

HEALTH PROFESIONS EDUCATION FOUNDATION

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2006

VAUGHN JOHNSON, CPA

Board of Directors
Health Professions Education Foundation

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying statements of financial position of Health Professions Education Foundation (a nonprofit organization) as of June 30, 2006 and the related statements of activity and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Health Professions Education Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Health Professions Education Foundation as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Vaughn Johnson, CPA

Vaughn Johnson, CPA
Cameron Park, CA
January 17, 2007

HEALTH PROFESSIONS EDUCATION FOUNDATION
Statement of Financial Position
June 30, 2006

	Health Professions Education Fund	Mental Health Fund	Registered Nurse Education Fund	Vocational Nurse's Education Fund	<u>Total</u>
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 6,002	\$ 222	\$ 747	\$ 901	\$ 7,872
Due from other funds	4,486	14,781	28,389	7,509	55,165
Investments	2,944,848	594,000	2,466,000	217,000	6,221,848
Prepaid Expenses	38,500	38,500	38,500	38,500	154,000
Accounts receivable	111,518		21,230		132,748
TOTAL CURRENT ASSETS	3,105,354	647,503	2,554,866	263,910	6,571,633
Nurses loans receivable	167,812	-	554,204		722,016
TOTAL ASSETS	\$ 3,273,166	\$ 647,503	\$ 3,109,070	\$ 263,910	\$ 7,293,649
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 1,027,405	\$ 448	\$ 1,013,706	\$ 448	\$ 2,042,007
Due to other funds	72,227	2,803	43,960	2,409	121,399
Deferred revenue	625,992				625,992
TOTAL CURRENT LIABILITIES	1,725,624	3,251	1,057,666	2,857	2,789,398
Provision for loans receivable	167,812		554,204		722,016
TOTAL LIABILITIES	1,893,436	3,251	1,611,870	2,857	3,511,414
NET ASSETS					
Unrestricted	1,379,730				1,379,730
Legislative restricted		644,252	1,497,200	261,053	2,402,505
TOTAL NET ASSETS	1,379,730	644,252	1,497,200	261,053	3,782,235
TOTAL LIABILITIES AND NET ASSETS	\$ 3,273,166	\$ 647,503	\$ 3,109,070	\$ 263,910	\$ 7,293,649

See accompanying notes.

HEALTH PROFESSIONS EDUCATION FOUNDATION
Statement of Activity and Changes in Net Assets
June 30, 2006

	Health Professions Education Fund	Mental Health Fund	Registered Nurse Education Fund	Vocational Nurse's Education Fund	Total
PUBLIC SUPPORT AND REVENUE					
Contributions	\$ 256	-	-	-	\$ 256
Grant income	400,191				400,191
Surcharge revenue	1,144	286,260	1,504,599	162,575	1,954,578
Loan repayments	16,412		51,170		67,582
Investment income	141,974	19,548	91,831	7,392	260,745
TOTAL PUBLIC SUPPORT AND REVENUE	559,977	305,808	1,647,600	169,967	2,683,352
EXPENSES					
Program Services	629,141	27,109	1,281,083	22,783	1,960,116
Management and general	56,826	4,784	30,875	4,020	96,505
TOTAL EXPENSES	685,967	31,893	1,311,958	26,803	2,056,621
OPERATING CHANGE IN NET ASSETS	(125,990)	273,915	335,642	143,164	626,731
OTHER SOURCES OF REVENUE					
Reverted appropriations					-
NET ASSETS - beginning year	1,505,720	370,337	1,161,558	117,889	3,155,504
NET ASSETS - end of year	\$ 1,379,730	\$ 644,252	\$ 1,497,200	\$ 261,053	\$ 3,782,235

See accompanying notes.

