

**STATE OF CALIFORNIA
OFFICE OF STATEWIDE HEALTH
PLANNING AND DEVELOPMENT,
HEALTH PROFESSIONS
EDUCATION FOUNDATION**

**FINANCIAL STATEMENTS AND
ADDITIONAL FINANCIAL INFORMATION**

JUNE 30, 2011 AND 2010

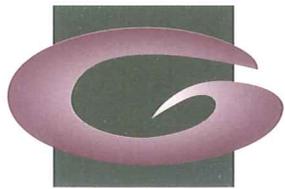


**STATE OF CALIFORNIA
OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT
HEALTH PROFESSIONS EDUCATION FOUNDATION**

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

**To the Board of Trustees of
Health Professions Education Foundation
Sacramento, California**

We have audited the accompanying financial statements as listed in the table of contents of the Health Professions Education Foundation (Foundation) as of and for the years ended June 30, 2011 and 2010. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the auditing 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 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Foundation and do not purport to, and do not, present fairly the financial position of either the State of California or the Office of Statewide Health Planning and Development as of June 30, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Health Professions Education Foundation as of June 30, 2011 and 2010, and the respective changes in financial position, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, effective July 1, 2010, the Foundation adopted the provisions of Governmental Accounting Standards (GASB) Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2012 on our consideration of the Foundation'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.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Health Professions Education Foundation's financial statements. The accompanying additional financial information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

February 8, 2012

HEALTH PROFESSIONS EDUCATION FOUNDATION

BALANCE SHEETS SPECIAL REVENUE FUNDS JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and Cash Equivalents	\$ 5,341,205	\$ 6,449,787
Due from Other State Funds	6,652,218	4,823,251
Accounts Receivable	<u>175,438</u>	<u>257,187</u>
Total Assets	<u>\$ 12,168,861</u>	<u>\$ 11,530,225</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts Payable	\$ 1,747,063	\$ 1,173,335
Advanced Fee Collections	147,205	150,440
Reserve for Long-Term Receivables	160,238	222,037
Due to Other State Funds	<u>139,068</u>	<u>82,952</u>
Total Liabilities	<u>2,193,574</u>	<u>1,628,764</u>
Restricted for Student Loans	5,966,052	5,535,077
Unassigned	<u>4,009,235</u>	<u>4,366,384</u>
Total Fund Balance	<u>9,975,287</u>	<u>9,901,461</u>
Total Liabilities and Fund Balance	<u>\$ 12,168,861</u>	<u>\$ 11,530,225</u>

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

HEALTH PROFESSIONS EDUCATION FOUNDATION

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE SPECIAL REVENUE FUNDS YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
Surcharges for Professional Licensing Fees	\$ 2,186,990	\$ 2,233,369
Student Loan Repayments	39,219	57,289
Interest Income	<u>36,313</u>	<u>51,143</u>
Total Revenues	<u>2,262,522</u>	<u>2,341,801</u>
EXPENDITURES		
Student Financial Aid	5,905,812	3,004,618
Salaries and Benefits	574,500	409,871
Departmental Services	209,332	41,596
Professional Services	97,672	104,207
Facilities Operations	96,100	70,229
Central Administrative Services	44,778	12,370
Information Technology	32,860	7,726
General Expenses	31,972	8,740
Travel	18,204	11,126
Postage	9,096	5,924
Communications	5,084	348
Training	4,099	1,980
Printing	3,980	1,778
Utilities	16	18
Small Equipment		10,997
Other Operating	<u>3,426</u>	<u>60,491</u>
Total Expenditures	<u>7,036,931</u>	<u>3,752,019</u>
Deficiency of Revenues over Expenditures	(4,774,409)	(1,410,218)
OTHER FINANCING SOURCES		
Operating Transfers In	<u>4,848,235</u>	<u>2,768,855</u>
Excess of Revenues and Other Financing Sources over Expenditures	73,826	1,358,637
Fund Balance, Beginning	<u>9,901,461</u>	<u>8,542,824</u>
Fund Balance, Ending	<u>\$ 9,975,287</u>	<u>\$ 9,901,461</u>

