FORVIS Report to the Board of Trustees

University of Kentucky

Results of the 2023 Financial Statement Audit, Including Required Communications

June 30, 2023

Required Communications Regarding Our Audit Strategy & Approach (AU-C 260)

Overview & Responsibilities

Matter	Discussion
Scope of Our Audit	This report covers audit results related to your financial statements: • As of and for the year ended June 30, 2023 • Conducted in accordance with our contract dated April 5, 2023
Our Responsibilities	FORVIS is responsible for forming and expressing opinions about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).
Audit Scope & Inherent Limitations to *Reasonable Assurance*	An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards* issued by the Comptroller General of the United States (GAGAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. The scope of our audit tests was established in relation to the opinion unit being audited and did not include a detailed audit of all transactions.
Extent of Our Communication	In addition to areas of interest and noting prior communications made during other phases of the engagement, this report includes communications required in accordance with GAAS that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process, including audit approach, results, and internal control. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.
Independence	The engagement team, others in our firm, as appropriate, and our firm, have complied with all relevant ethical requirements regarding independence.
Your Responsibilities	Our audit does not relieve management or those charged with governance of your responsibilities. Your responsibilities and ours are further referenced in our contract.

FORVIS

Matter	Discussion
Distribution Restriction	This communication is intended solely for the information and use of the following and is not intended to be, and should not be, used by anyone other than these specified parties: • The Board of Trustees, Audit and Compliance Committee, and management • Others within the University of Kentucky (University)

Government Auditing Standards

Matter	Discussion
Additional GAGAS Reporting	We also provided reports as of June 30, 2023, on the following as required by GAGAS: • Internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with GAGAS
Reporting Limitations	Our consideration of internal control over financial reporting and our tests of compliance were not designed with an objective of forming an opinion on the effectiveness of internal control or on compliance and, accordingly, we do not express such an opinion.

Group Audits

Referred-To Auditors & Blended Component Units Audited by Other Auditors

Our audit strategy included the use of the work of referred-to auditors, resulting in a division of responsibility over the group financial statements and our report thereon.

We did not audit the financial statements of Kentucky Medical Services Foundation (KMSF) and Insure Blue, which are blended component units of the University, which statements reflect total assets constituting 2.5%, 0.3% and 5.1%, respectively, of the assets, net position, and revenues of the business-type activities of the University, as of and for the year then ended.

Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for KMSF and Insure Blue, are based solely on the reports of the other auditors. We have had communications with the other auditors during planning and throughout the audit regarding their qualifications to perform the audit, including independence, and consideration of materiality as a basis for referring to their audit reports. Professional standards require that we provide you with information about our responsibilities in accordance with GAAS, as well as certain information related to the planned scope and timing of our audit.

Qualitative Aspects of Significant Accounting Policies & Practices

Significant Accounting Policies

Significant accounting policies are described in Note 1 of the audited financial statements.

With respect to new accounting standards adopted during the year, we call to your attention the following topics detailed in the following pages:

- Governmental Accounting Standards Board (GASB) 96, *Subscription-Based Information Technology Arrangements*

Unusual Policies or Methods

With respect to significant unusual accounting policies or accounting methods used for significant unusual transactions (significant transactions outside the normal course of business or that otherwise appear to be unusual due to their timing, size, or nature), we noted the following:

- No matters are reportable

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within GAAP for policies and practices for material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions, as well as general accounting policies, as follows:

- No matters are reportable

Management Judgments & Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates include:

- Allowance for doubtful accounts receivable and pledges
- Self-insurance for medical malpractice, worker's compensation and health insurance
- Estimated amounts due to/from third-party payers
- Valuation of investment securities
- Defined benefit pension plan, other postemployment benefit (OPEB) plan, and long-term disability (LTD) plan assumptions

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- University – self-insurance for medical malpractice, worker's compensation, health insurance and litigation reserves
- UK HealthCare Hospital System – revenue recognition
- Combined condensed financial statements
- Pension Plan, University of Kentucky Other Postemployment Benefit Plan and University of Kentucky Long-Term Disability Plan
- Member substitution

