UNIVERSITY OF FLORIDA SELF-INSURANCE PROGRAM AND HEALTHCARE EDUCATION INSURANCE COMPANY

COMBINING FINANCIAL STATEMENTS

JUNE 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Governing Council and Board of Directors, respectively,
of the University of Florida Self-Insurance Program and the University of Florida
Healthcare Education Insurance Company:

Report on the Financial Statements

We have audited the accompanying combining financial statements of the University of Florida Self-Insurance Program (the "Program") and the University of Florida Healthcare Education Insurance Company ("HEIC"), operating units of the Florida Board of Governors, as of and for the year ended June 30, 2019, and the related notes to the combining financial statements, which collectively comprise the Program's and the HEIC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Program's and HEIC's 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 audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of 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.

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Opinion

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

Other Matters

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 7 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 August 19, 2019 on our consideration of the Program's and HEIC'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 the Program's and HEIC's internal control over financial reporting and compliance.

James Moore & Co., P.L.

Gainesville, Florida
August 19, 2019

UNIVERSITY OF FLORIDA SELF-INSURANCE PROGRAM AND
HEALTHCARE EDUCATION INSURANCE COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

This discussion provides an assessment by management of the current financial position and results of operations for University of Florida Self-Insurance Program ("the Program") and University of Florida Healthcare Education Insurance Company ("HEIC"). Management encourages readers to consider the information presented here in conjunction with additional information included in the accompanying financial statements and notes to the financial statements.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Program's basic financial statements, which consists of the statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows. This report also contains other supplementary information in addition to the basic financial statements.

The *statements of net position* present information on all of the Program and HEIC's assets and liabilities, with the difference between the two reported as the total net position. Increases or decreases in the reported net position may serve as a useful indicator of the Program and HEIC's financial position.

The *statements of revenues, expenses, and changes in net position* present information showing how the Program and HEIC's revenues and expenses affected the total net position during the current year. All revenue and expenses are recorded as soon as they have been incurred, regardless of the timing of related cash flows.

The *statements of cash flows* present information regarding the cash receipts and payments that occurred throughout the year. The statements show the cash effects of operating and investing transactions during a given period.

Summary of Net Position for the Self-Insurance Program

			2018-2019			2017-2018	
	2019	2018	Increase (decrease)	Percent change	2017	Increase (decrease)	Percent change
Assets							
Cash and cash equivalents	$ 1,704,763	$ 1,567,485	$ 137,278	8.76%	$ 3,841,112	$ (2,273,627)	(59.19)%
Investments, at fair value	221,062,378	207,550,607	13,511,771	6.51%	198,454,147	9,096,460	4.58%
Premiums and other receivables	777,300	16,662	760,638	4,565.11%	76,530	(59,868)	(78.23)%
Prepaids and other assets	282,830	341,137	(58,307)	(17.09)%	252,112	89,025	35.31%
Total Assets	**$223,827,271**	**$209,475,891**	**$ 14,351,380**	**6.85%**	**$ 202,623,901**	**$ 6,851,990**	**3.38%**
Liabilities							
Unpaid losses and loss adjustment expenses	$ 31,650,291	$ 32,212,428	$ (562,137)	(1.75)%	$ 30,831,655	$ 1,380,773	4.48%
Accounts payable and other liabilities	366,102	278,823	87,279	31.30%	633,837	(355,014)	(56.01)%
Investments due to HEIC	57,804,606	55,143,729	2,660,877	4.83%	54,031,413	1,112,316	2.06%
Total Liabilities	**89,820,999**	**87,634,980**	**2,186,019**	**2.49%**	**85,496,905**	**2,138,075**	**2.50%**
Net position	134,006,272	121,840,911	12,165,361	9.98%	117,126,996	4,713,915	4.02%
Total Liabilities and Net Position	**$223,827,271**	**$209,475,891**	**$ 14,351,380**	**6.85%**	**$202,623,901**	**$ 6,851,990**	**3.38%**

Assets

Investments increased approximately $13.5 million during this period. The increase is primarily the result of the approximate $17.4 million collectively returned on the investments during this year for both the Program and HEIC. In addition to the returns, there was a withdrawal of $4 million to assist with paying a significant claim that was done on behalf of both the Program and HEIC. The equity portion of the investments have been over performing, and the investment committee had allowed the equities to operate at the maximum of the allowable range stated in the investment policy. At the recommendation of the investment consultant and the approval of the investment committee chair, the allocations between the equities and fixed managers were rebalanced in March 2019 to get the investments closer to the allowable range of 30% equities and 70% fixed as stated in the investment policy.

Premiums and other receivables increased approximately $761,000 during this period. The increase is the result of one of the participant's inability to pay their third premium installment prior to June 30th, the premiums were paid and deposited in July 2019.

Liabilities

Investments due to HEIC increased approximately $2.7 million during this period largely due to the $17.4 million collectively returned on the investments during this year for both the Program and HEIC, approximately $4.3 million of those returns are designated to HEIC. In addition to the returns, there was a withdrawal of $4 million to assist with paying a significant claim that was done on behalf of both the Program and HEIC.

