

**FLORIDA ATLANTIC UNIVERSITY COLLEGE OF
MEDICINE SELF-INSURANCE PROGRAM**

FINANCIAL STATEMENTS

JUNE 30, 2012

**FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
SELF-INSURANCE PROGRAM
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JUNE 30, 2012**

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JAMES MOORE & CO., P.L.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Governing Council,
Florida Atlantic University College of Medicine Self-Insurance Program:

We have audited the accompanying financial statements of the Florida Atlantic University College of Medicine Self-Insurance Program (the "Program", an operating unit of the Florida Board of Governors), as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Program's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2012, on our consideration of the Program'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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.

James Moore & Co., P.L.

Gainesville, Florida
August 28, 2012

**FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
SELF-INSURANCE PROGRAM
MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

This discussion provides an assessment by management of the current financial position, which happens to be the Program’s first year in operation, and results of operations for FAU College of Medicine Self-Insurance Program. 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 balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. This report also contains other supplementary information in addition to the basic financial statements.

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

The *statements of revenues, expenses and changes in net assets* present information showing how the Program’s revenues and expenses affected the total net assets 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 financing transactions during a given period.

Summary of Net Assets

| | 2012 |
|--|------------------|
| Assets | |
| Cash and cash equivalents | \$ 1,137,316 |
| Total Assets | \$ 1,137,316 |
| Liabilities | |
| Unpaid losses and loss adjustment expenses | \$ 23,618 |
| Accounts payable and accrued expenses | 6,098 |
| Due to UF Self-Insurance Program | 46,767 |
| Total Liabilities | 76,483 |
| Net Assets | 1,060,833 |
| Total Liabilities and Net Assets | \$ 1,137,316 |

**FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
 SELF-INSURANCE PROGRAM
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2012
 (Continued)**

Assets

Cash and cash equivalents were approximately \$1.1 million during the Program's first year in operation. This was due to the \$1 million in capitalization the participants contributed to the Program. The additional \$100,000 is attributable to the participants paying in full their entire premium receivable.

Liabilities

Unpaid losses and loss adjustment expenses were approximately \$24,000, which was related to incorporating the first initial year into the calculation of the Incurred but Not Reported Reserves (IBNR).

Accounts payable were approximately \$6,000, which is related to the 2012 reinsurance/claims bill premiums and Vermont premium taxes due to the University of Florida Healthcare Education Insurance Company, and had not been reimbursed by the Program by the close of the fiscal year.

Due to the University of Florida Self-Insurance program was approximately \$47,000, primarily because the FAU Self-Insurance Program had not repaid any of the 2011/2012 contractual fees and expenses due to the University of Florida Self-Insurance Program by the close of the fiscal year.

Summary of Revenues, Expenses, and Changes in Net Assets

| | 2012 |
|--|---------------------|
| Operating Revenue | |
| Earned premiums, net | \$ 129,429 |
| Investment income | 1,788 |
| Total operating revenues | 131,217 |
| Operating Expenses | |
| Losses and loss adjustment expenses | 23,618 |
| General and administrative expenses | 46,766 |
| Total operating expenses | 70,384 |
| Increase (decrease) in net assets | 60,833 |
| Net assets, beginning of year | - |
| Capital contribution | 1,000,000 |
| Net assets, end of year | \$ 1,060,833 |

Operating Revenues were approximately \$131,000 during 2012. The majority of this amount was related to the Program's first year of Earned Premiums.

**FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
SELF-INSURANCE PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012
(Continued)**

Operating Expenses were approximately \$70,000 in 2012. These expenses were related to the loss adjustment expenses and the general and administrative expenses incurred during the first year of the Program's existence.

Next Year

It is expected that an additional \$500,000 will be contributed to capitalization during the year, which in turn will increase the net assets at the end of 2013. If premiums increase, they will increase consistently with the projected growth for the FAU College of Medicine.

Operating expenses should remain closely related to the Program's size, volume of activity, and other adjustments consistent with the rate of future growth.