Our Judgment About the Quality of the University's Accounting Principles

During the course of the audit, we made the following observations regarding the University's application of accounting principles:

- No matters are reportable

Significant Accounting Policies & Alternative Treatments – Details

GASB 96, *Subscription-Based Information Technology Arrangements*

Effective July 1, 2022, the University adopted GASB 96, *Subscription-Based Information Technology Arrangements*. GASB 96 creates a model for recognizing subscription-based information technology arrangements. Substantially all arrangements are recognized on the University's statement of net position.

In the activity statement, the University reports interest expense on the liability and amortization expense related to the asset.

Adoption of GASB 96 required significant time to identify a complete list of contracts for consideration of adoption and measure the subscription IT assets and liabilities for recognition. In addition, due to adoption of the standard, the University's key performance indicators related to the statement of net position (such as the current ratio) are likely not comparable to historical results.

Adjustments Identified by Audit

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated.

A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

Proposed & Recorded Adjustments

Auditor-proposed and management-recorded entries include the following:

- No matters are reportable

Uncorrected Misstatements

- No uncorrected misstatements

Other Required Communications

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

- Membership substitution and related conversion to GASB reporting standards for Royal Blue Health LLC

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (see attachment)

Attachment

Management Representation Letter

As a material communication with management, included herein is a copy of the representation letter provided by management at the conclusion of our engagement.

Representation of:
University of Kentucky
301 Peterson Service Building
Lexington, KY 40506-0005

Provided to:
FORVIS, LLP
Certified Public Accountants
600 N. Hurstbourne Parkway, Suite 350
Louisville, KY 40222

The undersigned ("We") are providing this letter in connection with FORVIS' audit of our financial statements as of and for the year ended June 30, 2023, for the following entities:

- University of Kentucky and Affiliates (University)
- University of Kentucky Research Foundation

And for the years ended June 30, 2023 and 2022, for the following entities:

- Central Kentucky Management Services, Inc
- Kentucky Tobacco and Research and Development Center
- University of Kentucky Mining Engineering Foundation, Inc.
- University of Kentucky Gluck Equine Research Foundation, Inc.
- University of Kentucky Humanities Foundation, Inc.
- WUKY Radio, a public telecommunications entity

The representations in this letter are limited to the above University of Kentucky (University) entities' (collectively, Entities) financial statements.

Our representations are current and effective as of the date of FORVIS' report: October 6, 2023.

Our engagement with FORVIS is based on our contract for services dated: April 5, 2023.

Our Responsibility & Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to FORVIS' report in conformity with accounting principles generally accepted in the United States of America.

We are also responsible for adopting sound accounting policies; establishing and maintaining effective internal control over financial reporting, operations, and compliance; and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

Confirmation of Matters Specific to the Subject Matter of FORVIS' Report

We confirm, to the best of our knowledge and belief, the following:

Broad Matters

1. We have fulfilled our responsibilities, as set out in the terms of our contract, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for the design, implementation, and maintenance of:

   a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

   b. Internal control to prevent and detect fraud.

3. We have provided you with:

   a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.

   b. Additional information that you have requested from us for the purpose of the audit.

   c. Unrestricted access to persons within the Entities from whom you determined it necessary to obtain audit evidence.

   d. All minutes of meetings of the governing bodies held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the governing bodies, if applicable, and maintained as part of our records.

   e. All significant contracts and grants.

4. We have responded fully and truthfully to all your inquiries.

Government Auditing Standards

5. We acknowledge that we are responsible for compliance with applicable laws, regulations, and provisions of contracts and grant agreements.

6. We have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.

7. We have identified and disclosed to you any violations or possible violations of laws, regulations, and provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

8. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts, or violations of provisions of contracts or grant agreements that you or other auditors report.

9. We have a process to track the status of audit findings and recommendations.

10. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements, or other studies.

