

**GATORCARE HEALTH MANAGEMENT  
CORPORATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2019 AND 2018**

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors,  
GatorCare Health Management Corporation:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of GatorCare Health Management Corporation ("GatorCare"), a direct support organization and component unit of the University of Florida, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise GatorCare's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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. Accordingly, we express no such opinion. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GatorCare as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Report on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2019, on our consideration of GatorCare's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GatorCare's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "James Moore Esq., P.L." The signature is fluid and cursive, with "James" and "Moore" being more formal and "Esq., P.L." being a professional suffix.

Gainesville, Florida  
October 7, 2019

**GATORCARE HEALTH MANAGEMENT CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2019 AND 2018**

## **Introduction**

GatorCare Health Management Corporation (“GatorCare”) was incorporated on October 12, 2012, and began operations on January 1, 2013.

The purpose of GatorCare is to coordinate and facilitate the management of the self-insured health insurance plan (the “Plan”) of The University of Florida and its participating affiliated employers, provided that such affiliated employers are organizations exempt from tax under Section 501(a) of the Internal Revenue Code of 1986 and are described in Section 501(c)(3) of the Internal Revenue Code, in such areas as contracting with third-party administrators and network providers, collection of employer and employee contributions, payment of health and pharmacy claims and administrative expenses, fiscal accounting, claims and quality analysis, and other matters to support the orderly administration and management of the Plan.

This section of GatorCare’s annual financial report presents GatorCare’s analysis of its financial performance as of and for the year ended June 30, 2019, with comparative information as of and for the years ended June 30, 2018 and June 30, 2017. This discussion has been prepared by management and should be read in conjunction with the basic financial statements and related note disclosures.

## **Overview of the Financial Statements**

Along with management’s discussion and analysis, the annual financial report includes the independent auditors’ report and the basic financial statements of GatorCare. The basic financial statements also include notes that explain in more detail some of the information in the basic financial statements. By referring to the accompanying notes to the financial statements, a broader understanding of issues impacting financial performance can be realized.

GatorCare recognizes revenues and expenses on the statements of revenues, expenses and changes in net position solely for amounts received from participating employers that relate to the administrative functions of GatorCare. All other amounts received from participating employers (referred to as “Employer Funds”) are considered funds held on behalf of the participating employers to be used to pay health and pharmacy claims, certain third-party administrative expenses, and other working capital needs. As such, these amounts are not recognized as revenues and expenses in the accompanying statements of revenues, expenses and changes in net position, but are recorded as agency transactions, with the assets and liabilities associated therewith being reflected on the statements of net position.

## **Statements of Net Position**

The condensed statements of net position present the financial position of GatorCare as of June 30, 2019, 2018 and 2017, and include all assets and liabilities of GatorCare. Assets and liabilities are generally measured using current values. The net position is one indicator of the current financial condition of GatorCare. Changes in net position are an indicator of whether the overall financial condition of the organization has improved or worsened over a period of time.

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2019 AND 2018**  
(Continued)

The following table presents GatorCare's condensed statements of net position as of June 30, 2019, 2018 and 2017:

<i>(Amounts in thousands)</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 7,922	\$ 9,990	\$ 35,606
Short-term investments	36,834	30,348	12,152
Other current assets	8,067	5,863	9,564
Capital assets, net	7	8	9
Total assets	<u>52,830</u>	<u>46,209</u>	<u>57,331</u>
<b>Liabilities</b>			
Current liabilities	21,872	20,343	19,036
Long-term liabilities	28,059	24,535	37,698
Total liabilities	<u>49,931</u>	<u>44,878</u>	<u>56,734</u>
<b>Net position</b>			
Net investment in capital assets	7	8	9
Unrestricted	2,892	1,323	588
Total net position	<u>\$ 2,899</u>	<u>\$ 1,331</u>	<u>\$ 597</u>

Cash and cash equivalents decreased in 2019 by \$2.1 million primarily due to the purchase of \$5.0 million in short-term investments, partially offset by net cash provided by operating activities of \$2.8 million. In 2018, cash and cash equivalents decreased by \$25.6 million primarily due to the purchase of \$18.0 million in short-term investments and net cash used in operating activities of \$7.7 million. See the "Statements of Cash Flows" for more detail.