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

HEALTH PROFESSIONS EDUCATION FOUNDATION

STATEMENTS OF FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and Cash Equivalents	\$ 9,200,050	\$ 8,053,080
Due from Other State Funds	72,699	11,054
Accounts Receivable	78,222	131,752
Prepaid Items		16,481
Fixed Assets, Net	<u>1,517</u>	<u>2,419</u>
 Total Assets	 <u>\$ 9,352,488</u>	 <u>\$ 8,214,786</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable	\$ 141,156	\$ 290,649
Advanced Fee Collections	1,804,276	2,628,877
Reserve for Long-Term Receivables	41,341	91,252
Due to Other State Funds	<u>31,004</u>	<u>29,393</u>
 Total Liabilities	 <u>2,017,777</u>	 <u>3,040,171</u>
Net Assets:		
Held in Trust for Scholarships	<u>7,334,711</u>	<u>5,174,615</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 9,352,488</u>	 <u>\$ 8,214,786</u>

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

HEALTH PROFESSIONS EDUCATION FOUNDATION

STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
Surcharges for Professional Licensing Fees	\$ 1,761,218	\$ 1,691,360
Contributions and Grants	927,268	676,606
Interest Income	43,652	50,940
Student Loan Repayments	<u>16,845</u>	<u>27,614</u>
 Total Additions to Net Assets	 <u>2,748,983</u>	 <u>2,446,520</u>
EXPENSES		
Student Financial Aid	1,307,313	1,530,444
Administrative	<u>281,574</u>	<u>495,238</u>
 Total Deductions from Net Assets	 <u>1,588,887</u>	 <u>2,025,682</u>
 Increase in Net Assets	 1,160,096	 420,838
OTHER FINANCING SOURCES		
Operating Transfers In	<u>1,000,000</u>	<u>1,000,000</u>
 Increase in Net Assets and Other Financing Sources	 2,160,096	 1,420,838
 Net Assets, Beginning	 <u>5,174,615</u>	 <u>3,753,777</u>
 Net Assets, Ending	 <u>\$ 7,334,711</u>	 <u>\$ 5,174,615</u>

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

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

1. ORGANIZATION

The Health Professions Education Foundation (the Foundation) is a California non-profit 501(c)(3) public benefit corporation established in 1988. The Office of Statewide Health Planning and Development (OSHPD) provides administrative oversight to the Foundation. The Foundation's public and charitable purposes are the solicitation and receipt of funds from public and private sources to be used in accordance with Section 128335 of the Health and Safety Code. Section 128335 provides that the funds will be used to further the health education of students from underrepresented backgrounds who agree to practice their professions in medically underserved areas of the State of California.

The Foundation provides scholarships and loan repayments to aspiring and practicing health professionals who agree to practice direct patient care in a medically underserved area. Scholarships are offered to health professional students attending one of California's accredited colleges or universities. Loan repayment programs are offered to graduates pursuing a health professional career to assist in the repayment of educational debt. Scholarships and loan repayments are offered to students and graduates from the following professions: Allied Health, Nursing, Mental Health, Dental, and Medical. Those students and graduates who receive awards from the Foundation are required to practice direct patient care in medically underserved areas of California for a period of one to four years and varies depending on the award in order to receive loan payment credits.

The Foundation has thirteen voting Directors, known as Trustees that are appointed in accordance with Section 128335. The President is appointed by the Governor. Trustees serve without compensation but are reimbursed for any actual and necessary expenses incurred in connection with their duties as members of the Board.

Fund Financial Statements

The accounts of the Foundation are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions, or limitations.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Foundation maintains the following special revenue funds:

The **Registered Nurse Education Fund (RNEF)** is used for the purpose of promoting the education of Registered Nurses and related administrative costs and is funded through a \$10.00 surcharge for renewal of the Registered Nurse (RN) license in California.

The **Mental Health Practitioner Education Fund (MHPEF)** is used to account for surcharges for renewal of Psychologist, Marriage and Family Therapist, and Licensed Clinical Social Worker licenses in California. This is funded through a \$10.00 surcharge for supporting the student financial aid payments.