Federal Awards Programs (Uniform Guidance)

11. We have identified in the schedule of expenditures of federal awards (SEFA) all assistance provided (either directly or passed through other entities) by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, commodities, insurance, direct appropriations, or in any other form.

12. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

13. We have reconciled the SEFA to the financial statements.

14. Federal awards-related revenues and expenditures are fairly presented, both in form and content, in accordance with the applicable criteria in the Entities' financial statements.

Misappropriation, Misstatements, & Fraud

15. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:

    a. Misappropriation of assets.

    b. Misrepresented or misstated assets, deferred outflows of resources, liabilities, deferred inflows of resources, or net position.

16. We have no knowledge of fraud or suspected fraud affecting the Entities involving:

    a. Management or employees who have significant roles in internal control over financial reporting, or

    b. Others when the fraud could have a material effect on the financial statements.

17. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.

18. We have no knowledge of any allegations of fraud or suspected fraud affecting the Entities received in communications from employees, former employees, customers, analysts, SEC or other regulators, citizens, suppliers, or others.

19. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.

Ongoing Operations

20. We acknowledge the current economic volatility presents difficult circumstances and challenges for our industry. Entities are potentially facing declines in the fair values of investments and other assets, declines in the volume of business, contributions, constraints on liquidity, difficulty obtaining financing or bonding, significant credit quality problems, including significant volatility in the values of real estate and other collateral supporting loans, etc. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts and notes or contributions receivable, capital, net realizable value of inventory, etc., that could negatively impact the Entities' ability to meet debt covenants or maintain sufficient liquidity.

    We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Entities' financial statements. Further, management and governance are solely responsible for all aspects of managing the Entities, including questioning the quality and valuation of investments, inventory, and other assets; evaluating assumptions regarding defined benefit pension plan obligations, reviewing allowances for uncollectible amounts; evaluating capital needs and liquidity plans; etc.

Related Parties

21. We have disclosed to you the identity of all of the Entities' related parties and all the related-party relationships of which we are aware.

    In addition, we have disclosed to you all related-party transactions and amounts receivable from or payable to related parties of which we are aware, including any modifications during the year that were made to related-party transaction agreements which existed prior to the beginning of the year under audit, as well as new related-party transaction agreements that were executed during the year under audit.

    Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

22. We understand that the term <u>related party</u> refers to:

    - Affiliates.
    - Entities for which investments are accounted for by the equity method.
    - Trusts for the benefits of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management.
    - Principal owners and members of their immediate families.
    - Management and members of their immediate families.
    - Any other party with which the Entities may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Another party is also a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Entities.

Litigation, Laws, Rulings, & Regulations

23. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

24. We have no knowledge of communications, other than those specifically disclosed, from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.

25. We have disclosed to you all known instances of violations or noncompliance or possible violations or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements or as a basis for recording a loss contingency.

26. We have no reason to believe the Entities owe any penalties or payments under the Employer Shared Responsibility Provisions of the *Patient Protection and Affordable Care Act*, nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

27. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

Nonattest Services

28. You have provided nonattest services, including the following, during the period of this engagement:

    - All federal information return preparation
    - Arbitrage calculation preparation
    - Consulting projects

29. With respect to these services:

    a. We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    b. We have established and monitored the performance of the nonattest services to ensure they meet our objectives.

    c. We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    d. We have evaluated the adequacy of the services performed and any findings that resulted.

    e. Established and maintained internal controls, including monitoring ongoing activities.

f. When we receive final deliverables from you, we will store those deliverables in information systems controlled by us. We have taken responsibility for maintaining internal control over these deliverables.

Financial Statements & Reports

30. The University has revised the 2022 financial statements to conform with accounting principles generally accepted in the United States of America. Management has provided you with all relevant information regarding the revision. We are not aware of any other known matters that required correction in the financial statements.

31. We do not issue an annual report, nor do we have plans to issue an annual report at this time.

Transactions, Records, & Adjustments

32. All transactions have been recorded in the accounting records and are reflected in the financial statements.

33. The Entities have appropriately reconciled their general ledger accounts to their related supporting information. All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the financial statements. All intracompany (and intercompany) accounts have been eliminated or appropriately measured and considered for disclosure in the financial statements.