Contacting Management

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

FAU College of Medicine Self-Insurance Program
c/o UF Self-Insurance Program
P.O. Box 112735
Gainesville, FL 32611
(352) 273-7006

**FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
SELF-INSURANCE PROGRAM
BALANCE SHEET
JUNE 30, 2012**

ASSETS

| | |
|---------------------------|---------------------|
| Assets | |
| Cash and cash equivalents | \$ 1,137,316 |
| Total Assets | <u>\$ 1,137,316</u> |

LIABILITIES AND NET ASSETS

| | |
|---|---------------------|
| Liabilities | |
| Unpaid losses and loss adjustment expenses | \$ 23,618 |
| Accounts payable and accrued expenses | 6,098 |
| Due to the University of Florida Self-Insurance Program | 46,767 |
| Total liabilities | <u>76,483</u> |
| Net Assets | |
| Net assets | 1,060,833 |
| Total Liabilities and Net Assets | <u>\$ 1,137,316</u> |

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

**FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
 SELF-INSURANCE PROGRAM
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2012**

| | |
|--------------------------------------|----------------------------|
| Operating Revenues | |
| Earned premiums, net | \$ 129,429 |
| Investment income | 1,788 |
| Total operating revenues | <u>131,217</u> |
| Operating Expenses | |
| Losses and loss adjustment expenses | 23,618 |
| General and administrative | 46,766 |
| Total operating expenses | <u>70,384</u> |
| Increase in net assets | <u>60,833</u> |
| Net assets, beginning of year | - |
| Capital contribution | 1,000,000 |
| Net assets, end of year | <u><u>\$ 1,060,833</u></u> |

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

**FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
SELF-INSURANCE PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

| | |
|---|--------------------------------|
| Cash flows from operating activities | |
| Revenue collected: | |
| Earned premiums | \$ 129,429 |
| Investment income | 1,788 |
| Payments for expenses: | |
| General and administrative expenses | 6,099 |
| Net cash provided by operating activities | <u>137,316</u> |
| Cash flows from financing activities | |
| Contribution to capital | 1,000,000 |
| Net increase in cash and cash equivalents | <u>1,137,316</u> |
| Cash and cash equivalents, beginning of year | - |
| Cash and cash equivalents, end of year | <u><u>\$ 1,137,316</u></u> |
| Cash flows from operating activities | |
| Increase in net assets | <u>\$ 60,833</u> |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | |
| Changes in assets and liabilities: | |
| Accounts payable and accrued expenses | 6,098 |
| Unpaid losses and loss adjustment expenses | 23,618 |
| Due to the University of Florida Self-Insurance Program | 46,767 |
| Total adjustments | <u>76,483</u> |
| Net cash provided by operating activities | <u><u>\$ 137,316</u></u> |

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

FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
SELF-INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

The following is a summary of the more significant accounting policies of Florida Atlantic University Self-Insurance Program (the “Program”) which affect significant elements of the accompanying financial statements:

(a) **Organization**—The Florida Board of Governors (the “Board”), pursuant to Section 1004.24, created the Florida Atlantic University (“FAU” or the “University”) College of Medicine Self-Insurance Program (the “Program”). The Program’s purpose is to provide comprehensive general liability and professional liability (malpractice) coverage for the educational, research and service programs of the FAU College of Medicine and College of Nursing, and FAU Health Services, FAU Counseling and Psychological Services, and FAU Clinical Practice Organization, Inc.

The Program’s Council administers the Program as authorized by Florida Statutes on behalf of the Board. The Program is an operating unit of the Board. The Program is a component unit (for accounting purposes only) of FAU. The net assets 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 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; \$250,000 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 \$250,000 for employees who act as a Good Samaritan or are engaged in approved Community Service. In response to the Florida Legislature increasing the limits of liability contained in s. 768.28, Florida Statutes, effective October 1, 2011, the Program raised the limits of protection for sovereign immune entities to \$200,000 per claim and \$300,000 for all claims arising from a single occurrence. 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.

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 University of Florida 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 for certain layers of exposure.

(b) **Basis of reporting**—The financial statements of the Program 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.

