

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**FACULTY ASSOCIATES, INC.
GAINESVILLE, FLORIDA**

JUNE 30, 2013

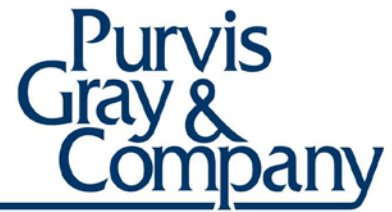
**FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT**

**FACULTY ASSOCIATES, INC.
GAINESVILLE, FLORIDA**

JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Faculty Associates, Inc.
Gainesville, Florida

We have audited the statements of net position, statements of revenues, expenses and changes in net position, and the statements of cash flows of Faculty Associates, Inc. (the Corporation), a component unit of the University of Florida, as of June 30, 2013 and 2012 and for the years then ended.

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 the 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 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 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 auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant of the Corporation'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 Corporation'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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
Faculty Associates, Inc.
Gainesville, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2013 and 2012, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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 operation, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on page 13 is presented for the purpose of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of the Corporation's management. Such information has not been subjected to the auditing procedures applied to our audit of the financial statements and, accordingly, we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2013, on our consideration of the Corporation's internal control over financial reporting and 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 the 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.

Purvis, Gray and Company, LLP

September 17, 2013
Gainesville, Florida

**MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012**

This section of the Faculty Associates, Inc. (the Corporation) Annual Report presents management’s discussion and analysis of the Corporation’s financial performance during the fiscal year ended June 30, 2013. The discussion and analysis of the Corporation’s financial statements provides an overview of its financial activities for the year ended June 30, 2013. The discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with and is qualified in its entirety by the financial statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

While maintaining its financial health is crucial to the long-term visibility of the Corporation, the primary mission of the Corporation is to bill and collect clinical professional fees to fund the educational, clinical and research missions of the College of Dentistry of the University of Florida. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs of the College of Dentistry.

FINANCIAL HIGHLIGHTS

- Professional fees decreased by \$493,632 or 2.78%
- Cash increased by \$56,066 or 5.35%
- The net accounts receivable increased by \$78,996 or 3.16%

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements (the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows), prepared in accordance with the Governmental Accounting Standards Board (GASB) in Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis—Public Colleges and Universities*, as amended by GASB Statement Nos. 37 and 38. These statements include all assets and liabilities using the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE CORPORATION

ASSETS

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>	<u>Percent of 2013 Total</u>
Cash	\$ 1,104,457	\$ 1,048,391	\$ 56,066	5.35%	41.51%
Net Accounts Receivable	<u>2,577,095</u>	<u>2,498,099</u>	<u>78,996</u>	<u>3.16%</u>	<u>58.49%</u>
Total Assets	<u>\$ 3,681,552</u>	<u>\$ 3,546,490</u>	<u>\$ 135,062</u>	<u>3.81%</u>	<u>100.00%</u>

During fiscal year 2013, total assets were \$3,681,552. The Corporation’s largest asset remains its accounts receivable. The total gross accounts receivable decreased by \$18,341; the program disallowances increased by \$78,348; and the allowance for un-collectibles decreased by \$175,685. Net accounts receivable increased from \$2,498,099 to \$2,577,095 for an increase of \$78,996 or 3.16%.

The cash in bank increased by \$56,066 or 5.35%.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012
(Continued)

FINANCIAL ANALYSIS OF THE CORPORATION *(Continued)*

Liabilities are comprised of prepayments for future care and a small percentage of patient credits. Total liabilities were \$159,559 and \$198,396 as of June 30, 2013 and 2012, respectively. This represents a decrease of \$38,837 or 19.58% from the previous year.

Total Net Position

The total net position was \$3,521,993 and \$3,348,094 as of June 30, 2013 and 2012, respectively. This reflects an increase of \$173,899 or 5.19% from the prior year.

Current Ratio

The Corporation's current assets of \$3,681,552 were sufficient to cover current liabilities of \$159,559 as the current ratio was 23.07 and 17.88 as of June 30, 2013 and 2012, respectively.

INCOME STATEMENT

Operating Revenues

Gross operating revenue was \$18,341,642 for the fiscal year ending June 30, 2013, as compared to \$18,898,842 for the previous fiscal year, representing a decrease of \$557,200 or 2.95%. Patient fees accounted for 100% of this total.

Operating Expenses

All operating expenses are now processed through related University funds, with the exception of credit card fees and the provision for bad debts. Operating expenses remained comparable year over year at \$255,720 versus \$239,905 for the fiscal years ending June 30, 2013 and 2012, respectively.

Transfers

A total of \$16,825,000 was transferred from Faculty Associates to the related College of Dentistry accounts to pay salaries of clinical staff and all other operating expenses. This is a decrease of \$328,000 or 1.91% over the previous year. The decrease in transfers is attributable to decreased supply and laboratory costs associated with patient visits and decreases in other operating expenses.