34. We have everything we need to keep our books and records.

35. We have disclosed any significant unusual transactions the Entities have entered into during the period, including the nature, terms, and business purpose of those transactions.

36. We believe the effects of the uncorrected financial statement misstatements and omitted disclosures summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the financial statements taken as a whole for the following Entities:

    a. University of Kentucky Research Foundation

    b. Kentucky Tobacco Research and Development Center

    c. WUKY Radio, a public telecommunications entity

Governmental Accounting & Disclosure Matters

37. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

38. With regard to deposit and investment activities:

    a. All deposit, repurchase and reverse repurchase agreements, and investment transactions have been made in accordance with legal and contractual requirements.

    b. Investments, derivative instrument transactions, and land and other real estate held by endowments are properly valued.

    c. Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.

d. We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.

39. The financial statements include all component units, appropriately present majority equity interests in legally separate organizations and joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

40. We have identified and evaluated all potential fiduciary activities. The financial statements include all fiduciary activities required by Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, as amended.

41. Components of net position (net investment in capital assets, restricted, and unrestricted) are properly classified and, if applicable, approved.

42. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.

43. We have appropriately disclosed the Entities' policies regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.

44. The Entities have properly separated information in debt disclosures related to direct borrowings and direct placements of debt from other debt and disclosed any unused lines of credit, collateral pledged to secure debt, terms in debt agreements related to significant default or termination events with finance-related consequences, and significant subjective acceleration clauses in accordance with GASB Statement No. 88.

45. The Entities' ability to continue as a going concern was evaluated and that appropriate disclosures are made in the financial statements as necessary under GASB requirements.

46. The supplementary information required by GASB, consisting of management's discussion and analysis and pension, and other postemployment benefit information, has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions, and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.

47. With regard to pension and other postretirement benefits (OPEB):

    a. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.

    b. We have provided you with the Entities' most current pension and OPEB plan instrument for the audit period, including all Plan amendments.

    c. The participant data provided to you related to pension and OPEB plans are true copies of the data submitted or electronically transmitted to the Plan's actuary.

    d. The participant data that we provided the Plan's actuary for the purposes of determining the actuarial present value of accumulated Plan benefits and other actuarially determined amounts in the financial statements were complete.

Nonprofit Accounting & Disclosure Matters

48. We are an entity exempt from either income tax under Section 501(c) or Section 115 of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

Accounting & Disclosure

49. All transactions entered into by the Entities are final. We are not aware of any unrecorded transactions, side agreements, or other arrangements (either written or oral) that are in place.

50. Except as reflected in the financial statements, there are no:

    a. Plans or intentions that may materially affect carrying values or classifications of assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position.

    b. Material transactions omitted or improperly recorded in the financial records.

    c. Material unasserted claims or assessments that are probable of assertion or other gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

    d. Events occurring subsequent to the statement of net position date through the date of this letter, which is the date the financial statements were available to be issued, requiring adjustment or disclosure in the financial statements.

    e. Agreements to purchase assets previously sold.

    f. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit, or similar arrangements.

    g. Guarantees, whether written or oral, under which the Entities are contingently liable.

    h. Known or anticipated asset retirement obligations.

51. Except as disclosed in the financial statements, the Entities have:

    a. Satisfactory title to all recorded assets, and those assets are not subject to any liens, pledges, or other encumbrances.

    b. Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.

52. We agree with the findings of specialists in evaluating the Pension, OPEB plans and self-insurance amounts and have adequately considered the qualification of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

Revenue, Accounts Receivable, & Inventory

53. Adequate provisions and allowances have been accrued for any material losses from:

    a. Uncollectible receivables.

    b. Excess or obsolete inventories.

    c. Sales commitments, including those unable to be fulfilled.

    d. Purchase commitments in excess of normal requirements or at prices in excess of prevailing market prices.

