

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

**FINANCIAL STATEMENTS AND
ADDITIONAL FINANCIAL INFORMATION**

JUNE 30, 2012 AND 2011



**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, 2012 and 2011. 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 are intended to present the financial positions, and the changes in financial position of 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, 2012 and 2011, 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 previously present fairly, in all material respects, the respective financial position of the Health Professions Education Foundation as of June 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2013 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 Supplemental Schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The Supplemental Schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 12, 2013

HEALTH PROFESSIONS EDUCATION FOUNDATION

BALANCE SHEETS SPECIAL REVENUE FUNDS JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and Cash Equivalents	\$ 5,249,139	\$ 5,341,205
Appropriated Funds Available	9,570,853	6,645,939
Due from Other State Funds	4,730	6,279
Accounts Receivable	<u>234,643</u>	<u>175,438</u>
 Total Assets	 <u>\$ 15,059,365</u>	 <u>\$ 12,168,861</u>
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts Payable	\$ 3,342,678	\$ 1,747,063
Advanced Fee Collections	165,200	147,205
Reserve for Long-Term Receivables	211,141	160,238
Due to Other State Funds	<u>200,769</u>	<u>139,068</u>
 Total Liabilities	 <u>3,919,788</u>	 <u>2,193,574</u>
 Fund Balance:		
Restricted for Education of Registered Nurses	3,439,532	3,375,301
Restricted for Student Financial Aid	802,468	1,020,617
Restricted for Scholarships to Vocational Nurses	664,876	656,319
Restricted for Prop 63, Mental Health Services Act	<u>6,232,701</u>	<u>4,923,050</u>
 Total Fund Balance	 <u>11,139,577</u>	 <u>9,975,287</u>
 Total Liabilities and Fund Balance	 <u>\$ 15,059,365</u>	 <u>\$ 12,168,861</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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Surcharges for Professional Licensing Fees	\$ 2,357,782	\$ 2,186,990
Student Loan Repayments	48,970	39,219
Interest Income	28,504	36,313
Total Revenues	<u>2,435,256</u>	<u>2,262,522</u>
EXPENDITURES		
Student Financial Aid	7,135,448	5,905,812
Salaries and Benefits	511,214	574,500
Departmental Services	299,375	209,332
Central Administrative Services	246,753	44,778
Professional Services	138,300	97,672
Facilities Operations	107,548	96,100
Information Technology	22,170	32,860
Travel	12,283	18,204
General Expenses	11,336	31,972
Printing	2,618	3,980
Postage	2,106	9,096
Training	1,506	4,099
Communications	1,070	5,084
Utilities	38	16
Other Operating	<u>13,671</u>	<u>3,426</u>
Total Expenditures	<u>8,505,436</u>	<u>7,036,931</u>
Deficiency of Revenues over Expenditures	(6,070,180)	(4,774,409)
OTHER FINANCING SOURCES		
Operating Transfers In	<u>7,234,470</u>	<u>4,848,235</u>
Excess of Revenues and Other Financing Sources over Expenditures	1,164,290	73,826
Fund Balance, Beginning	<u>9,975,287</u>	<u>9,901,461</u>
Fund Balance, Ending	<u>\$ 11,139,577</u>	<u>\$ 9,975,287</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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and Cash Equivalents	\$ 10,329,114	\$ 9,200,050
Accounts Receivable	302,041	78,222
Due from Other State Funds	10,900	72,699
Other Current Assets	2,290	
Fixed Assets, Net	<u>1,641</u>	<u>1,517</u>
 Total Assets	 <u>\$ 10,645,986</u>	 <u>\$ 9,352,488</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts Payable	\$ 1,294,665	\$ 141,156
Advanced Fee Collections and Deferred Grant Revenue	772,202	1,804,276
Reserve for Long-Term Receivables	258,449	41,341
Due to Other State Funds	<u>15,477</u>	<u>31,004</u>
 Total Liabilities	 <u>2,340,793</u>	 <u>2,017,777</u>
Net Assets:		
Held in Trust for Scholarships	<u>8,305,193</u>	<u>7,334,711</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 10,645,986</u></u>	 <u><u>\$ 9,352,488</u></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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Surcharges for Professional Licensing Fees	\$ 1,825,317	\$ 1,761,218
Contributions and Grants	1,118,273	927,268
Interest Income	40,812	43,652
Student Loan Repayments	<u>26,490</u>	<u>16,845</u>
Total Additions to Net Assets	<u>3,010,892</u>	<u>2,748,983</u>
EXPENSES		
Student Financial Aid	2,918,750	1,307,313
Administrative	<u>121,660</u>	<u>281,574</u>
Total Deductions from Net Assets	<u>3,040,410</u>	<u>1,588,887</u>
Increase (Decrease) in Net Assets	(29,518)	1,160,096
OTHER FINANCING SOURCES		
Operating Transfers In	<u>1,000,000</u>	<u>1,000,000</u>
Increase in Net Assets and Other Financing Sources	970,482	2,160,096
Net Assets, Beginning	<u>7,334,711</u>	<u>5,174,615</u>
Net Assets, Ending	<u>\$ 8,305,193</u>	<u>\$ 7,334,711</u>

