest that is counted toward meeting the minimum contest requirement.
21. We will agree the total number of Division I student-athletes who, during the academic year, received a Pell Grant award and the total value of these Pell Grants reported in the NCAA Membership Financial Reporting System to a report, generated out of UK's financial aid records, of all student-athlete Pell Grants.

Other Reporting Items

22. *Excess Transfers to Institution* – We will obtain general ledger detail of excess transfers to the institution and compare to the total expenses reported during the year ending June 30, 2019. We will select a sample of two transactions and agree them to supporting documentation including debt service schedules.

University of Kentucky

Agreed-Upon Procedures

Attachment to Engagement Letter Dated March 28, 2019

23. *Conference Realignment Expenses* – We will inquire if UK incurred any conference re-alignment expenses during the year ending June 30, 2019.
24. *Total Athletics Related Debt* – We will obtain repayment schedules for all outstanding intercollegiate athletics debt during the reporting period. We will recalculate annual maturities (consisting of principal and interest). We will agree the total annual maturities and total outstanding athletic related debt to supporting documentation.
25. *Total Institutional Debt* – We will agree total outstanding UK debt to supporting documentation including the audited financial statements for principal and interest payments.
26. *Value of Athletics Dedicated Endowments* – We will obtain a schedule of all Athletics dedicated endowments maintained by Athletics and UK. We will agree the fair market value in the schedules to supporting documentation and the general ledger.
27. *Value of Institutional Endowments* – We will agree the total fair market value of UK's endowment to supporting documentation including UK's general ledger and audited financial statements.
28. *Total Athletics-Related Capital Expenditures* – We will obtain a schedule of Athletics related capital expenditures made by Athletics and UK during the reporting period. We will obtain general ledger detail and compare to total expenses reported. We will select a sample of two additions and agree them to supporting documentation such as invoices.