The **Vocational Nurse Education Fund (VNEF)** is used to account for renewal assessments imposed on Vocational Nurses to provide scholarships for vocational nurses who agree to practice in underserved areas or specified facilities. This is funded through a \$5.00 surcharge to provide scholarships for vocational nursing students who agree to practice in underserved areas.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

The **Mental Health Services Act Fund (MHSA)** is used to provide funding to counties to expand services and to develop innovative programs and integrated service plans for mentally ill children, adults and seniors. This is funded by Proposition 63, the Mental Health Services Act passed by voters in 2004.

Fiduciary Funds

Fiduciary funds account for assets held by the Foundation in a trustee capacity or as an agent on behalf of others.

Private Purpose Trust Funds are used to account for assets of others for which the Foundation acts as an agent. The Foundation maintains the following private purpose trust funds:

The **Health Professions Education Fund (HPEF)** is used to provide scholarships and loans to students from underrepresented groups entering medical, dentistry, nursing, or other health professions, and to fund the Geriatric Nurse Practitioner and Clinical Nurse Specialist Scholarship Program. This is supported entirely through grants and contributions from public and private agencies, hospitals, health plans, foundations, corporations, and individuals.

The **Medically Underserved Account for Physicians Fund (MUAP)** is used to provide funding for the ongoing operations of the Steven M. Thompson Physician Corps Loan Repayment Program. This is funded through a \$25.00 surcharge for renewal of allopathic physician licenses in California and through the Managed Care Administrative Fines and Penalties Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Foundation's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Special Revenue Funds utilize the modified accrual basis of accounting and revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. Surcharges for professional licensing fees are recorded as revenue in the period they are earned and susceptible to accrual, provided they are measurable and available within the ensuing 12 months. Financial aid payments are recorded as encumbrances when awarded, and are expensed in period of distribution. All other expenditures are recognized in the period in which the amount can be objectively measured, and the goods or services have been received.

The Private Purpose Trust Funds utilize the accrual basis of accounting, which has an economic resources measurement focus, where-by expenses are recognized at the time they are incurred.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Budgetary Accounting

A budget for the Foundation as a whole has not been legally adopted and is not required. Therefore, a statement of revenues, expenditures, and changes in fund balance, actual and budget, normally presented by special revenue funds, is not included in the financial statements.

Prepaid Items

The Foundation's prepaid expenses represent amounts paid to the Architectural Revolving Fund (ARF) within the State of California to cover the costs associated with moving the Foundation's offices to the current location. The Foundation records an expense when the monies are paid out from the ARF.

Student Loans Receivable

As award agreements are breached, the Foundation records a receivable, and corresponding reserve for long-term receivables since the asset is not considered available for operations under the modified accrual basis of accounting. As payments of these loans are received, the "Student Loan Repayment" revenue is recognized. For breached agreements which have been outstanding longer than a year and have had no activity, the Foundation deems the balance to be uncollectible and has removed it from the account balance for financial reporting while continuing to pursue collection.

Advanced Fee Collections

Advanced fee collections represent Registered and Vocational Nurse, Psychologist, Marriage and Family Therapist, and Licensed Clinical Social Worker licensing fees received in advance that are recognized as liabilities to the extent that the earning process has not been completed.

Expenses/Expenditures

Under the accrual basis of accounting, expenses are recognized at the time they are incurred. However, the measurement focus of governmental fund accounting is on decreases in the net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

When expenditures are incurred for purposes for which both restricted and unassigned fund balance is available for use, it is the Foundation's policy to first apply the expenditure toward restricted fund balance and then to unassigned amounts.

Fund Balance

In the governmental fund financial statements fund balances are classified as follows:

Restricted – Amounts which can be spent only for specific purposes because the amounts are subject to externally imposed or legally enforceable constraints.