Short-term investments increased in 2019 by \$6.5 million due to an additional investment of \$5.0 million in the State of Florida Special Purpose Investment Account ("SPIA") and \$0.7 million of interest income earned on SPIA investment, and a favorable change in the fair value of the SPIA investment of \$0.8 million. In 2018, short-term investments increased by \$18.2 million due to an additional investment of \$18.0 million in the SPIA investment and \$0.5 million of interest income, partially offset by an unfavorable change in the fair value of the SPIA investment of \$0.3 million. The minimum balance requirement for SPIA is 60% of the average investment balance for the previous three months. Six-month notice is required to liquidate below this minimum balance.

Other current assets increased in 2019 by \$2.2 million primarily due to an increase in receivables from participating employers. Other current assets decreased in 2018 by \$3.7 million primarily due to the timing of the receipt of pharmacy rebates.

Current liabilities increased in 2019 by \$1.5 million primarily due to a \$1.8 million increase in the incurred but not reported ("IBNR") claims reserve, partially offset by a decrease of \$0.5 million in claims payable due to the timing of payments to third-party administrators. In 2018, current liabilities increased by \$1.3 million due to an increase of \$1.9 million in claims payables due to the timing of payments to third-party administrators, partially offset by a \$0.6 million decrease in the IBNR reserve.

Long-term liabilities increased in 2019 by \$3.5 million due to an increase in the contributed working capital balance resulting from a \$16.6 million surplus of Employer Funds over health and pharmacy claims, partially offset by \$13.1 million in funding credits provided to participating employers. In 2018, long-term liabilities decreased by \$13.2 million due to a decrease in the contributed working capital balance resulting from \$31.4 million in funding credits provided to participating employers, partially offset by an \$18.2 million surplus of Employer Funds over health and pharmacy claims.

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2019 AND 2018**  
(Continued)

Total net position increased by \$1.6 million in 2019 due to net investment income of \$1.7 million, partially offset by an operating loss of \$0.1 million. Total net position increased by \$0.7 million in 2018, due to operating income of \$0.4 million and net investment income of \$0.3 million.

**Statements of Revenues, Expenses and Changes in Net Position**

The following table presents GatorCare's condensed statements of revenues, expenses and changes in net position for the years ended June 30, 2019, 2018, and 2017:

<i>(Amounts in thousands)</i>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Management fee revenue	\$ 971	\$ 1,468	\$ 1,417
Administrative expenses, net of reimbursements	1,078	1,006	1,246
Operating income (loss)	(107)	462	171
Nonoperating revenues (expenses), net	1,675	272	(38)
Increase in net position	1,568	734	133
Net position			
Beginning of year	1,331	597	464
End of year	<u>\$ 2,899</u>	<u>\$ 1,331</u>	<u>\$ 597</u>

Management fee revenue decreased in 2019 by \$0.5 million primarily due to Employer Funding credits issued to the participating employers of \$0.4 million. Administrative expenses increased slightly by \$0.1 million primarily due to a decrease in wellness rebates of \$0.1 million. Nonoperating revenues (expense), net increased by \$1.4 million, primarily due to an increase in interest income (\$0.3 million) and favorable changes in fair market value of the SPIA investment (\$1.1 million). In 2018, management fee revenue increased slightly. Administrative expenses decreased by \$0.2 million primarily due to a \$0.2 million increase in wellness rebates. Nonoperating revenues (expenses), net increased by \$0.3 million, primarily due to the increase of interest income due to the increase in the SPIA investment.

*Membership Volumes*

The following table reflects the membership volumes within each benefit plan as of June 30, 2019, 2018, and 2017:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Prime Plus	18,524	18,128	17,374
Prime Exclusive Provider Organization	9,239	8,836	8,534
Premium Preferred Provider Organization	7,469	7,390	7,155
Gator GradCare	4,025	4,089	4,042
Healthy Rewards Health Reimbursement Account	1,147	1,185	1,117
GatorCare Options	905	892	958
Premium Out-of-Area	396	352	261
Healthy Rewards Health Savings Account	1	1	15
Total	<u>41,706</u>	<u>40,873</u>	<u>39,456</u>

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2019 AND 2018**  
(Continued)

**Statements of Cash Flows**

The Statements of Cash Flows provide additional information concerning GatorCare's financial results by reporting the major sources and uses of cash.