Summary of Net Position for the Healthcare Education Insurance Company

			2018-2019			2017-2018	
	2019	2018	Increase (decrease)	Percent change	2017	Increase (decrease)	Percent change
Assets							
Cash and cash equivalents	$ 1,076,896	$ 904,135	$ 172,761	19.11%	$ 1,804,281	$ (900,146)	(49.89)%
Premiums and other receivables	200,000	-	200,000	100.00%	-	-	- %
Prepaids and other assets	37,340	31,995	5,345	16.71%	28,132	3,863	13.73%
Investments due from Program	57,804,606	55,143,729	2,660,877	4.83%	54,031,413	1,112,316	2.06%
Total Assets	**$ 59,118,842**	**$ 56,079,859**	**$ 3,038,983**	**5.42%**	**$ 55,863,826**	**$ 216,033**	**0.39%**

			2018-2019			2017-2018	
	2019	2018	Increase (decrease)	Percent change	2017	Increase (decrease)	Percent change
Liabilities							
Unpaid losses and loss adjustment expenses	$ 2,645,001	$ 3,345,001	$ (700,000)	(20.93)%	$ 2,725,002	$ 619,999	22.75%
Accounts payable and other liabilities	1,504	8,372	(6,868)	(82.04)%	9,319	(947)	(10.16)%
Total Liabilities	**2,646,505**	**3,353,373**	**(706,868)**	**(21.08)%**	**2,734,321**	**619,052**	**22.64%**
Net position	56,472,337	52,726,486	3,745,851	7.10%	53,129,505	(403,019)	(0.76)%
Total Liabilities and Net Position	**$ 59,118,842**	**$ 56,079,859**	**$ 3,038,983**	**5.42%**	**$ 55,863,826**	**$ 216,033**	**0.39%**

Assets

Premiums and other receivables increased $200,000 during this period. This is the direct result of the periodic premium adjustment for the swing reinsurance premium program that was in effect between July 2016 and June 2019. Since there have been no losses paid into that reinsurers layer, the expected premium adjustment is currently a $200,000 receivable.

Investments due from Program increased approximately $2.7 million during this period. The increase is primarily the result of the approximate $17.4 million collectively returned on the investments during this year for both the Program and HEIC. In addition to the returns, there was a withdrawal of $4 million to assist with paying a significant claim that was done on behalf of both the Program and HEIC. The equity portion of the investments have been over performing, and the investment committee had allowed the equities to operate at the maximum of the allowable range stated in the investment policy. At the recommendation of the investment consultant and the approval of the investment committee chair, the allocations between the equities and fixed managers were rebalanced in March 2019 to get the investments closer to the allowable range of 30% equities and 70% fixed as stated in the investment policy.

Liabilities

Unpaid losses and loss adjustment expenses decreased approximately $700,000 during this period, largely due to the decrease in indemnity reserves for HEIC. At the end of the previous fiscal year, there was an outstanding indemnity reserve of $1 million that resolved during the current fiscal year. At the end of the current fiscal year, there is only a $200,000 indemnity reserve that impacts HEIC.

Combined Summary of Net Position

			2018-2019			2017-2018	
	2019	2018	Increase (decrease)	Percent change	2017	Increase (decrease)	Percent change
Assets							
Cash and cash equivalents	$ 2,781,659	$ 2,471,620	$ 310,039	12.54%	$ 5,645,393	$ (3,173,773)	(56.22)%
Investments, at fair value	221,062,378	207,550,607	13,511,771	6.51%	198,454,147	9,096,460	4.58%
Premiums and other receivables	977,300	16,662	960,638	5765.44%	76,530	(59,868)	(78.23)%
Prepaids and other assets	320,170	373,132	(52,962)	(14.19%)	280,244	92,888	33.15%
Investments due from Program	57,804,606	55,143,729	2,660,877	4.83%	54,031,413	1,112,316	2.06%
Total Assets	**$ 282,946,113**	**$ 265,555,750**	**$ 17,390,363**	**6.55%**	**$ 258,487,727**	**$ 7,068,023**	**2.73%**

			2018-2019			2017-2018	
	2019	2018	Increase (decrease)	Percent change	2017	Increase (decrease)	Percent change
Liabilities							
Unpaid losses and loss adjustment expenses	$ 34,295,292	$ 35,557,429	$ (1,262,137)	(3.55%)	$ 33,556,657	$ 2,000,772	5.96%
Accounts payable and other liabilities	367,606	287,195	80,411	28.00%	643,156	(355,961)	(55.35)%
Investments due to HEIC	57,804,606	55,143,729	2,660,877	4.83%	54,031,413	1,112,316	2.06%
Total Liabilities	**92,467,504**	**90,988,353**	**1,479,151**	**1.63%**	**88,231,226**	**2,757,127**	**3.12%**
Net position	190,478,609	174,567,397	15,911,212	9.11%	170,256,501	4,310,896	2.53%
Total Liabilities and Net Position	**$ 282,946,113**	**$ 265,555,750**	**$17,390,363**	**6.55%**	**$ 258,487,727**	**$ 7,068,023**	**2.73%**

Summary of Revenues, Expenses, and Changes in Net Position for the Self-Insurance Program