Unassigned – The residual balance of the general fund that has not been assigned to other funds and that is not restricted, committed or assigned to a specific purpose.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Encumbrances

Purchase orders, contracts, and other commitments for expenditures are recorded as encumbrances to reserve a portion of the applicable appropriation for budgetary purposes. Open encumbrances are reported as a restriction in the fund balance since they do not constitute expenditures or liabilities under generally accepted accounting principles.

Operating Lease

The Foundation is allocated a portion of OSHPD's monthly lease expenditure. The allocation is based on square footage used by the Foundation. Additional disclosure items, as required by generally accepted accounting principles, are presented in the financial statements of the State of California as of June 30, 2011 and 2010.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. Significant estimates included in these financial statements are the collectability of accounts receivable.

GASB Implementation

For the year ended June 30, 2011, the Foundation implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of GASB 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied amongst governmental entities and to clarify existing governmental fund type definitions. GASB 54 provides for fund balance classifications such as non-spendable, restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. As of June 30, 2011 the Foundation only has restricted and unassigned fund balances.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the Special Revenue Funds at June 30 were as follows:

	<u>2011</u>	<u>2010</u>
Cash in State Treasury	\$ 3,205	\$ 1,787
Deposits in Surplus Money Investment Fund	<u>5,338,000</u>	<u>6,448,000</u>
Total cash and equivalents	<u>\$ 5,341,205</u>	<u>\$ 6,449,787</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Cash and cash equivalents in the Fiduciary Funds at June 30 were as follows:

	<u>2011</u>	<u>2010</u>
Cash in State Treasury	\$ 4,050	\$ 80
Deposits in Surplus Money Investment Fund	<u>9,196,000</u>	<u>8,053,000</u>
Total cash and equivalents	<u>\$ 9,200,050</u>	<u>\$ 8,053,080</u>

The Foundation has invested surplus cash in the Surplus Money Investment Fund (SMIF). All of the resources of SMIF are invested through the Pooled Money Investment Account (PMIA). The PMIA investment program is designated by the Pooled Money Investment Board and is administered by the Office of the State Treasurer. Investments in SMIF are stated at fair value.

Additional disclosure details required by Government Accounting Standards Board Statements No. 3, No. 31 and No. 40 regarding cash deposits and investments, are presented in the financial statements of the State of California as of June 30, 2011 and 2010.

Interest earned on investments in the SMIF is distributed on a pro-rata basis semiannually. Undistributed interest earned by the Foundation is included in Due from Other State Funds.

All cash and investments in SMIF are highly liquid and considered cash equivalents. Cash equivalents are readily convertible to known amounts of cash at the date of purchase and they have an original maturity of three months or less.

4. DUE FROM OTHER STATE FUNDS

Due from Other State Funds for the Special Revenue Fund at June 30 includes the following:

<u>Due From</u>	<u>Description</u>	<u>2011</u>	<u>2010</u>
SMIF	Interest Income	\$ 6,279	\$ 8,926
Dept. of Mental Health	Annual Appropriation	<u>6,645,939</u>	<u>4,814,325</u>
Total		<u>\$ 6,652,218</u>	<u>\$ 4,823,251</u>

Due from Other State Funds for the Fiduciary Fund at June 30 includes the following:

<u>Due From</u>	<u>Description</u>	<u>2011</u>	<u>2010</u>
Orange County	First 5 payment	\$ 61,900	
SMIF	Interest Income	<u>10,799</u>	<u>\$ 11,054</u>
Total		<u>\$ 72,699</u>	<u>\$ 11,054</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

5. DUE TO OTHER STATE FUNDS

Due to Other State Funds for the Special Revenue Fund at June 30 includes the following:

<u>Due To</u>	<u>Description</u>	<u>2011</u>	<u>2010</u>
General Fund	Outstanding Expenditures	\$ 126	
Hospital Building Fund	Outstanding Expenditures	137,737	\$ 82,952
Prison Fund	Outstanding Expenditures	486	
Technology Fund	Outstanding Expenditures	34	
Service Fund	Outstanding Expenditures	685	
Total		<u>\$ 139,068</u>	<u>\$ 82,952</u>