Cash and cash equivalents decreased in 2019 by \$2.1 million. The primary use of cash was the purchase of short-term investments of \$5.0 million and the payment of health and pharmacy claims and administrative expenses. The primary source of cash was Employer Funds received to cover health and pharmacy claims, and certain administrative expenses. In 2018, cash and cash equivalents decreased by \$25.6 million. The primary use of cash was the purchase of short-term investments of \$18.0 million and the payment of health and pharmacy claims and administrative expenses. The primary source of cash was Employer Funds received to cover health and pharmacy claims, and certain administrative expenses.

**Contacting Management**

This financial narrative is designed to provide the reader with a general overview of GatorCare's financial condition. For any questions about this report, please contact:

PO Box 103574 | Gainesville, FL 32610  
1329 SW 16<sup>th</sup> Street, Suite 2170 | Gainesville, FL 32608

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b><u>ASSETS</u></b>		
<b>Current assets</b>		
Cash and cash equivalents held on behalf of participating employers	\$ 7,921,858	\$ 9,990,099
Short-term investments	36,834,180	30,348,276
Amounts due from participating employers	4,608,439	3,136,752
Other current assets	3,457,937	2,725,988
Total current assets	52,822,414	46,201,115
<b>Capital assets, net</b>	7,358	8,065
<b>Total Assets</b>	<u>\$ 52,829,772</u>	<u>\$ 46,209,180</u>
<b><u>LIABILITIES</u></b>		
<b>Current liabilities</b>		
Administrative expenses payable	\$ 466,293	\$ 319,375
Liabilities on behalf of participating employers:		
Claims payable	8,887,324	9,338,077
Incurred but not reported (IBNR) claims reserve	12,518,447	10,685,146
Total current liabilities	21,872,064	20,342,598
<b>Long-term liabilities</b>		
Contributed working capital balance	28,058,228	24,535,664
<b>Total Liabilities</b>	<u>\$ 49,930,292</u>	<u>\$ 44,878,262</u>
<b><u>NET POSITION</u></b>		
<b>Net position</b>		
Net investment in capital assets	\$ 7,358	\$ 8,065
Unrestricted	2,892,122	1,322,853
<b>Total Net Position</b>	<u>\$ 2,899,480</u>	<u>\$ 1,330,918</u>

The accompanying notes to financial statements  
are an integral part of these statements.

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating revenues</b>		
Management fee revenue	\$ 971,008	\$ 1,468,087
<b>Operating expenses</b>		
Administrative expenses, net of reimbursements of \$310,029 and \$360,000, respectively	1,078,297	1,006,222
Operating income (loss)	<u>(107,289)</u>	<u>461,865</u>
<b>Nonoperating revenues</b>		
Net investment income	1,675,851	272,488
<b>Increase in net position</b>	<u>1,568,562</u>	<u>734,353</u>
<b>Net position, beginning of year</b>	1,330,918	596,565
<b>Net position, end of year</b>	<u>\$ 2,899,480</u>	<u>\$ 1,330,918</u>

The accompanying notes to financial statements  
are an integral part of these statements.

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Cash received from participating employers and third-party administrators	\$ 195,259,128	\$ 176,736,722
Administrative expense rebate received from Florida Blue	310,029	360,000
Administrative expenses paid	(1,240,702)	(1,304,147)
Payments of health and pharmacy claims	(191,530,906)	(183,465,248)
Net cash provided by (used in) operating activities	<u>2,797,549</u>	<u>(7,672,673)</u>
<b>Cash flows from investing activities</b>		
Purchase of short-term investments	(5,000,000)	(18,000,000)
Interest income received	134,210	57,002
Net cash used in investing activities	<u>(4,865,790)</u>	<u>(17,942,998)</u>
<b>Net decrease in cash and cash equivalents</b>	(2,068,241)	(25,615,671)
<b>Cash and cash equivalents, beginning of year</b>	9,990,099	35,605,770
<b>Cash and cash equivalents, end of year</b>	<u>\$ 7,921,858</u>	<u>\$ 9,990,099</u>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities</b>		
Operating income (loss)	\$ (107,289)	\$ 461,865
Adjustments to reconcile change in operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	707	706
Changes in:		
Amounts due from participating employers	(1,471,687)	167,453
Other current assets	(676,212)	3,553,680
Administrative expenses payable	146,918	61,369
Claims payable	(450,753)	1,874,490
Incurred but not reported (IBNR) claims reserve	1,833,301	(629,464)
Contributed working capital balance	3,522,564	(13,162,772)
Total adjustments	<u>2,904,838</u>	<u>(8,134,538)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 2,797,549</u>	<u>\$ (7,672,673)</u>
<b>Supplemental disclosure of noncash investing activities</b>		
Change in fair market value of short-term investments	\$ (769,019)	\$ 299,198
Interest income reinvested in short-term investments	(716,885)	(495,488)
Prior year interest receivable received in current year and reinvested	49,289	30,093
Interest income receivable on short-term investments	(105,026)	(49,289)