Summary

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>Percent Change</u>
Income	\$ 17,254,619	\$ 17,748,980	\$ (494,361)	(2.79%)
Total Expense	(255,720)	(239,905)	(15,815)	(6.59%)
Transfers (out)	(16,825,000)	(17,153,000)	328,000	1.91%
Change in Net Position	<u>\$ 173,899</u>	<u>\$ 356,075</u>	<u>\$ (182,176)</u>	<u>\$ (51.16%)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2013 AND 2012
(Concluded)

FINANCIAL ANALYSIS OF THE CORPORATION *(Concluded)*

Summary (Concluded)

The \$173,899 increase in net position can be attributed to the decrease in transfers to component unit. Patient visits increased from 99,967 in 2012 to 106,330 in 2013, an increase of 6.37%.

Statement of Cash Flows

There was an increase in cash from \$1,048,391 to \$1,104,457 or 5.35%.

Funds from Operating Activities

The amount of net cash from operating activities decreased from \$17,159,887 to \$16,879,709 or 1.63%.

DEBT ADMINISTRATION

Total Debt

At June 30, 2013, the Corporation had no outstanding debt.

ECONOMIC FACTORS AND CHANGES IN BUSINESS

The following economic factor is expected to have an impact on operations during the fiscal year that will end June 30, 2014.

- It is anticipated that the economic recovery may have a very modest positive impact on clinical revenues. However, the impact of Medicaid managed care may negate any such gains.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Corporation's Board of Directors, creditors and the Board of Trustees of the University of Florida with a general overview of the Corporation's finances. If you have questions about this report or need additional information, contact the Corporation's Dean's Office at 352-273-5800.

STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012
FACULTY ASSOCIATES, INC.
GAINESVILLE, FLORIDA

Assets	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and Cash Equivalents:		
Cash in Banks	\$ 1,104,457	\$ 1,048,391
Total Cash and Cash Equivalents	<u>1,104,457</u>	<u>1,048,391</u>
Accounts Receivable	4,591,799	4,610,140
Program Disallowances	(572,338)	(493,990)
Allowance for Uncollectible	(1,442,366)	(1,618,051)
Accounts Receivable, Net	<u>2,577,095</u>	<u>2,498,099</u>
Total Current Assets	<u>3,681,552</u>	<u>3,546,490</u>
Total Assets	<u><u>3,681,552</u></u>	<u><u>3,546,490</u></u>
Liabilities and Net Position		
Liabilities - Current Liabilities:		
Prepayments and Refunds Due	<u>159,559</u>	<u>198,396</u>
Total Current Liabilities	<u>159,559</u>	<u>198,396</u>
Total Liabilities	<u>159,559</u>	<u>198,396</u>
Net Position	<u>3,521,993</u>	<u>3,348,094</u>
Total Net Position and Liabilities	<u><u>\$ 3,681,552</u></u>	<u><u>\$ 3,546,490</u></u>

See accompanying notes.

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
FACULTY ASSOCIATES, INC.
GAINESVILLE, FLORIDA**

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Professional Fees (Net of Bad Debts \$1,088,380 for 2013 and \$1,151,948 for 2012)	\$ 17,253,262	\$ 17,746,894
Total Operating Revenues	<u>17,253,262</u>	<u>17,746,894</u>
Operating Expenses		
Credit Card Fees	255,720	239,905
(Total Operating Expenses)	<u>(255,720)</u>	<u>(239,905)</u>
Net Operating Income	<u>16,997,542</u>	<u>17,506,989</u>
Nonoperating Revenues		
Interest Income	1,357	2,086
Total Nonoperating Revenues	<u>1,357</u>	<u>2,086</u>
Income Before Transfers	<u>16,998,899</u>	<u>17,509,075</u>
Transfers		
Transfers to Component Unit - Fund 171	(16,825,000)	(17,153,000)
(Total Transfers)	<u>(16,825,000)</u>	<u>(17,153,000)</u>
Change in Net Position	173,899	356,075
Net Position, Beginning of Year	<u>3,348,094</u>	<u>2,992,019</u>
Net Position, End of Year	<u>\$ 3,521,993</u>	<u>\$ 3,348,094</u>

See accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
FACULTY ASSOCIATES, INC.
GAINESVILLE, FLORIDA