Estimates

54. We have identified all accounting estimates that could be material to the financial statements, and we confirm the appropriateness of the methods and the consistency in their application, the accuracy and completeness of data, and the reasonableness of significant assumptions used by us in making the accounting estimates, including those measured at fair value reported in the financial statements.

55. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the financial statements. We understand that "near term" means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations, which refer to volumes of business, revenues, available sources of supply, or markets, investments, existing at the date of the financial statements that would make the Entities vulnerable to the risk of severe impact in the near term that have not been properly disclosed in the financial statements.

Fair Value

56. With respect to the fair value measurements of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto:

    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated course of action.

    b. The measurement methods and significant assumptions used in determining fair value are appropriate in the circumstances for financial statement measurement and disclosure purposes and have been consistently applied.

    c. The significant assumptions appropriately reflect market participant assumptions.

    d. The disclosures related to fair values are complete, adequate, and in conformity accounting principles generally accepted in the United States of America.

    e. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

Tax-Exempt Bonds

57. Tax-exempt bonds issued have retained their tax-exempt status.

58. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.

New Accounting Standards

GASB Statement 96, *Subscription-Based Information Technology Arrangements*

59. In connection with the adoption of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), we represent the following:

    a. We have identified a complete population of potential subscription-based information technology arrangements (SBITA) as of the implementation date.

    b. We have reviewed all significant contracts to identify subscription and nonsubscription components as of the earliest date of adoption. Allocation of costs between subscription and nonsubscription components are based upon standalone prices or other reasonable factors.

    c. Measurements of the subscription assets and liabilities are based upon facts and circumstances that existed at the beginning of the period of implementation.

    d. The estimates related to any options to extend or terminate the SBITA terms within the measurement of subscription liability and an intangible right to use IT subscription asset agrees to management's plans for the SBITA.

    e. The discount rates for each SBITA are based upon what would be obtained by the Entities for similar payment amounts during the subscription term as an incremental rate.

    f. We have adequate controls in place to prevent and/or detect errors in subscription assets and liabilities on a recurring basis.

    g. The footnotes to the financial statements appropriately describe the adoption of GASB 96 and include all additional disclosures required under GASB 96.

Healthcare Matters

60. With respect to the University's possible exposure to past or future medical malpractice assertions:

    a. We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.

    b. All known incidents have been reported to our actuarial consultants and are appropriately considered in our malpractice liability accrual. Any claims that should be reported to our excess liability carrier have been reported.

    c. There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured above our customary self-insured retention amounts.

    d. Management does not expect any claims to exceed any applicable excess policy malpractice insurance limits.

    e. We believe our accruals for uninsured malpractice claims are sufficient for all known and any probable potential claims.

    f. We have reviewed the assumptions used by our actuarial consultant to estimate our self-insured accrual and believe those assumptions are appropriate.

61. With respect to the University's possible exposure to past or future workers' compensation and health insurance assertions:

    a. We have disclosed to you all incidents known to us that could possibly give rise to workers' compensation and health insurance claims.

    b. All known incidents have been reported to our actuarial consultants and are appropriately considered in our liability accrual. Any claims that should be reported to our excess liability carrier have been reported.

    c. There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured above our customary self-insured retention amounts.

    d. Management does not expect any claims to exceed applicable excess policy insurance limits.

    e. We believe our accruals for uninsured claims are sufficient for all known and any probable potential claims.

    f. We have reviewed the assumptions used by our actuarial consultant to estimate our self-insured accrual and believe those assumptions are appropriate.

62. We have provided you with all peer review organizations, administrative contractor, and third-party payor reports and information.

63. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Entities' participation in the Medicare or other governmental healthcare programs.

64. Adequate provisions and allowances have been accrued for any material losses from Medicare/Medicaid and other third-party payor contractual, audit, or other adjustments.

65. Billings to third-party payors comply in all material respects with applicable coding guidelines, laws, and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.