			2018-2019			2017-2018	
	2019	**2018**	**Increase (decrease)**	**Percent change**	**2017**	**Increase (decrease)**	**Percent change**
Operating Revenues							
Earned premiums, net	$ 9,016,532	$ 7,742,047	$ 1,274,485	16.46%	$ 8,476,257	$ (734,210)	(8.66)%
Investment income	13,070,908	7,519,481	5,551,427	73.83%	10,551,682	(3,032,201)	(28.74)%
Other income	1,028,131	881,395	146,736	16.65%	548,266	333,129	60.76%
Total operating revenues	**23,115,571**	**16,142,923**	**6,972,648**	**43.19%**	**19,576,205**	**(3,433,282)**	**(17.54)%**
Operating Expenses							
Losses and loss adjustment expenses, net	6,655,652	7,113,654	(458,002)	(6.44)%	4,856,219	2,257,435	46.49%
General and administrative expenses	4,294,558	4,315,354	(20,796)	(0.48)%	4,115,969	199,385	4.84%
Total operating expenses	**10,950,210**	**11,429,008**	**(478,798)**	**(4.19)%**	**8,972,188**	**2,456,820**	**27.38%**
Increase (decrease) in net position	12,165,361	4,713,915	7,451,446	158.07%	10,604,017	(5,890,102)	(55.55)%
Net position, beginning of year	121,840,911	117,126,996	4,713,915	4.02%	106,522,979	10,604,017	9.95%
Net position, end of year	**$ 134,006,272**	**$ 121,840,911**	**$ 12,165,361**	**9.98%**	**$117,126,996**	**$ 4,713,915**	**4.02%**

Total operating revenues increased by approximately $7.0 million during this period, this change is primarily the result of the performance of investments held with all investment managers. Although the unrealized gains were less by $3.1 million compared to the previous period, the interest income and realized gains for this period were $8.7 million more compared to the previous period.

Total operating expenses decreased by approximately $479,000 during this period. This decrease is the result of the decrease in losses and loss adjustment expenses, which is largely due to the decrease in the indemnity contingent liability expense related to the indemnity reserves changes for the current fiscal year.

Summary of Revenues, Expenses, and Changes in Net Position for the Healthcare Education Insurance Company

			2018-2019			2017-2018	
	2019	**2018**	**Increase (decrease)**	**Percent change**	**2017**	**Increase (decrease)**	**Percent change**
Operating Revenues							
Earned premiums, net	$ 721,800	$ 443,799	$ 278,001	62.64%	$ 465,050	$ (21,251)	(4.57)%
Investment income	4,346,176	1,744,318	2,601,858	149.16%	2,828,042	(1,083,724)	(38.32)%
Total operating revenues	**5,067,976**	**2,188,117**	**2,879,859**	**131.61%**	**3,293,092**	**(1,104,975)**	**(33.55)%**
Operating Expenses							
Losses and loss adjustment expenses, net	300,000	1,619,999	(1,319,999)	(81.48)%	(775,000)	2,394,999	309.03%
General and administrative expenses	1,022,125	971,137	50,988	5.25%	1,044,317	(73,180)	(7.01)%
Total operating expenses	**1,322,125**	**2,591,136**	**(1,269,011)**	**(48.98)%**	**269,317**	**2,321,819**	**862.11%**
Increase (decrease) in net position	3,745,851	(403,019)	4,148,870	1,029.45%	3,023,775	(3,426,794)	(113.33)%
Net position, beginning of year	52,726,486	53,129,505	(403,019)	(0.76)%	50,105,730	3,023,775	6.03%
Net position, end of year	**$ 56,472,337**	**$ 52,726,486**	**$ 3,745,851**	**7.10%**	**$ 53,129,505**	**$ (403,019)**	**(0.76)%**

Total operating revenues increased by approximately $2.9 million during this period, this change is primarily the result of the performance of investments held with all investment managers. The interest income, realized gains and unrealized gains for this period were $2.6 million more compared to the previous period.

Total operating expenses decreased approximately $1.3 million during this period. This is primarily the result of the reserve changes associated with a significant claim payment during this fiscal year, where a payment of $1 million was paid on behalf of HEIC and the correlating reserves were reduced. In addition, there was a $200,000 indemnity reserve set on behalf of HEIC for another significant claim.