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Receipts from Professional Fees	\$ 17,135,429	\$ 17,399,792
Payments for Vendors	(255,720)	(239,905)
Net Cash Provided by (Used in) Operating Activities	<u>16,879,709</u>	<u>17,159,887</u>
Cash Flows from Noncapital Financing Activities		
Transfers to Component Unit - Fund 171	(16,825,000)	(17,153,000)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(16,825,000)</u>	<u>(17,153,000)</u>
Cash Flows from Investing Activities		
Interest and Dividends Received	1,357	2,086
Net Increase (Decrease) in Cash and Cash Equivalents	56,066	8,973
Cash and Cash Equivalents, Beginning of Year	<u>1,048,391</u>	<u>1,039,418</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,104,457</u>	<u>\$ 1,048,391</u>
<u>Reconciliation of Net Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</u>		
Operating Income	\$ 16,997,542	\$ 17,506,989
Adjustments to Reconcile Operating Income (Loss) to Cash Flows Provided by (Used in) Operating Activities:		
Decrease (Increase) in Accounts Receivable, Net	(78,996)	(116,091)
Increase (Decrease) in Prepayments and Refunds	(38,837)	(231,011)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 16,879,709</u>	<u>\$ 17,159,887</u>

See accompanying notes.

**NOTES TO FINANCIAL STATEMENTS
FACULTY ASSOCIATES, INC.
GAINESVILLE, FLORIDA**

Note 1 - Reporting Entity

Faculty Associates, Inc. (the Corporation) is a not-for-profit corporation formed by the faculty at the University of Florida College of Dentistry and activated in 1998. The Corporation performs billing and collection of professional fees associated with the practice of dentistry at the University of Florida College of Dentistry. The Corporation was formed primarily for the purpose of enhancing the quality of dental education at the University of Florida and is a component unit of the University of Florida.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are reported on the accrual basis of accounting. These financial statements are entirely those of the Corporation alone and, accordingly, are not intended to present the financial position or the results of operations of the University of Florida. The Corporation was determined to be "governmental" under guidance provided by the Governmental Accounting Standards Board (GASB) Statement No. 29.

Under GASB Statement No. 35, for financial reporting purposes, the Corporation is considered a special purpose government engaged only in business-type activities.

Classification of Revenues

The Corporation classifies its revenues as operating or nonoperating according to the following criteria:

■ **Operating Revenues**

Include activities that have the characteristics of exchange transactions, such as clinical revenue.

■ **Nonoperating Revenues**

Include activities that have characteristics of nonexchange transactions, such as investment income.

Net Position

The Corporation's net position is classified as follows:

■ **Unrestricted**

The Unrestricted component of net position represents funds that are not restricted for any purpose and available for current operations. All of the components of net position for the Corporation are considered unrestricted.

Cash and Cash Equivalents

Cash and cash equivalents include cash and interest-bearing deposits with original maturity dates of three months or less.

NOTES TO FINANCIAL STATEMENTS
FACULTY ASSOCIATES, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are reported net of an allowance for uncollectible accounts and a reserve for program disallowances. The allowance for uncollectible accounts is established by charges to income through the provision for uncollectible accounts. The reserve for program disallowances is established through a charge against professional fees.

The allowance is based on experience, third party contracts, and other circumstances, which may affect the ability of patients to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms.

Accounts are considered past due after 120 days and are to be sent to a collection agency at that time. Accounts totaling \$883,797 and \$180,220 have been sent to collection agencies as of June 30, 2013 and 2012, respectively. It is the Corporation's policy to charge off all uncollectible accounts receivable that become two and one-half years old.

Revenues

Revenues are derived principally from professional fees charged to patients through the faculty practice, graduate and undergraduate clinic of the University of Florida Health Science Center and the University of Florida Dental Clinics at St. Petersburg and Hialeah. Professional fees are recorded on the accrual basis of accounting at the estimated net realizable amounts to be received from patients, third party payors and others for services rendered.

Expenditures

Expenditures are recognized on the accrual basis of accounting. Payment of salaries and purchases of equipment and supplies are accomplished through the University of Florida Transfers from Component Units Fund.

Donated Services

The Corporation occupies space at the University of Florida College of Dentistry and is assisted by employees of the University. These expenses are paid out of component unit funds that are reported outside of the Faculty Practice.

Income Taxes

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the *Internal Revenue Code*.

Under *Accounting Standards Codification (ASC)* Subtopic 740-10, *Income Tax Uncertainties*, it is the policy of management to evaluate its tax positions on an ongoing basis and to disclose any such positions it believes would have a material impact on the financial statements and related notes. Management also believes that no such required disclosures currently exist.

The Corporation is subject to U.S. federal or state income tax examinations for the previous three years. If applicable, the Corporation would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expense.

NOTES TO FINANCIAL STATEMENTS
FACULTY ASSOCIATES, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 2 - Summary of Significant Accounting Policies (Concluded)

Subsequent Events

The Corporation has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through September 17, 2013, the date the financial statements were available to be issued.

Use of Estimates

The preparation of financial statements in conformity with accounting principals 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 disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Substantially all of the Corporation's receivables are unsecured and a significant portion of the Corporation's revenues are subject to contractual arrangements with third parties. Significant changes to the provisions of those contracts could have a material effect on the Corporation's profitability.