The accompanying notes to financial statements  
are an integral part of these statements.

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

(1) **Summary of Significant Accounting Policies:**

The following is a summary of the more significant accounting policies of GatorCare Health Management Corporation, which affect significant elements of the accompanying basic financial statements:

(a) **Reporting entity**—GatorCare Health Management Corporation (“GatorCare”) is a not-for-profit entity that commenced business January 1, 2013, to coordinate and facilitate the management of the self-insured health insurance plan (the “Plan”) of the University of Florida (the “University”) and its participating affiliated employers, in such areas as contracting with third-party administrators and network providers, collection of employer and employee contributions, payment of health and pharmacy claims and administrative expenses, fiscal accounting, claims and quality analysis, and other matters to support the orderly administration and management of the Plan. GatorCare does not bear any risk of loss with respect to the Plan. GatorCare functions as a direct support organization of the University and is a component unit (for accounting purposes only) of the University.

For financial reporting purposes, GatorCare is considered a special-purpose government engaged only in business-type activities. Accordingly, GatorCare prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for proprietary funds, which is similar to those for private business enterprises. GatorCare's accounting policies conform with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

(b) **Measurement focus, basis of accounting, and financial statement presentation**—The basic financial statements of GatorCare have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under these methods, revenues are recorded when earned and expenses are recognized when they are incurred.

GatorCare distinguishes operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated from the primary administrative operations of GatorCare. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the administrative operations of GatorCare. All other expenses are reported as nonoperating expenses.

GatorCare recognizes operating revenues and expenses on the statements of revenues, expenses, and changes in net position solely for the amounts received from participating employers that relate to the administrative functions of GatorCare. All other amounts received from participating employers (referred to as “Employer Funds”) are considered funds held on behalf of the participating employers to be used to pay health and pharmacy claims, certain third-party administrative expenses, and other working capital needs. As such, these amounts are not recognized as revenues and expenses in the accompanying statements of revenues, expenses, and changes in net position, but are recorded as agency transactions, with the assets and liabilities associated therewith being reflected on the statements of net position at June 30, 2019 and 2018. See Note 3 for additional information on the determination of amounts charged to participating employers.

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

(1) **Summary of Significant Accounting Policies:** (Continued)

GatorCare follows GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, which establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. GatorCare also follows GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, an amendment to GASB Statement No. 34 for public colleges and universities to allow the use of the guidance for special-purpose governments engaged only in business-type activities, engaged only in government activities, or engaged in both governmental and business-type activities in their separately issued reports.

(c) **Cash and cash equivalents**—Cash and cash equivalents consist of cash held in a demand deposit account with a national bank. These demand deposits are secured up to FDIC limits of \$250,000.

Bank balances at June 30, 2019 and 2018, total \$7,924,785 and \$9,992,374, respectively, which is available for the administrative functions of GatorCare and for payments of health and pharmacy claims of the participating employers.

(d) **Short-term investments and fair value measurements**—Funds are invested in the Special Purpose Investment Account (“SPIA”) within the Florida Treasury Investment Pool (“FTIP”). This is a pool of investments whereby GatorCare owns a share of the pool, not the underlying securities.

Investments are recorded at fair value. Interest, dividends, and gains and losses on investments, both realized and unrealized, are included in net investment income on the statements of revenues, expenses and changes in net position.

GatorCare categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs (see Note 2).

(e) **Amounts due from participating employers**—Included in amounts due from participating employers are accrued receivables of Employer Funds.