Combined Summary of Revenues, Expenses, and Changes in Net Position

	2019	2018	2018-2019 Increase (decrease)	2018-2019 Percent change	2017	2017-2018 Increase (decrease)	2017-2018 Percent change
Operating Revenue							
Earned premiums, net	$ 9,738,332	$ 8,185,846	$ 1,552,486	18.97%	$ 8,941,307	$ (755,461)	(8.45)%
Investment income	17,417,084	9,263,799	8,153,285	88.01%	13,379,724	(4,115,925)	(30.76)%
Other income	1,028,131	881,395	146,736	16.65%	548,266	333,129	60.76%
Total operating revenues	**28,183,547**	**18,331,040**	**9,852,507**	**53.75%**	**22,869,297**	**(4,538,257)**	**(19.84)%**
Operating Expenses							
Losses and loss adjustment expenses	6,955,652	8,733,653	(1,778,001)	(20.36%)	4,081,219	4,652,434	114.00%
General and administrative expenses	5,316,683	5,286,491	30,192	0.57%	5,160,286	126,205	2.45%
Total operating expenses	**12,272,335**	**14,020,144**	**(1,747,809)**	**(12.47%)**	**9,241,505**	**4,778,639**	**51.71%**
Increase (decrease) in net assets	15,911,211	4,310,896	11,600,316	269.09%	13,627,792	(9,316,896)	(68.37)%
Net assets, beginning of year	174,567,397	170,256,501	4,310,896	2.53%	156,628,709	13,627,792	8.70%
Net assets, end of year	**$190,478,609**	**$ 174,567,397**	**$ 15,911,212**	**9.11%**	**$ 170,256,501**	**$ 4,310,896**	**2.53%**

Next Year

Operating expenses should remain closely related to the Program's size, volume of activity, and other adjustments consistent with the rate of future growth Salaries will increase 3% due to the approved performance based merit increase. The employee salary and fringe related expenses otherwise remain fairly stable with the previous year.

Contacting Management

This financial narrative is designed to provide the reader with a general overview of the University of Florida Self-Insurance Program and Healthcare Education Insurance Company's finances. If you have questions about this report or need additional information, please contact:

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UNIVERSITY OF FLORIDA SELF-INSURANCE PROGRAM
AND HEALTHCARE EDUCATION INSURANCE COMPANY
COMBINING STATEMENTS OF NET POSITION
JUNE 30, 2019

	University of Florida Healthcare Education Insurance Company	University of Florida Self-Insurance Program	Combined
Assets			
Cash and cash equivalents	$ 1,076,896	$ 1,704,763	$ 2,781,659
Investments	-	221,062,378	221,062,378
Premiums and other receivables	200,000	777,300	977,300
Prepaids and other assets	37,340	282,830	320,170
Investments due from Program	57,804,606	-	57,804,606
Total assets	59,118,842	223,827,271	282,946,113
Liabilities			
Unpaid losses and loss adjustment expenses, net	2,645,001	31,650,291	34,295,292
Accounts payable and other liabilities	1,504	366,102	367,606
Investments due to HEIC	-	57,804,606	57,804,606
Total liabilities	2,646,505	89,820,999	92,467,504
Net position			
Net position - unrestricted	$ 56,472,337	$ 134,006,272	$ 190,478,609

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

UNIVERSITY OF FLORIDA SELF-INSURANCE PROGRAM
AND HEALTHCARE EDUCATION INSURANCE COMPANY
COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	University of Florida Healthcare Education Insurance Company	University of Florida Self-Insurance Program	Combined
Operating revenues			
Earned premiums, net	$ 721,800	$ 9,016,532	$ 9,738,332
Investment income	4,346,176	13,070,908	17,417,084
Other income	-	1,028,131	1,028,131
Total operating revenues	5,067,976	23,115,571	28,183,547
Operating expenses			
Losses and loss adjustment expenses	300,000	6,655,652	6,955,652
General and administrative expenses	1,022,125	4,294,558	5,316,683
Total operating expenses	1,322,125	10,950,210	12,272,335
Increase in net position	3,745,851	12,165,361	15,911,212
Net position, beginning of year	52,726,486	121,840,911	174,567,397
Net position, end of year	$ 56,472,337	$ 134,006,272	$ 190,478,609

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

UNIVERSITY OF FLORIDA SELF-INSURANCE PROGRAM
AND HEALTHCARE EDUCATION INSURANCE COMPANY
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	University of Florida Healthcare Education Insurance Company	University of Florida Self-Insurance Program	Combined
Cash flows from operating activities			
Revenue collected:			
Earned premiums	$ 521,800	$ 8,255,894	$ 8,777,694
Investment income	1,679,954	3,051,927	4,731,881
Other income	-	1,028,131	1,028,131
Payments for expenses:			
Losses and loss adjustment expenses	(1,000,004)	(7,217,785)	(8,217,789)
General and administrative expenses	(1,028,993)	(4,148,972)	(5,177,965)
Net cash provided by operating activities	172,757	969,195	1,141,952
Cash flows from investing activities			
Purchases of investments	-	(38,850,904)	(38,850,904)
Proceeds from sales of investments	-	38,018,991	38,018,991
Net cash used in investing activities	-	(831,913)	(831,913)
Net increase in cash and cash equivalents	172,757	137,282	310,039
Cash and cash equivalents, beginning of year	904,135	1,567,485	2,471,620
Cash and cash equivalents, end of year	$ 1,076,892	$ 1,704,767	$ 2,781,659
Reconciliation of increase in net position to net cash provided by operating activities:			
Increase in net position	$ 3,745,851	$ 12,165,361	$ 15,911,212
Adjustments to reconcile increase in net position to net cash provided by operating activities:			
Net realized gains on sales of investments	-	(9,981,792)	(9,981,792)
Net decrease in unrealized gains of investments	-	(2,698,066)	(2,698,066)
Changes in assets and liabilities:			
Premiums and other receivables	(200,000)	(760,638)	(960,638)
Prepaids and other assets	(5,345)	58,307	52,962
Due to/from HEIC and Program	(2,660,877)	2,660,877	-
Unpaid losses and loss adjustment expenses	(700,004)	(562,133)	(1,262,137)
Accounts payable and accrued expenses	(6,868)	87,279	80,411
Total adjustments	(3,573,094)	(11,196,166)	(14,769,260)
Net cash provided by operating activities	$ 172,757	$ 969,195	$ 1,141,952