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

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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 ten 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, 2012 AND 2011

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.

This fund is a shared governmental cost fund for which the Foundation is appropriated funds for expenditure and encumbrance only. The California Department of Mental Health controls and accounts for the full activities and assets of this fund, therefore, no other assets are recorded at the Foundation aside from appropriated funds available as described in Note 4.

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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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.

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.

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.

Fund Balance

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

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

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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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, 2012 and 2011.

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.

Reclassification

Certain 2011 amounts have been reclassified to conform with 2012 financial statement presentation.

3. CASH AND CASH EQUIVALENTS

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

	<u>2012</u>	<u>2011</u>
Cash in State Treasury	\$ 2,139	\$ 3,205
Deposits in Surplus Money Investment Fund	<u>5,247,000</u>	<u>5,338,000</u>
Total cash and equivalents	<u>\$ 5,249,139</u>	<u>\$ 5,341,205</u>

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

	<u>2012</u>	<u>2011</u>
Cash in State Treasury	\$ 1,114	\$ 4,050
Deposits in Surplus Money Investment Fund	<u>10,328,000</u>	<u>9,196,000</u>
Total cash and equivalents	<u>\$ 10,329,114</u>	<u>\$ 9,200,050</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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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, 2012 and 2011.

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>2012</u>	<u>2011</u>
SMIF	Interest Income	\$ 4,730	\$ 6,279

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

<u>Due From</u>	<u>Description</u>	<u>2012</u>	<u>2011</u>
SMIF	Interest Income	\$ 9,206	\$ 10,799
Hospital Building Fund	Miscellaneous payments	1,694	
Orange County	First 5 payment		61,900
Total		<u>\$ 10,900</u>	<u>\$ 72,699</u>

Additionally, the Mental Health Services Fund has appropriated funds available totaling \$9,570,853 and \$6,645,939 as of June 30, 2012 and 2011, respectively. These amounts are appropriated funds from the Dept. of Mental Health that have either been expended by the Foundation and are awaiting payment as of June 30, or have been encumbered for future periods.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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>2012</u>	<u>2011</u>
General Fund	Outstanding Expenditures	\$ 244	\$ 126
Hospital Building Fund	Outstanding Expenditures	197,694	137,737
Prison Fund	Outstanding Expenditures	2,831	486
Technology Fund	Outstanding Expenditures		34
Service Fund	Outstanding Expenditures		685
Total		<u>\$ 200,769</u>	<u>\$ 139,068</u>

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

<u>Due To</u>	<u>Description</u>	<u>2012</u>	<u>2011</u>
General Fund	Outstanding Expenditures	\$ 26	\$ 51
Hospital Building Fund	Outstanding Expenditures	15,451	30,383
Service Revolving Fund	Outstanding Expenditures		570
Total		<u>\$ 15,477</u>	<u>\$ 31,004</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, 2012, 2011, and 2010, the Foundation was charged \$68,392, \$72,301, and \$46,999, 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.