Due to Other State Funds for the Fiduciary Fund at June 30 includes the following:

<u>Due To</u>	<u>Description</u>	<u>2011</u>	<u>2010</u>
General Fund	Outstanding Expenditures	\$ 51	
Hospital Building Fund	Outstanding Expenditures	30,383	\$ 29,393
Service Revolving Fund	Outstanding Expenditures	570	
Total		<u>\$ 31,004</u>	<u>\$ 29,393</u>

6. DEFINED BENEFIT PLAN

Eligible Foundation employees may participate in the California Public Employees' Retirement System of the State of California (CalPERS), an agent multiple-employer retirement system that acts as a common investment and administrative agent for participating State and Local Government agencies. Since all State agencies are considered collectively to be a single employer, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Foundation's employees cannot be determined. The significant actuarial assumptions used to compute the actuarially determined State contribution requirement are the same as those used to compute the State pension benefit obligation as defined by CalPERS. The State charges the Foundation for its share of the required contributions. For the years ended June 30, 2011, 2010, and 2009, the Foundation was charged \$72,301, \$46,999, and \$58,038, respectively, for its share of the CalPERS contribution made by OSHPD. Participant contributions range from zero to six percent of their salary depending on the tier of participation.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

Generally, full-time and permanent part-time employees are eligible to participate in CalPERS. Depending upon the plan option selection, benefits vest after five or ten years of service. Participants are eligible for service retirement after age 50 or 55 and must have five or ten years of CalPERS credited service, depending upon the tier of participation. Upon retirement, participants are entitled to an annual retirement benefit payable monthly for life based on their highest average monthly salary over any 12 month period within their last 36 months of employment, times a benefit factor of .50 to 2.418 percent depending on retirement age, years of credited service and the tier of participation. CalPERS also provides death and disability benefits to covered participants. These benefit provisions and all other requirements are established by State statute.

CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95814.

7. RISK MANAGEMENT

The Foundation is a component unit of the State of California which is primarily self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs. The Foundation has not had any claims subject to this coverage.

ADDITIONAL FINANCIAL INFORMATION

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING BALANCE SHEETS - SPECIAL REVENUE FUNDS

JUNE 30, 2011

	<u>Registered Nurse Education</u>	<u>Mental Health Practitioner Education</u>	<u>Vocational Nurse Education</u>	<u>Mental Health Services</u>	<u>Total</u>
ASSETS					
Cash and Cash Equivalents	\$ 3,584,942	\$ 1,086,627	\$ 669,636		\$ 5,341,205
Due from Other State Funds	4,167	1,324	788	\$ 6,645,939	6,652,218
Accounts Receivable	<u>165,648</u>	<u>5,900</u>	<u>3,890</u>		<u>175,438</u>
Total Assets	<u>\$ 3,754,757</u>	<u>\$ 1,093,851</u>	<u>\$ 674,314</u>	<u>\$ 6,645,939</u>	<u>\$12,168,861</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts Payable	\$ 48,331	\$ 50,553	\$ 1,605	\$ 1,646,574	\$ 1,747,063
Advanced Fee Collections	125,060	16,280	5,865		147,205
Reserve for Long-Term Receivables	160,238				160,238
Due to Other State Funds	<u>45,827</u>	<u>6,401</u>	<u>10,525</u>	<u>76,315</u>	<u>139,068</u>
Total Liabilities	<u>379,456</u>	<u>73,234</u>	<u>17,995</u>	<u>1,722,889</u>	<u>2,193,574</u>
Restricted for student loans	635,169	376,083	31,750	4,923,050	5,966,052
Unassigned	<u>2,740,132</u>	<u>644,534</u>	<u>624,569</u>		<u>4,009,235</u>
Total Fund Balance	<u>3,375,301</u>	<u>1,020,617</u>	<u>656,319</u>	<u>4,923,050</u>	<u>9,975,287</u>
Total Liabilities and Fund Balance	<u>\$ 3,754,757</u>	<u>\$ 1,093,851</u>	<u>\$ 674,314</u>	<u>\$ 6,645,939</u>	<u>\$ 12,168,861</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS YEAR ENDED JUNE 30, 2011