HEALTH PROFESSIONS EDUCATION FOUNDATION
Statement of Functional Expenses
June 30, 2006

	Health Professions Education Foundation			Mental Health Fund			Registered Nurse Education Foundation		
	Program	Management and General		Program	Management and General		Program	Management and General	
		Total	Total		Total	Total			
Wages	\$ 126,487	\$ 22,321	\$ 148,808	\$ 16,877	\$ 2,978	\$ 19,855	\$ 63,425	\$ 11,193	\$ 74,618
Pension	19,902	3,512	23,414	2,690	475	3,165	10,057	1,775	11,832
Other benefits	29,595	5,223	34,818	3,110	549	3,659	15,355	2,710	18,065
TOTAL WAGES AND BENEFITS	175,984	31,056	207,040	22,677	4,002	26,679	88,838	15,677	104,515
Central administration service	14,090	2,487	16,577	-	-	-	3,892	687	4,579
Communications	6,706	1,183	7,889	-	-	-	4,941	872	5,813
Facilities operation	28,080	4,955	33,035	-	-	-	19,820	3,498	23,318
Financial assistance	307,125		307,125	-	-	-	1,106,127	(486)	1,106,127
General expense	10,506	1,854	12,360	-	-	-	(2,754)	-	(3,240)
Insurance	1,381	244	1,625	-	-	-	-	-	-
Meeting and conferences	854	151	1,005	-	-	-	-	-	-
Equipment	3,330	588	3,918	-	-	-	8,341	1,472	9,813
Other local costs	26,109	4,607	30,716	4,432	782	5,214	13,439	2,372	15,811
Postage and delivery	7,562	1,334	8,896	-	-	-	24	4	28
Printing and publication	2,452	433	2,885	-	-	-	3,171	560	3,731
Professional services	32,975	5,819	38,794	-	-	-	31,744	5,602	37,346
Staff appreciation	-	-	-	-	-	-	-	-	-
Travel	9,222	1,627	10,849	-	-	-	3,443	608	4,051
Training	2,765	488	3,253	-	-	-	56	10	66
TOTAL EXPENSES	\$ 629,141	\$ 56,826	\$ 685,967	\$ 27,109	\$ 4,784	\$ 31,893	\$ 1,281,083	\$ 30,875	\$ 1,311,958

See accompanying notes.

HEALTH PROFESSIONS EDUCATION FOUNDATION
Statement of Functional Expenses
June 30, 2006

	Vocational Nurse's Education Fund			Memo Only Combined Funds		
	<u>Program</u>	<u>Management and General</u>	<u>Total</u>	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Wages	\$ 13,263	\$ 2,341	\$ 15,604	\$ 220,052	\$ 38,833	\$ 258,885
Pension	2,115	373	2,488	34,764	6,135	40,899
Other benefits	2,516	444	2,960	50,577	8,925	59,502
TOTAL WAGES AND BENEFITS	17,894	3,158	21,052	305,393	53,893	359,286
Central administration service	-	-	-	17,983	3,173	21,156
Communications	393	69	462	12,039	2,125	14,164
Facilities operation	-	-	-	47,900	8,453	56,353
Financial assistance	-	-	-	1,413,252	-	1,413,252
General expense	45	8	53	7,797	1,376	9,173
Insurance	-	-	-	1,381	244	1,625
Meeting and conferences	-	-	-	854	151	1,005
Minor equipment	-	-	-	11,671	2,060	13,731
Other local costs	4,432	782	5,214	48,412	8,543	56,955
Postage and delivery	-	-	-	7,585	1,339	8,924
Printing and publication	-	-	-	5,624	992	6,616
Professional services	19	3	22	64,738	11,424	76,162
Staff appreciation	-	-	-	-	-	-
Travel	-	-	-	12,665	2,235	14,900
Training	-	-	-	2,821	498	3,319
TOTAL EXPENSES	\$ 22,783	\$ 4,020	\$ 26,803	\$ 1,960,116	\$ 96,505	\$ 2,056,621

See accompanying notes.