66. With regard to cost reports filed with Medicare, Medicaid, or other third parties:

    a. All required reports have been properly filed.

    b. Management is responsible for the accuracy and propriety of those reports.

    c. All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payors.

    d. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

    e. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

67. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based upon historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the Entities are entitled to all the amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

68. There are no instances of noncompliance with laws or regulations with respect to Medicare and Medicaid antifraud and abuse statutes, in any jurisdiction, whose effects we believe should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, other than those disclosed or accrued in the financial statements. This is including, but not limited to, the Anti-Kickback Statute of the *Medicare and Medicaid Patient and Program Protection Act of 1987*, limitations on certain physician referrals (the Stark law), and the *False Claims Act*.

69. The Medicaid directed payment receivable for the 2023 quality payment is probable.

House Bill 622 Matters

70. With regard to compliance with the Commonwealth of Kentucky's House Bill 622 (Kentucky Revised Statues (KRS) 164A.555 through 164A.630):

    a. We confirm the state has transferred funds to the University, which were approved through state appropriations, in accordance with KRS 164A.555.

    b. We have elected to perform in accordance with KRS 164A.555 through 164A.560 regarding acquisition of funds, accounting, purchasing and capital construction.

    c. We have accounted for funds received and disbursed in accordance with KRS 164A.560, while making deposits on a timely basis and developing processes and policies to support, approve and record disbursements for authorized purposes.

    d. We use an accrual basis for accounting that conforms with accounting principles generally accepted in the United States of America.

        i. The accounting system of the University includes an operating fund group, restricted fund group, loan fund group, endowment fund group, agency fund group, plant fund group and fiduciary fund group, as applicable.

        ii. We have used all state appropriations for intended purposes and within the period awarded which were made available.

        iii. For each capital construction project, we have submitted, at the end of each fiscal year, a report showing all funding sources and expenditures and current status to the capital projects and bond oversight committee.

        iv. We did not have state general funds for capital construction projects, which were unexpended at project completion. If such funds were unexpended at project completion, our policy is that all such unexpended funds would be returned to a surplus account in accordance with KRS 164A.565.

        v. The land, buildings and capital equipment have been accounted for in the plant fund group in accordance with KRS 164A.565.

        vi. We have submitted an annual report, and the annual report does meet the requirements for the council on post-secondary education system of uniform financial reporting for institutions of higher education.

vii. We have made available on our website the board-approved operating and capital budgets for the current and prior two fiscal years, our audited financial statements for the previous three fiscal years and agendas and actions of all meetings of the governing board for the previous three years.

e. We have engaged a qualified, experienced CPA firm to conduct an annual audit.

f. Our procurement policy's purchasing procedures are consistent with KRS 164A.575.

g. We do take and maintain inventories of plant and equipment.

h. Our policies for disposals of real property are in accordance with KRS 164A.575.

i. The governing board of the University has managed and administered capital construction projects in accordance with KRS 164A.580.

j. We are following procedures, outlined in the KRS, to contract for capital construction projects in accordance with KRS 164A.585.

k. We are following procedures, outlined in the KRS, to contract for architectural and engineering services in accordance with KRS 164A.590.

l. We are carrying out capital construction projects in accordance with KRS 164A.595.

m. We have remained within the scope authorized by the general assembly for all capital construction and equipment purchase projects in accordance with KRS 164A.600.

n. We had one emergency project in the current year for which the board authorized funds to be transferred to other capital construction and equipment purchase projects.

o. We have established a contingency fund and emergency repair, maintenance and replacement fund within our plant fund records in accordance with KRS 164A.600.

p. We did not issue any consolidated educational building revenue bonds, housing bonds and bonds anticipation notes in accordance with KRS 164A.605.

q. In the current fiscal year, there have been no circumstances in which we were unable to make required principal and interest payments due on agency bonds. All principal and interest payments on bonds have been made in accordance with KRS 164A.608.

r. We have affiliated corporations for which the following guidelines are adhered to in accordance with KRS 164A.610:

   i. We obtain financial information on a quarterly basis.

   ii. We are receiving external reimbursement for indirect expenses incurred throughout the year.