(f) **Other current assets**—Included in other current assets are accrued receivables primarily comprised of earned rebates from third-party administrators. Rebate accruals from third party-administrators are estimated based on rebate terms and historical payments received. An estimated rebate receivable of \$1,981,602 was included in other current assets in the accompanying statement of net position as of June 30, 2018. Actual rebates received subsequent to June 30, 2018, but related to claims incurred as of and for the year then ended, were \$3,245,352.

(g) **Capital assets**—Each capital item with an individual purchase price of \$2,000 or more and a useful life of at least two years is considered to be a capital asset. Capital assets are recorded at historical cost at date of purchase. Routine maintenance and repairs are expensed when incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related depreciable assets. The useful life of furniture is 15 years.

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

(1) **Summary of Significant Accounting Policies:** (Continued)

- (h) **Claims payable**—Claims payable reflects liabilities of the organization for which invoices have been received from the two third-party administrators for claims activity incurred and reported.
- (i) **Claims incurred but not reported (“IBNR”)**—The IBNR claims reserve represents management’s best estimate of the amount of future health and pharmacy claims related to services provided in the current accounting period. The IBNR claims reserve model projects claims based upon average historical claims activity, average time to pay claims, and certain studies of the participating employers’ historical claims data. Considerable amount of uncertainty and variability are inherent in this accounting estimate, and accordingly, the subsequent development of these reserves may not conform to the assumptions inherent in the determination. The ultimate liability could be significantly in excess of or less than the amount indicated in the basic financial statements, and it is at least reasonably possible that changes in the estimate in the near term would be material to the basic financial statements.
- (j) **Contributed working capital balance**—The contributed working capital balance represents the cumulative amount of Employer Funds received or earned from the participating employers in excess of health and pharmacy claims and administrative expenses paid or incurred. Each employer’s share of the contributed working capital balance is adjusted for funding credits approved for each participating employer, the surplus (deficit) of Employer Funds over health and pharmacy claims, and certain administrative expenses which are allocated to the participating employers based on the employers’ percentage share of the GatorCare membership.
- (k) **Income taxes**—On March 13, 2015, GatorCare received approval of tax exempt status from the Internal Revenue Service making the organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. GatorCare files informational tax returns in the U.S. federal jurisdiction. GatorCare’s income tax returns for the past three years are subject to examination by tax authorities and may change upon examination. GatorCare has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with accounting principles generally accepted in the United States of America for accounting for uncertainty in income taxes, and has determined that there are no uncertain tax positions that would have a material impact on the financial statements of GatorCare.
- (l) **Use of estimates**—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- (m) **Recent accounting pronouncements**—GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. GASB No. 84 seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions in GASB No. 84 are effective for fiscal years beginning after December 15, 2018. Management is still evaluating the impact of this pronouncement on GatorCare’s financial statements.

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**(2) Short-term Investments:**

Short-term investments are comprised of funds invested in the SPIA within the FTIP. Funds within the FTIP are subject to various risks including credit risk and interest rate risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk can be evaluated based on the rating assigned to an issuer or other counterparty by an independent rating agency. Interest rate risk is the risk that arises for holders of fixed income securities due to fluctuations in interest rates. This risk increases as the time to maturity or duration of these securities increase. The FTIP is not exposed to foreign currency risk as State law and investment policy do not authorize the FTIP to purchase investments in foreign currencies.

GatorCare reported short-term investments in SPIA at fair value totaling \$36,834,180 and \$30,348,276 at June 30, 2019 and 2018, respectively, representing ownership of a share of the pool, not the underlying securities. Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. As of June 30, 2019, the SPIA carried a credit rating of AA-f by Standard & Poor's, had an effective duration of 2.71 years and a fair value factor of 1.0103. As of June 30, 2018, the SPIA carried a credit rating of A+f by Standard & Poor's, had an effective duration of 3.00 years and a fair value factor of .9872.

Participants contribute to the Treasury Pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. GatorCare relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to the financial statements of the State's Comprehensive Annual Financial Report.

The fair value of GatorCare's investment in the SPIA is measured on a recurring basis, which is valued based on GatorCare's share of the pool, using significant unobservable inputs (Level 3), as of June 30, 2019 and 2018.