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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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, 2012

	<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	\$ 3,714,960	\$ 850,581	\$ 683,598		\$ 5,249,139
Appropriated Funds Available				\$ 9,570,853	9,570,853
Due from Other State Funds	3,322	793	615		4,730
Accounts Receivable	<u>169,591</u>	<u>10,052</u>	<u>55,000</u>		<u>234,643</u>
Total Assets	<u>\$ 3,887,873</u>	<u>\$ 861,426</u>	<u>\$ 739,213</u>	<u>\$ 9,570,853</u>	<u>\$15,059,365</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts Payable	\$ 104,007	\$ 18,568	\$ 8,313	\$ 3,211,790	\$ 3,342,678
Advanced Fee Collections	134,890	21,990	8,320		165,200
Reserve for Long-Term Receivables	154,589	5,102	51,450		211,141
Due to Other State Funds	<u>54,855</u>	<u>13,298</u>	<u>6,254</u>	<u>126,362</u>	<u>200,769</u>
Total Liabilities	<u>448,341</u>	<u>58,958</u>	<u>74,337</u>	<u>3,338,152</u>	<u>3,919,788</u>
Fund Balance, Restricted for Fund Purpose	<u>3,439,532</u>	<u>802,468</u>	<u>664,876</u>	<u>6,232,701</u>	<u>11,139,577</u>
Total Liabilities and Fund Balance	<u>\$ 3,887,873</u>	<u>\$ 861,426</u>	<u>\$ 739,213</u>	<u>\$ 9,570,853</u>	<u>\$15,059,365</u>

* The Mental Health Services Fund is a shared governmental cost fund for which the Foundation is appropriated funds for expenditure and encumbrance only. The California Department of Mental Health controls and accounts for the full activities and assets of this fund, therefore, no other assets are recorded at the Foundation.

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS YEAR ENDED JUNE 30, 2012

	Registered Nurse Education	Mental Health Practitioner Education	Vocational Nurse Education	Mental Health Services*	Total
REVENUES					
Surcharges for Professional Licensing					
Fees	\$ 1,831,052	\$ 331,670	\$ 195,060		\$ 2,357,782
Student Loan Repayments	45,929	2,308	733		48,970
Interest Income	21,785	3,705	3,014		28,504
Total Revenues	1,898,766	337,683	198,807		2,435,256
EXPENDITURES					
Student Financial Aid	1,376,825	446,149	98,897	\$ 5,213,577	7,135,448
Salaries and Benefits	194,080	65,463	56,400	195,271	511,214
Departmental Services	109,585	27,416	13,845	148,529	299,375
Central Administrative Services	7,371	1,662	1,864	235,856	246,753
Professional Services	73,590	4,779	7,600	52,331	138,300
Facilities Operations	47,047	4,771	7,379	48,351	107,548
Information Technology	1,871	2,235	1,425	16,639	22,170
Travel	5,641	229	281	6,132	12,283
General Expenses	5,649	250	67	5,370	11,336
Printing	876	64	85	1,593	2,618
Postage	2,238	378	248	(758)	2,106
Training				1,506	1,506
Communications	548	53	65	404	1,070
Utilities	10	5	5	18	38
Other Operating	9,204	2,378	2,089		13,671
Total Expenditures	1,834,535	555,832	190,250	5,924,819	8,505,436
Excess (Deficiency) of Revenues over Expenditures	64,231	(218,149)	8,557	(5,924,819)	(6,070,180)
OTHER FINANCING SOURCES					
Operating Transfers In				7,234,470	7,234,470
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures	64,231	(218,149)	8,557	1,309,651	1,164,290
Fund Balance, Beginning	3,375,301	1,020,617	656,319	4,923,050	9,975,287
Fund Balance, Ending	\$ 3,439,532	\$ 802,468	\$ 664,876	\$ 6,232,701	\$11,139,577