The Program distinguishes operating revenues and expenses from non-operating items. Operating revenues are those revenues that are generated from the primary operations of the Program, 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. All other expenses are reported as non-operating expenses. For the year ended June 30, 2012, all revenues and expenses of the Program were considered to be operating revenues and operating expenses.

FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
SELF-INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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

The Program follows all pronouncements of the Governmental Accounting Standards Board ("GASB"), and has elected to follow Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The Program 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 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 is not regulated by the Florida Office of Financial Regulation and, accordingly, does not report on the basis of statutory accounting principles.

(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) **Premiums**—Premiums written directly 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.

(e) **Reserves for losses and loss adjustment expenses**—The reserves for unpaid losses and loss adjustment expenses ("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 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.

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

**FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
SELF-INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

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

(g) **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.

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

(i) **Cash and cash equivalents**—The Program has demand deposits held at financial institutions that are secured up to FDIC limits. Amounts over FDIC limits are secured by collateral held by the financial institution which is pledged to the State of Florida Public Deposits Trust Fund. These deposits amounted to \$1,137,316 as of June 30, 2012.

(ii) **Accounts and premiums receivable**—The Program has no premiums or accounts receivable at June 30, 2012.

(i) **Subsequent events**—The Program has evaluated events and transactions for potential recognition or disclosure in the financial statements through August 28, 2012, the date the financial statements were available to be issued.

(2) **Insurance Activity:**

Premium activity for the years ended June 30, 2012 is summarized as follows:

| | <u>Direct</u> | <u>Ceded</u> | <u>Net</u> |
|----------------------|-------------------|-----------------|-------------------|
| June 30, 2012 | | | |
| Premiums written | \$ 135,504 | \$ 6,075 | \$ 129,429 |
| Premiums earned | <u>\$ 135,504</u> | <u>\$ 6,075</u> | <u>\$ 129,429</u> |

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

| | |
|-------------------------------|------------------|
| Balances at July 1 | \$ - |
| Incurred related to: | |
| Current year | 23,618 |
| Prior years | - |
| Total incurred losses and LAE | <u>23,618</u> |
| Paid related to: | |
| Current year | - |
| Prior years | - |
| Total paid losses and LAE | <u>-</u> |
| Balances at June 30 | <u>\$ 23,618</u> |

**FLORIDA ATLANTIC UNIVERSITY COLLEGE OF MEDICINE
 SELF-INSURANCE PROGRAM
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2012**

(2) **Insurance Activity:** (Continued)

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 decreased due to refinements to prior years' ultimate loss projections. The Program is in its first year of existence, and therefore there is no favorable development related to previously established reserves.

The components of the liability for gross losses and LAE are as follows:

| | |
|-----------------------|-------------------------|
| Case-basis reserves | \$ - |
| Supplemental reserves | <u>23,618</u> |
| Total | <u><u>\$ 23,618</u></u> |

(3) **Related Party Transactions:**

The Program maintains an agreement with the University of Florida Self-Insurance Program (“UFSIP”), whereby UFSIP provides administrative services to the Program. The total fees charged to the Program were \$46,701 in 2012.

The Program provides liability protection to the Trustees acting on behalf of the FAU College of Medicine, College of Nursing, and the FAU Health Services. Total earned premiums for the year ended June 30, 2012 of \$129,429, are all associated with these related entities.

**INDEPENDENT AUDITORS' 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,
Florida Atlantic University College of Medicine Self-Insurance Program:

We have audited the financial statements of the Florida Atlantic University College of Medicine Self-Insurance Program (the "Program", an operating unit of the Florida Board of Governors) as of and for the year ended June 30, 2012, and have issued our report thereon dated August 28, 2012. 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 of America.

Internal Control over Financial Reporting

Management of the Program is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Program's internal control over financial reporting as a basis for designing our auditing procedures 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over financial reporting.

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program'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*.

We noted certain matters that we reported to management of the Program in a separate letter dated August 28, 2012.

This report is intended solely for the information and use of management, others within the entity, the governing council, and the Board of Trustees of Florida Atlantic University, and is not intended to be and should not be used by anyone other than these specified parties.

James Moore & Co., P.L.

Gainesville, Florida
August 28, 2012