**(3) Charges to Participating Employers:**

GatorCare bills and receives Employer Funds from its participating employers in conjunction with their payroll cycles. These amounts represent the equivalent of funding required to support self-funded plans and equal the sum of estimated health and pharmacy claims, certain third-party administrative costs and changes in the reserve for IBNR claims. GatorCare uses an actuary to determine the adequacy of the Employer Funds on an annual basis. Employer Funds received (both collected and receivable at year-end) during the years ended June 30, 2019 and 2018, totaled \$210,547,026 and \$204,449,288, respectively. Amounts due from participating employers in the statement of net position at June 30, 2019 and 2018 represent Employer Funds due from participating employers. These receivables were subsequently paid by the participating employers and, as such, there is no allowance necessary against amounts due from participating employers at June 30, 2019 and 2018.

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

(3) **Charges to Participating Employers:** (Continued)

Employer Funds received during the years ended June 30, 2019 and 2018, were derived from GatorCare's agreements with the following participating affiliated employers:

- The University,
- Shands Teaching Hospital and Clinics, Inc. ("UF Health Shands"),
- Shands Jacksonville HealthCare, Inc. ("UF Health Jacksonville"),
- The University of Florida Jacksonville Physicians, Inc.,
- University of Florida Foundation, Inc. (through December 31, 2017),
- University of Florida Investment Corporation, and
- University of Florida Proton Therapy Institute.

All of these organizations are direct support organizations or affiliates of the University. The University organizations include: domestic employees, College of Medicine – Gainesville, College of Medicine – Jacksonville, post doctorates, College of Dentistry, College of Veterinary Medicine residents and interns and graduate assistants.

For the year ended June 30, 2019, Employer Funds from UF Health Shands and UF Health Jacksonville represent approximately 49% and 20%, respectively, of total Employer Funds received. For the year ended June 30, 2018, Employer Funds from UF Health Shands and UF Health Jacksonville represent approximately 47% and 20%, respectively, of total Employer Funds received.

(4) **Capital Assets:**

A summary of changes in capital assets during the year ended June 30, 2019, is as follows:

	<b>Balance at June 30, 2018</b>	<b>Additions</b>	<b>Balance at June 30, 2019</b>
Equipment, at historical costs	\$ 10,596	\$ -	\$ 10,596
Accumulated depreciation	(2,531)	(707)	(3,238)
<b>Capital assets, net</b>	<b>\$ 8,065</b>	<b>\$ (707)</b>	<b>\$ 7,358</b>

A summary of changes in capital assets during the year ended June 30, 2018, is as follows:

	<b>Balance at June 30, 2017</b>	<b>Additions</b>	<b>Balance at June 30, 2018</b>
Equipment, at historical costs	\$ 10,596	\$ -	\$ 10,596
Accumulated depreciation	(1,825)	(706)	(2,531)
<b>Capital assets, net</b>	<b>\$ 8,771</b>	<b>\$ (706)</b>	<b>\$ 8,065</b>

Depreciation expense was \$707 and \$706 for the years ended June 30, 2019 and 2018, respectively.

**GATORCARE HEALTH MANAGEMENT CORPORATION**  
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**(5) Health and Pharmacy Claims Paid:**

GatorCare contracts with third-party administrators for processing of health and pharmacy claims. For the years ended June 30, 2019 and 2018, health and pharmacy claims paid to third-party administrators totaled \$191,530,906 and \$183,465,248, respectively.

**(6) Administrative Expenses:**

The University and UF Health Shands perform various administrative functions on behalf of GatorCare, and GatorCare is billed for the related costs from these entities. For the years ended June 30, 2019 and 2018, total administrative expenses, net of reimbursements with the University and UF Health Shands was \$1,078,297 and \$1,006,222, respectively. As of June 30, 2019 and 2018, approximately \$419,000 and \$273,000, respectively, was due to UF Health Shands, and is included in administrative expenses payable on the statements of net position.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,  
GatorCare Health Management Corporation:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of GatorCare Health Management Corporation, which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 7, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered GatorCare Health Management Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of GatorCare Health Management Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of GatorCare Health Management Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether GatorCare Health Management Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James Moore, CPA, P.L." The signature is fluid and cursive, with "James" and "Moore" being the most prominent parts, followed by "CPA," a small comma, and "P.L."

Gainesville, Florida  
October 7, 2019