	Registered Nurse Education	Mental Health Practitioner Education	Vocational Nurse Education	Mental Health Services	Total
REVENUES					
Surcharges for Professional Licensing Fees	\$ 1,681,770	\$ 320,765	\$ 184,455		\$ 2,186,990
Student Loan Repayments	39,219				39,219
Interest Income	26,953	6,074	3,286		36,313
Total Revenues	1,747,942	326,839	187,741		2,262,522
EXPENDITURES					
Student Financial Aid	2,176,480	542,203	106,250	\$ 3,080,879	5,905,812
Salaries and Benefits	188,623	68,383	70,358	247,136	574,500
Departmental Services	55,752	8,321	12,480	132,779	209,332
Professional Services	41,994	2,266	2,540	50,872	97,672
Facilities Operations	35,040	4,346	6,991	49,723	96,100
Central Administrative Services	10,153	1,787	1,586	31,252	44,778
Information Technology	7,560	117	161	25,022	32,860
General Expenses	8,219	577	275	22,901	31,972
Travel	10,176	185	251	7,592	18,204
Postage	3,308	392	1,330	4,066	9,096
Communications	2,138	260	184	2,502	5,084
Training	1,021	1	2	3,075	4,099
Printing	611	6	8	3,355	3,980
Utilities	12	2	2		16
Other Operating	3,421	3	2		3,426
Total Expenditures	2,544,508	628,849	202,420	3,661,154	7,036,931
Deficiency of Revenues over Expenditures	(796,566)	(302,010)	(14,679)	(3,661,154)	(4,774,409)
OTHER FINANCING SOURCES					
Operating Transfers In				4,848,235	4,848,235
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures	(796,566)	(302,010)	(14,679)	1,187,081	73,826
Fund Balance, Beginning	4,171,867	1,322,627	670,998	3,735,969	9,901,461
Fund Balance, Ending	<u>\$ 3,375,301</u>	<u>\$ 1,020,617</u>	<u>\$ 656,319</u>	<u>\$ 4,923,050</u>	<u>\$ 9,975,287</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING STATEMENTS OF FIDUCIARY NET ASSETS

PRIVATE PURPOSE TRUST FUNDS

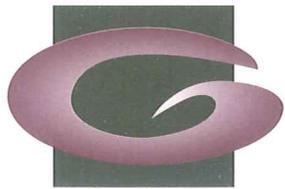
JUNE 30, 2011

	Health Professions Education	Medically Underserved Account	Total
ASSETS			
Cash and Cash Equivalents	\$ 1,133,461	\$ 8,066,589	\$ 9,200,050
Due from Other State Funds	63,333	9,366	72,699
Accounts Receivable	41,341	36,881	78,222
Fixed Assets, Net	919	598	1,517
Total Assets	<u>\$ 1,239,054</u>	<u>\$ 8,113,434</u>	<u>\$ 9,352,488</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts Payable	\$ 134,155	\$ 7,001	\$ 141,156
Advanced Fee Collections	427,251	1,377,025	1,804,276
Reserve for Long-Term Receivables	41,341		41,341
Due to Other State Funds	25,364	5,640	31,004
Total Liabilities	<u>628,111</u>	<u>1,389,666</u>	<u>2,017,777</u>
Held in Trust for Scholarships	<u>610,943</u>	<u>6,723,768</u>	<u>7,334,711</u>
Total Liabilities and Net Assets	<u>\$ 1,239,054</u>	<u>\$ 8,113,434</u>	<u>\$ 9,352,488</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS YEAR ENDED JUNE 30, 2011