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

(1) Organization and Significant Accounting Policies:

The following is a summary of the more significant accounting policies of the University of Florida Self-Insurance Program (the "Program") and Healthcare Education Insurance Company ("HEIC") which affect significant elements of the accompanying financial statements:

(a) **Organization**—The Florida Board of Regents, succeeded by the Florida Board of Governors (the "Board"), pursuant to Section 1004.24 (originally Section 240.213) of the Florida Statutes, created the University of Florida ("UF" or the "University") J. Hillis Miller Health Center/Self-Insurance Program ("Gainesville") and the UF J. Hillis Miller Health Center/Jacksonville Self-Insurance Program ("Jacksonville"), collectively the UF Self-Insurance Program. Effective July 1, 2006, the Board revised Regulation 6C-10.001(1) to combine the Gainesville and Jacksonville Programs (the "Program"). The Program's purpose is to provide comprehensive general liability and professional liability (malpractice) coverage for UF and affiliated teaching hospitals that are providing education in health care or veterinary services.

The Program's Council administers the Program as authorized by Florida Statutes on behalf of the Board. The Program is a component unit (for accounting purposes only) of UF. The net position of the program can only be used to pay claims and administrative expenses of the Program, based upon Florida Statute 1004.24(3).

Prior to October 1, 2011, the Program provided the Board and the Trustees with protection of \$100,000 per claim and \$200,000 for all claims arising from a single occurrence; \$100,000 per claim and \$200,000 for all claims arising from the acts and omissions of students of the colleges protected by the Program engaged in assigned activities at affiliated hospitals or other healthcare affiliates, and this student professional liability coverage may be increased subject to a \$1,000,000 limit per occurrence if higher limits of liability are required by an affiliated hospital or healthcare affiliate; \$2,000,000 per occurrence in the event that the personal immunity to tort claims as described in Section 768.28(9), Florida Statutes, is inapplicable as to an employee or agent of Trustees while such employee or agent functions within the course and scope of his or her employment or agency; and \$500,000 for employees who act as a Good Samaritan or are engaged in approved Community Service. The Program also provides \$2,000,000 per occurrence to protected entities not subject to the immunities of s. 768.28, Florida Statutes. However, effective July 1, 2011, the Program had no non-immune protected entities, for as of that date, Shands Teaching Hospital and Clinics, Inc., and Shands Jacksonville Medical Center, Inc., were statutorily recognized as entitled to sovereign immunity. In response to the Florida Legislature increasing the limits of liability contained in s. 768.28, Florida Statutes, effective October 1, 2011, the limits of protection for sovereign immune entities rose to \$200,000 per claim and \$300,000 for all claims arising from a single occurrence. In the event the Florida Legislature approves a claims bill payable by a protected entity, the Program provides coverage of \$1,000,000, inclusive of any payments made pursuant to the waiver of immunity limits (i.e. \$200,000/\$300,000). Under this claims-incurred policy written directly with the Program participants, protection is provided against claims that arise from incidents occurring during the term of the policies irrespective of the time the claim is asserted.

(1) **Organization and Significant Accounting Policies:** (Continued)

In 1994, the then Board of Regents promulgated Rule 6C-10.001(4) of the Florida Administrative Code (now Board of Governors Regulation 10.001(2)), which authorized the formation of the Healthcare Education Insurance Company ("HEIC"). HEIC is wholly owned by the Board and is domiciled in Vermont. HEIC writes coverage for the participants in the Program for loss exposure above the Program's retention. HEIC obtains excess loss reinsurance coverage (claims-made basis) from commercial insurance carriers (Note 4) for certain layers of exposure. Pursuant to HEIC's corporate bylaws, there is a prohibition on the payment of dividends.

(b) **Basis of reporting—**The financial statements of the Program and HEIC are presented combined because the Program, as an operating unit of the Board, combines investments from both the Program and from HEIC to achieve the highest maximum return. Because the Program maintains financial records separately for each of the Program and HEIC, it is important to distinguish and separately report investment ownership while still reporting the combined investments, as all funds are the property of the Board.

The Program and HEIC distinguish operating revenues and expenses from non-operating items. Operating revenues are those revenues that are generated from the primary operations of the Program and HEIC, including investment income. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the Program and HEIC. All other expenses are reported as non-operating expenses. For the year ended June 30, 2019, all revenues and expenses of the Program and HEIC were considered to be operating revenues and operating expenses.

The Program and HEIC follow 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 and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, an amendment of 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.

The Program and HEIC are not regulated by the Florida Office of Insurance Regulation and, accordingly, do not report on the basis of statutory accounting practices. HEIC is domiciled in the State of Vermont and is regulated by and files an annual report with the State of Vermont Department of Financial Regulation.