s. The provisions of KRS 164A.555 through 164A.630 have not prevented the University from accepting gifts, awarding scholarships or performing any other functions assigned by the governing board.

t. We have established a "fund for excellence" trust fund into which gifts, grants, etc., are deposited in accordance with KRS 164A.620.

u. To our knowledge, none of the provisions of KRS 164A.555 through 164A.630 or the application thereof to any persons or circumstances has been held to be invalid and, thus, has not affected the application of other provisions of the University.

v. We have followed the provisions of KRS 164A.555 through 164A.630 and are bound by the statutes, as outlined at KRS 164A.630 pertaining to the following:

   i. Relocation assistance and lease of property for state use and related legislative approval of fiscal obligations.

   ii. The Kentucky Model Procurement Code.

   iii. The issuance and approval of revenue bonds and bond anticipation notes.

   iv. Equal employment opportunity.

Other Matters:

71. We continue to advance the Honors College as agreed upon in the charitable grant agreement between the University and the T.W. Lewis Foundation. We have not received any notice from the donor regarding discussions of terminating the agreement subsequent to year-end. Based on the University's discussions with the T.W. Lewis Foundation, the University believes the donor is satisfied with the milestones achieved as of year-end and, therefore, believes the University is in compliance with the donor's pledge conditions as of June 30, 2023.

72. We have identified and provided to FORVIS all trust agreements subject to the provisions of GASB 81, which relate to irrevocable split-interest agreements.

73. We have appropriately allocated expenses for medical malpractice, other postemployment benefits, health insurance, workers' compensation, and other University-level expenses to the appropriate organizational/component units.

74. We acknowledge that, although not documented in formal organizational documents for Surgery Blue, the three members who served on the managing board of Surgery Center of Lexington, LLC (Executive Vice President of UK HealthCare Hospital System (System), Vice President of Health Systems Administration of the System, and Senior Vice President and Chief Administrative Officer of the System), are the same three members who manage Surgery Blue, LLC and have been in those roles since the inception of Surgery Blue, LLC. We also acknowledge that the University is the sole member of Surgery Blue, LLC.

75. The University has provided you copies of all exhibits specified by the Auditor of Public Accounts of the Commonwealth of Kentucky closing package instructions, which were submitted to the Commonwealth of Kentucky for purposes of preparing the Commonwealth of Kentucky's general-purpose financial statements.

76. There are two additional affiliated corporations—Beyond Blue Corporation and Surgery Blue, LLC—which were not audited in FY 23. Nevertheless, these affiliated corporations are alter egos of the University.

77. We interpret the language in paragraph #17 of lease #PR8284 with the Kentucky Authority for Educational Television (KET) dated July 25, 2020, to define "anniversary date" as the anniversary of the initial five-year term of the lease, such that the University may terminate this tower lease agreement with 30 days' written notice prior to August 1, 2025. Therefore, we have based our lease liability calculation on this interpretation.

78. We note that the SBITA recorded for University of Kentucky Research Foundation for LabArchives Subscription is in the University of Kentucky's name; however, the liability is appropriately recorded in the financial statements of the Research Foundation.

79. Regarding Asset Preservation Funds of approximately $77 million for the fiscal year 2022–2023, we believe the revenues and related accounts receivable are properly recorded at June 30, 2023, as either construction contracts have been awarded for the projects, the University has secured financing and has made a draw against the debt, or funding for these capital projects are bond funds remaining in a maintenance pool at June 30, 2023, which do not lapse or require reauthorization. In addition, we have met the matching requirements for these funds, and believe the "eligibility criteria" listed in the Council on Postsecondary Education's memo dated June 14, 2022, represent administrative requirements, rather than eligibility criteria under GASB Statement Number 33.

10/6/23
Dr. Eli Capilouto
President

10/6/23
Dr. Eric N. Monday
Executive Vice President for Finance and Administration

Penny D. Cox 10/6/2023
Penny Cox
Treasurer

10/6/2023
Shanhong Wang
Controller