	Health Professions Education	Medically Underserved Account	Total
REVENUES			
Surcharges for Professional Licensing Fees		\$ 1,761,218	\$ 1,761,218
Contributions and Grants	\$ 927,169	99	927,268
Interest Income	9,567	34,085	43,652
Student Loan Repayments	16,845		16,845
Total Additions to Net Assets	<u>953,581</u>	<u>1,795,402</u>	<u>2,748,983</u>
EXPENSES			
Student Financial Aid	787,381	519,932	1,307,313
Salaries and Benefits	23,774	52,724	76,498
Professional Services	68,342	5,628	73,970
General Expenses	36,440	3,739	40,179
Facilities Operations	8,962	10,888	19,850
Central Administrative Services	13,026		13,026
Information Technology	5,864	5,804	11,668
Travel	8,667	481	9,148
Departmental Services	2,382	6,470	8,852
Printing	131	2,313	2,444
Training	1,449	6	1,455
Postage	1,009	193	1,202
Depreciation	98	1,076	1,174
Communications	479	650	1,129
Utilities	2	5	7
Other Operating	2,148	18,824	20,972
Total Deductions from Net Assets	<u>960,154</u>	<u>628,733</u>	<u>1,588,887</u>
Increase (Decrease) in Net Assets	(6,573)	1,166,669	1,160,096
OTHER FINANCING SOURCES			
Operating Transfers In		<u>1,000,000</u>	<u>1,000,000</u>
Increase (Decrease) in Net Assets and Other Financing Sources	(6,573)	2,166,669	2,160,096
Net Assets, Beginning	<u>617,516</u>	<u>4,557,099</u>	<u>5,174,615</u>
Net Assets, Ending	<u>\$ 610,943</u>	<u>\$ 6,723,768</u>	<u>\$ 7,334,711</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***

**To the Board of Trustees of
Health Professions Education Foundation
Sacramento, California**

We have audited the financial statements of the Health Professions Education Foundation (the Foundation) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated February 8, 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.

Internal Control over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation'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 Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 Foundation'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. However, we identified a certain deficiency in internal control over financial reporting, described in the Schedule of Audit Findings and Recommendations as item 11-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, 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*.

The Foundation's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Recommendations. We did not audit the Foundation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State of California and the Foundation's management and is not intended to be and should not be used by anyone other than these specified parties.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

February 8, 2012

HEALTH PROFESSIONS EDUCATION FOUNDATION

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2011

11-1 ACCOUNTS PAYABLE ACCRUAL

Condition:

We identified three adjustments that were necessary to properly state expenditures and accounts payable in the Registered Nurse Education Fund, Mental Health Practitioner Fund, and Mental Health Services Fund in accordance with generally accepted accounting principles. The impact of the adjustment increased expenditures and accounts payable by \$909,968. The occurrence of adjustments subsequent to management's close of the financial records indicates an existence of a control deficiency in the closing process.

Criteria:

Governmental Accounting Standards Board codification section 1600 states that expenditures should be recognized in the accounting period in which the fund liability is incurred.

Cause:

The Foundation uses the California State Accounting & Reporting System (CALSTARS) to compile all financial information for the legal basis accounting method. The final accounting records are due annually to the State Controller's Office by August 1st. Accounting uses a cutoff of mid July to post all known accruals into the accounting system in order to meet deadlines. However, the Foundation continued to receive documentation from the awardees that was for service prior to June 30. Accounting was not able to include the payment accruals in the year end statements.

Effect:

The Foundation's financial statements were not properly stated as the expenditures and accounts payable were understated.

Recommendation:

In order for the Foundation's management to have a complete financial picture and to present financial statements in accordance with generally accepted accounting principles, it is important to record all liabilities at fiscal year-end. This will enable management to be better informed about the Foundation's financial status and make decisions based on a more accurate financial picture. Accruals for payables should be considered during the year-end closing process annually. Therefore, we recommend the Foundation establish policies and procedures which require that expenditures related to financial aid payments made in the subsequent fiscal year that were liabilities as of June 30th be recorded in the proper period.

Foundation's Response:

A collaboration of efforts will be developed between the program and accounting to ensure that additional financial aid payments are recorded after accounting has completed the fiscal year end close process. Program will provide a worksheet listing expected payments that affect the service period of June 30th. A spreadsheet will be created in accounting to post additional payables relative to the fiscal year end in order to be added to the GAAP statements.