(c) **Cash and cash equivalents**—For purposes of reporting cash flows, cash and cash equivalents include cash, money market funds, and deposits with original maturity dates of 90 days or less when purchased.

(d) **Investments—**Investment transactions are accounted for on a trade date basis. The cost of investments sold is determined by specific identification. The Program does not have any derivative investments.

(1) **Organization and Significant Accounting Policies:** (Continued)

The Program's and HEIC's governing bodies have adopted an investment policy that identifies various authorized investment instruments, issuer diversification, and liquidity parameters. The Program and HEIC may be invested with no limitation in any security described in either Section 17.57(2) or Section 215.47(1), Florida Statutes. Subject to the investment percentage limitations described therein, the Program may be invested in the securities described in Section 215.47(2), (3), (4), (5), and (6), Florida Statutes. All holdings of investment must be of sufficient size in issues actively traded to ensure marketability and liquidity to facilitate transactions at minimum cost and to permit accurate market valuations.

(e) **Investments due to HEIC or due from Program—**The Program Council and the HEIC Board of Directors have approved a program whereby HEIC may contribute cash to the Program in exchange for a participation in the investment return of the investment portfolio held by the Program. HEIC's participation percentage can fluctuate when either HEIC or the Program contributes to, or withdraws from, the Program's investment portfolio. HEIC's share of realized gains and losses, interest income, and fluctuations in unrealized gains and losses are calculated monthly and are recorded as increases in or decreases to the related investments due to (from) accounts on the combining balance sheet and are reflected in investment income, net on the combining statement of revenues, expenses and changes in net position.

(f) **Premiums and other receivables—**Premiums written directly, net of premiums ceded pursuant to reinsurance agreements, are earned ratably over the terms of the underlying policies. All renewal policies are written for a one-year term and expire on June 30 of each year.

Premiums receivable includes premiums due from the participants and premiums recoverable from reinsurers for swing rated contracts.

(g) **Reinsurance—**Reinsurance recoverable on unpaid losses represents amounts owed to HEIC from its reinsurers for incurred but unpaid losses, and is reported as a reduction of unpaid losses and loss adjustment expenses. HEIC insures the participants in the program and is reinsured by other insurance companies. Amounts recoverable from reinsurers pursuant to reinsurance agreements have been estimated using actuarial assumptions consistent with those used in establishing the liability for losses and loss adjustment expenses ("LAE"), as described below.

Management believes the reinsurance recoverable as recorded represents its best estimate of such amount; however, as changes in the estimated ultimate liability for losses and LAE are determined, the estimated ultimate amount recoverable from reinsurers may also change. Accordingly, the ultimate recoverable could be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Management evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. Reinsurance contracts do not relieve HEIC from its obligations to policyholders. The Program and HEIC remain obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

(1) **Organization and Significant Accounting Policies:** (Continued)

(h) **Reserves for losses and loss adjustment expenses—**The reserves for unpaid losses and LAE include case basis estimates of reported losses, plus supplemental amounts for incurred but not reported losses ("IBNR") calculated based upon loss projections utilizing certain actuarial assumptions and studies of the Program's and HEIC's historical loss experience and industry statistics. Management believes that its aggregate liability for unpaid losses and LAE at year-end represents its best estimate of the amount necessary to cover the ultimate cost of claims based upon an actuarial analysis prepared by a consulting actuary. Considerable uncertainty and variability are inherent in such estimates, and accordingly, the subsequent development of these reserves may not conform to the assumptions inherent in the determination. In addition, both general and medical professional liability are long-tail lines of insurance subject to considerable loss variability attributable to social, economic and legal considerations that are not directly quantifiable. Accordingly, the ultimate liability could be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

(i) **Income taxes—**The Program and HEIC are operating units of the Board of Governors, the State University System of Florida. Accordingly, they are exempt from Federal income taxes. Any taxable income is aggregated at the University level and taxes paid, if any, are paid by the University.

(j) **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 revenues and expenses during the reporting period, accordingly, results could differ from those estimates.

(k) **Common stock**—HEIC has common stock, par value $100,000 per share; one share authorized, issued and outstanding. The common stock is included in net position on the combining statements of net position.

(l) **Significant concentrations—**Information related to significant concentrations of revenues and credit risk for financial instruments owned by the Program and HEIC, except as otherwise disclosed, is as follows:

(i) **Cash and cash equivalents—**The Program and HEIC have demand deposits held at financial institutions which are secured up to FDIC limits. Amounts over FDIC limits are secured by collateral held by the financial institution that is pledged to the State of Florida Public Deposits Trust Fund. These deposits amounted to $3,140,484 as of June 30, 2019.

(ii) **Premiums and other receivables**—The Program and HEIC have premiums and other receivables of $977,300 at June 30, 2019. The Program and HEIC have no policy requiring collateral or other security to support these amounts. However, management does not believe the Program and HEIC are exposed to any significant credit risk.

(m) **Recent accounting pronouncements**—GASB issued Statement No. 87, Leases, in June 2017. GASB 87 aims to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The provisions in GASB 87 are effective for periods beginning after December 15, 2019. The Program is currently evaluating the impact this statement will have on its financial statements.