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING STATEMENTS OF FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS JUNE 30, 2012

	<u>Health Professions Education</u>	<u>Medically Underserved Account</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 837,214	\$ 9,491,900	\$ 10,329,114
Due from Other State Funds	769	10,131	10,900
Accounts Receivable	258,449	43,592	302,041
Other Current Assets		2,290	2,290
Fixed Assets, Net	<u>1,043</u>	<u>598</u>	<u>1,641</u>
Total Assets	<u>\$ 1,097,475</u>	<u>\$ 9,548,511</u>	<u>\$ 10,645,986</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts Payable	\$ 10,546	\$ 1,284,119	\$ 1,294,665
Advanced Fee Collections and Deferred Grant Revenue	211,373	560,829	772,202
Reserve for Long-Term Receivables	258,449		258,449
Due to Other State Funds	<u>1,807</u>	<u>13,670</u>	<u>15,477</u>
Total Liabilities	<u>482,175</u>	<u>1,858,618</u>	<u>2,340,793</u>
Held in Trust for Scholarships	<u>615,300</u>	<u>7,689,893</u>	<u>8,305,193</u>
Total Liabilities and Net Assets	<u>\$ 1,097,475</u>	<u>\$ 9,548,511</u>	<u>\$ 10,645,986</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS YEAR ENDED JUNE 30, 2012

	Health Professions Education	Medically Underserved Account	Total
REVENUES			
Surcharges for Professional Licensing Fees		\$ 1,825,317	\$ 1,825,317
Contributions and Grants	\$ 283,175	835,098	1,118,273
Interest Income	8,146	32,666	40,812
Student Loan Repayments	26,490		26,490
Total Additions to Net Assets	<u>317,811</u>	<u>2,693,081</u>	<u>3,010,892</u>
EXPENSES			
Student Financial Aid	290,424	2,628,326	2,918,750
Salaries and Benefits	6,132	51,336	57,468
Professional Services	2,639	14,735	17,374
General Expenses	19	1,574	1,593
Facilities Operations	244	12,692	12,936
Central Administrative Services	8,982		8,982
Information Technology	1,738	2,458	4,196
Travel	505	891	1,396
Departmental Services	211	7,324	7,535
Printing		1,409	1,409
Postage	286	494	780
Depreciation	148		148
Communications	2,126	177	2,303
Utilities		5	5
Other Operating		5,535	5,535
Total Deductions from Net Assets	<u>313,454</u>	<u>2,726,956</u>	<u>3,040,410</u>
Increase (Decrease) in Net Assets	4,357	(33,875)	(29,518)
OTHER FINANCING SOURCES			
Operating Transfers In		<u>1,000,000</u>	<u>1,000,000</u>
Increase in Net Assets and Other Financing Sources	4,357	966,125	970,482
Net Assets, Beginning	<u>610,943</u>	<u>6,723,768</u>	<u>7,334,711</u>
Net Assets, Ending	<u>\$ 615,300</u>	<u>\$ 7,689,893</u>	<u>\$ 8,305,193</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, 2012 and 2011, and have issued our report thereon dated March 12, 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

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.

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*.

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

March 12, 2013

HEALTH PROFESSIONS EDUCATION FOUNDATION

SCHEDULE OF AUDIT FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENT FINDINGS

There were no findings for the year ended June 30, 2012.

HEALTH PROFESSIONS EDUCATION FOUNDATION

STATUS OF PRIOR YEAR FINDINGS YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENT FINDINGS

Recommendation	Current Status	Explanation If Not Implemented
11-1 ACCOUNTS PAYABLE ACCRUAL 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 30 th be recorded in the proper period.	Implemented	