Note 3 - Cash and Cash Equivalents

At year-end, the carrying amount of the Corporation's deposits was \$1,104,457, and the bank balance was \$1,175,931. All deposits of the Corporation are maintained in public qualified depositories and fully insured as defined under Florida Statutes Chapter 280.

Note 4 - Accounts Receivable Allowance

Activity relating to the allowance for uncollectible accounts for the years ended June 30, 2013 and 2012, are summarized as follows:

	<u>2013</u>	<u>2012</u>
Beginning Balance	\$ 2,112,041	\$ 2,531,372
Provision for Bad Debts	1,088,380	1,151,948
Write-offs	(1,274,491)	(1,589,776)
Change in Program Disallowances	78,348	18,497
Recoveries	10,426	0
Ending Balance	<u>\$ 2,014,704</u>	<u>\$ 2,112,041</u>
Shown in Statement of Net Position as	<u>2013</u>	<u>2012</u>
Program Disallowance	\$ 572,338	\$ 493,990
Allowance for Uncollectables	1,442,366	1,618,051
Total	<u>\$ 2,014,704</u>	<u>\$ 2,112,041</u>

NOTES TO FINANCIAL STATEMENTS
FACULTY ASSOCIATES, INC.
GAINESVILLE, FLORIDA
(Concluded)

Note 5 - Related Party Transactions

During the years ended June 30, 2013 and 2012, the Corporation transferred \$16,825,000 and \$17,153,000, respectively, to the University of Florida Transfers from Component Unit Fund.

Note 6 - Risk Management

The Corporation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and tenants' legal liability for which the Corporation carries insurance. The University of Florida Self Insurance Programs provides general and professional liability protection for the University on behalf of the six health colleges of the J. Hillis Miller Health Science Center, which also includes the College of Dentistry.

SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
OF TRANSFERS FROM COMPONENT UNIT (UNAUDITED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
FACULTY ASSOCIATES, INC.
GAINESVILLE, FLORIDA**

	2013	2012
	Transfers From Component Unit	Transfers From Component Unit
Operating Revenues		
Other Service Income	\$ 5,954,125	\$ 5,349,043
Total Operating Revenues	<u>5,954,125</u>	<u>5,349,043</u>
Operating Expenses		
Salary Supplement and Fringe Benefits:		
Faculty Salaries and Fringe Benefits	4,604,480	4,418,991
Staff Salaries and Fringe Benefits	7,245,824	6,238,515
Part-time Faculty (OPS)	275,804	216,543
Resident and Graduate Assistants (OPS)	2,425,390	2,650,607
Other Part-time Employees (OPS)	819,373	758,004
Total Salary Supplement and Fringe Benefits	<u>15,370,871</u>	<u>14,282,660</u>
Clinical Operations:		
Supplies	2,109,307	2,810,355
Outside Laboratory	1,250,591	1,276,754
Other Clinical Operations	24,985	38,420
Total Clinical Operations	<u>3,384,883</u>	<u>4,125,529</u>
Departmental Support:		
Supplies and Printing	492,466	676,394
Travel	222,509	344,272
Dues, Licenses, and Books	136,262	153,109
Equipment	76,483	160,505
Facilities	105,348	115,869
Consulting/External Staffing	347,325	586,866
Communications	76,430	95,960
Postage and Freight	118,709	129,947
Repairs and Maintenance	291,944	672,193
Construction	110,697	158,918
Entertainment	135,260	194,217
Insurance	405,428	149,459
University Overhead Charges	956,070	1,035,646
Other Departmental Support	4,641	4,218
Total Departmental Support	<u>3,479,572</u>	<u>4,477,573</u>
(Total Expenses)	<u>(22,235,326)</u>	<u>(22,885,762)</u>
Total Operating (Loss)	<u>(16,281,201)</u>	<u>(17,536,719)</u>
Transfers		
From Component Unit	16,825,000	17,153,000
Total Transfers	<u>16,825,000</u>	<u>17,153,000</u>
(Deficiency) of Transfers Over (Under) Expenses	543,799	(383,719)
Net Position, Beginning of Year	<u>(110,815)</u>	<u>272,904</u>
Net Position, End of Year	<u>\$ 432,984</u>	<u>\$ (110,815)</u>

**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***

Board of Directors
Faculty Associates, Inc.
Gainesville, Florida

We have audited the financial statements of Faculty Associates, Inc. (the Corporation), component unit of the University of Florida, as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated September 17, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation'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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 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 the internal control over financial reporting was for the limited purpose described in the first paragraph in 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 a material weakness. However, material weaknesses may exist that have not been identified.

Certified Public Accountants

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Board of Directors
Faculty Associates, Inc.
Gainesville, Florida

**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
(Concluded)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 did not disclose 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 Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Purvis, Gray and Company, LLP

September 17, 2013
Gainesville, Florida