(2) Investments:

The Program's investments are recorded at fair value and consist entirely of investments in mutual funds at June 30, 2019.

Equity mutual fund investments consist only of shares owned in Blackrock U.S. Equity Market Fund. Bond mutual fund investments consist of shares owned in Putnam Intermediate U.S. Investment Grade Fund, LLC, Western Asset Intermediate Bond Index Fund and Pimco Moderate Duration Fund.

The Program 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.

The Entity has the following recurring fair value measurements as of June 30, 2019:

- Mutual funds – Valued at the daily closing price as reported by the fund. Mutual funds that are registered with the Securities and Exchange Commission are considered Level 1 in the fair value hierarchy. Unregistered mutual funds are considered Level 2 in the fair value hierarchy.

The following table summarizes the assets and liabilities of the Program for which fair values are determined on a recurring basis as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Investments				
Equity mutual funds				
Domestic equity funds	$ 23,037,200	$ 44,844,624	$ -	$ 67,881,824
Bond mutual funds				
Intermediate term bond funds	109,495,858	43,684,696	-	153,180,554
Total investments at fair value	$ 132,533,058	$ 88,529,320	$ -	$ 221,062,378

The following risks apply to the Program's and HEIC's investments:

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Program's investments in bond mutual funds are subject to interest rate risk. The effective average duration of the Program's investments in bond mutual funds as of June 30, 2019 range from 1.40 years to 4.96 years.

(2) **Investments:** (Continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Obligations of the United States government or obligations explicitly guaranteed by the United States government are not considered to have credit risk (by the GASB) and do not require disclosure of credit quality. At June 30, 2019, the Program held bond mutual funds which have underlying investments with quality ratings by nationally recognized rating agencies as shown below.

	Fair Value	AAA/Aaa	AA/Aa	A/Ba	Less Than A/Ba or Not Rated
Bond mutual funds	$ 153,180,554	$ 57,503,418	$ 52,879,978	$ 27,046,114	$ 15,751,044

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty to a transaction, the Program will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk relates to investment securities that are held by someone other than the Program and are not registered in the Program's name. The Program has not identified any investments falling into this category as of June 30, 2019.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Program's investments in a single issuer. The Program places no limit on the amount it may invest in any one issuer. Investments that consist of more than 5% of the Program's investments at June 30, 2019 are shown below.

	Fair Value	Percent of Program's Total Investments
Putnam Intermediate U.S. Investment Grade Fund, LLC	$ 43,684,694	20%
Pimco Moderate Duration Fund	43,193,228	20
Western Asset Intermediate Bond Index	43,671,274	20
Western Asset Total Return Uncons	22,631,358	10
Blackrock U.S. Equity Market Fund	44,844,624	20
Ishares Edge Mscl Min Vol	23,037,198	10
	$ 221,062,378	100%

The Program's formal investment policy in place does not specifically address any of the types of risks identified above.

(3) Insurance Activity:

Premium activity for the year ended June 30, 2019 is summarized as follows:

	Direct and Assumed	Ceded	Net
Program			
Premiums written	$ 9,495,579	$ 479,047	$ 9,016,532
Premiums earned	$ 9,495,579	$ 479,047	$ 9,016,532
HEIC			
Premiums written	$ 1,980,300	$ 1,258,500	$ 721,800
Premiums earned	$ 1,980,300	$ 1,258,500	$ 721,800

The following table provides a reconciliation of the beginning and ending reserve balances for losses and LAE:

	Program	HEIC	Combined
Gross balances at July 1, 2018	$ 32,212,428	$ 6,071,138	$ 38,283,566
Less: Reinsurance recoverable on unpaid losses	-	2,726,137	2,726,137
Net balances at July 1	32,212,428	3,345,001	35,557,429
Incurred related to:			
Current year	9,750,000	400,000	10,150,000
Prior years	(3,094,348)	(100,000)	(3,194,348)
Total incurred losses and LAE	6,655,652	300,000	6,955,652
Paid related to:			
Current year	769,368	-	769,368
Prior years	6,448,421	1,000,000	7,448,421
Total paid losses and LAE	7,217,789	1,000,000	8,217,789
Net balances at June 30	31,650,291	2,645,001	34,295,292
Plus: Reinsurance recoverable on unpaid losses	-	2,866,143	2,866,143
Gross balances at June 30, 2019	$ 31,650,291	$ 5,511,144	$ 37,181,435

The estimate of the liability for losses and loss adjustment expenses by loss year is subject to change until all claims for each loss year are closed. As a result of changes in estimates and insured events in prior years, the net loss and loss adjustment expenses incurred for the Program decreased due to refinements to prior years' ultimate loss projections.

(3) **Insurance Activity:** (Continued)

The components of the liability for gross losses and LAE are as follows at June 30, 2019:

	Program	HEIC	Combined
Case-basis reserves	$ 12,381,334	$ 200,000	$ 12,581,334
Supplemental reserves	19,268,957	5,531,144	24,800,101
Total	$ 31,650,291	$ 5,731,144	$ 37,381,435

Losses and a pro-rata share of allocated LAE on such losses are reinsured under a primary excess of loss reinsurance contract. The insurance coverage provided to the participants of the Program is subject to certain retention levels by the Program which are summarized in Note 1. In excess of these limits, HEIC provides excess of loss coverage directly to the participants in the Program.

(4) **Reinsurance:**

The insurance coverage provided to the participants in the Program is subject to certain retention levels by the Program which are $1,000,000 each loss if covered under Chapter 768.28 of the Florida Statutes ("immune" participants, including the Board and the Trustees) or $2,000,000 each loss if not covered under Chapter 768.28 of Florida Statutes ("non-immune" participants, including non-university employees or agents).

The Florida Legislature has deemed both Shands Teaching Hospital and Clinics, Inc., and Shands Jacksonville Medical Center, Inc., to be instrumentalities of the State of Florida and effective July 1, 2011; both entities are subject to sovereign immunity as described in Section 768.28, of the Florida Statutes.

In excess of these limits, HEIC provides excess loss coverage directly to the participants in the Program. The HEIC retained layer provides loss coverage for medical professional liability, patient general liability and managed care errors and omissions liability for the period July 1, 2017 through June 30, 2018 and July 1, 2018 through June 30, 2019 on an occurrence basis. The HEIC retained layer provides $4,000,000 for each loss for immune participants and, $3,000,000 for each loss for non-immune participants. The first excess layer provides $10,000,000 for each loss and in the aggregate in excess of the HEIC retained layer. The second excess layer provides $20,000,000 for each loss and in the aggregate in excess of the first excess layer. The third excess layer provides $20,000,000 for each loss and in the aggregate in excess of the second excess layer. The fourth excess layer provides $50,000,000 for each loss and in the aggregate in excess of the third excess layer.

HEIC also provides access to reinsurance coverage to the Florida State University College of Medicine Self-Insurance Program ("FSUSIP"), the Florida International University College of Medicine Self-Insurance Program ("FIUSIP"), the Florida Atlantic University College of Medicine Self-Insurance Program ("FAUSIP") and the University of Central Florida College of Medicine Self-Insurance Program ("UCFSIP") for medical professional liability, patient general liability and managed care errors and omissions liability in excess of the retained $1,000,000 per occurrence for the period from July 1, 2018

(4) **Reinsurance**: (Continued)

through June 30, 2019 on a claims-made basis as follows: $5,000,000 each loss and in the aggregate separately for the FSUSIP, the FIUSIP, the FAUSIP and the UCFSIP; $15,000,000 in the aggregate for the FSUSIP, the FIUSIP, the FAUSIP and the UCFSIP combined.

By action of HEIC's Board of Directors at its September 20, 2011 meeting, liabilities that are retained by HEIC will, effective July 1, 2011, be underwritten on a claims-incurred basis. Coverage that is reinsured will continue to be underwritten on a claims-made basis.

In preparing financial statements, management makes estimates of amounts receivable from reinsurers expected to be uncollectible based on an assessment of factors including the creditworthiness of the reinsurers. Management evaluated the creditworthiness of its reinsurers and determined that no specific valuation allowance was required at the balance sheet date. At June 30, 2019, management did not believe there was a material risk of loss in its reinsurance program.

(5) **Related Party Transactions:**

The Program and HEIC provide insurance coverage to related parties, including Shands Jacksonville, Shands Gainesville and the UF College of Medicine. Total primary premiums and the Neurological Injury Compensation Association fees from these entities with respect to this coverage for Program for the year ended June 30, 2019 were approximately $1,557,754, $2,935,061 and $3,684,334, respectively. Total retained premiums, brokerage fees, excess premiums and premium taxes received from these entities with respect to this coverage for HEIC for the year ended June 30, 2019 were $458,772, $634,084 and $672,520, respectively.

UF serves as the pay agent for staff who are paid from UF HEIC. On a regular basis UF HEIC transfers monies to UF to cover staff salaries and benefits. UF HEIC also pays UF a fair market fee for serving as their payroll administrator. Total salaries and benefits paid, which are included in operating expenses in the combining statement of revenues, expenses and changes in net position, totaled $4,209,913 for the year ended June 30, 2019. These payments, included in cash and cash equivalents in the combining balance sheet, had a balance of $1,412,584 as of June 30, 2019.

The total fees charged by the Program to FSUSIP, UCFSIP, FIUSIP, and FAUSIP, collectively, were $1,024,144 for the year ended June 30, 2019 for administrative services, and is recorded in other income in the combining statements of revenues, expenses, and changes in 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 Governing Council and Board of Directors, respectively,
of the University of Florida Self-Insurance Program and the University of Florida
Health Education Insurance Company:

We have audited, in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Florida Self-Insurance Program (the "Program", an operating unit of the Florida Board of Governors) and the University of Florida Health Education Insurance Company (HEIC) as of June 30, 2019, and the related notes to the financial statements, which collectively comprise the Program's and HEIC's basic financial statements, and have issued our report thereon dated August 19, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's and HEIC'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 the Program's and HEIC's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's and HEIC'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's and HEIC's financial statements are free of 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.

James Moore & Co., P.L.

Gainesville, Florida
August 19, 2019