HEALTH PROFESSIONS EDUCATION FOUNDATION

Statement of Cash Flows

June 30, 2006

	Health Professions Education <u>Fund</u>	Mental Health <u>Fund</u>	Registered Nurse Education <u>Fund</u>	Vocational Nurse's Education <u>Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Change in net assets	\$ (125,990)	\$ 273,915	\$ 335,642	\$ 143,164	\$ 626,731
Change in due from other funds	(3,542)	(13,324)	(12,716)	(7,030)	(36,612)
Change in prepaid expenses	(38,500)	(38,500)	(38,500)	(38,500)	(154,000)
Change in accounts receivable	(111,518)	3,320	(10,105)		(118,303)
Change in nurses loan receivable	(36,072)		25,158	1,585	(9,329)
Change in accounts payable	(401,442)	445	(20,179)	445	(420,731)
Change in due to other funds	14,231	99	17,981	414	32,725
Change in deferred revenue	467,992	(22,780)	(164,891)	(16,565)	263,756
Change in provisions for loans receivable	36,072		(25,158)		10,914
CASH PROVIDED BY OPERATING ACTIVITIES	(198,769)	203,175	107,232	83,513	195,151
CASH FLOWS FROM INVESTING ACTIVITIES					
Net (purchase) reduction of investment	(11,081)	-594000	(107,000)	-217000	(929,081)
CASH USED BY INVESTING ACTIVITIES	(11,081)	-594000	(107,000)	-217000	(929,081)
CASH FLOWS FROM FINANCING ACTIVITIES					
Reverted appropriations		0		0	-
CASH PROVIDED BY FINANCING ACTIVITIES	-	0	0	0	-
NET (DECREASE) INCREASE IN CASH	(209,850)	(390,825)	232	(133,487)	(733,930)
CASH BEGINNING OF YEAR - July 1, 2004	215,852	391,047	515	134388	741,802
CASH END OF YEAR - June 30, 2005	\$ 6,002	\$ 222	\$ 747	\$ 901	\$ 7,872

See accompanying notes.

HEALTH PROFESSIONS EDUCATION FOUNDATION

Notes to the Financial Statements

June 30, 2006

Note 1 - ORGANIZATION

The Health Professions Education Foundation (the Foundation) is a nonprofit, public benefit corporation created by the California Legislature in 1987. Its primary purpose is to provide scholarships and loan repayments to healthcare students who are either in school or newly licensed and ready to practice. In return for financial support, awardees contractually commit to provide one to three years of clinical service in a medically underserved area of the state.

The various programs, most of which have been legislatively mandated, are funded from assessments on professional licensing fees as well as from private foundations and contributors. The Foundation is responsible for the administration of these programs.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of Revenue: The books and records are maintained and these financial statements are prepared, on the accrual method of accounting. This method accounts for revenues and expenses in the period in which they are considered to have been earned and incurred, respectively. To ensure observance of restrictions placed on the uses of resources, the accounts are expanded into funds established in accordance to their nature and purpose. Both years presented are consistent in the accounting policies used.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations. Voluntary resolutions of the Board of Directors and legislation making self imposed limits are also considered unrestricted. Gains and losses are considered unrestricted unless a donor temporarily or permanently restricts their use.

Temporarily Restricted Net Assets: Net assets subject to donor-imposed stipulation that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as unrestricted.

Permanently Restricted Net Assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investment for general or specific purposes.

Nurses Loans Receivable: When a scholarship recipient does not fulfill the contract of education and work requirements, the funds advance become a loan receivable. The terms are set forth at the onset of the scholarship contact with the payments to be fully amortized over seven years including interest of ten percent (10%). Since the awards are made to economically disadvantaged students, the loans receivable are booked with a reserve of 100% and the payments are recognized when received.

HEALTH PROFESSIONS EDUCATION FOUNDATION

Notes to the Financial Statements

June 30, 2006

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimate and assumptions that affect the reported amount of assets. The estimates commonly involve summarizations, judgments, and allocations which are based on rules and conventions rather than exact amounts. Actual amounts could differ from those estimates.

Income Taxes: The Health Professions Education Foundation is a corporation exempt from Federal and State income tax under the provisions of code Section 501(c)(3) of the Internal Revenue Code and under Section 23701(d) of the California Revenue and Taxation Code relating to organizations operated exclusively for charitable purposes.

Contributions: Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Compensation Absences: No amounts are booked on the financial statements for compensated absences. The amounts cannot be reasonable estimated.

Advertising: Advertising costs are expensed when incurred.

Functional Allocation of Expenses: The costs of providing the program and other activities have been summarized on a functional basis in the statement of activity and changes in net assets. Certain costs have been allocated among the programs and the supporting services benefited based on an analysis of personnel time and space utilized for the related activities. This allocation is developed during the budgeting process and reviewed annually.

Cash and Cash Equivalents: For the purpose of the statement of cash flows, the Foundation considers all cash, marketable and liquid securities to be cash equivalents. The carrying amounts of these financial instruments approximate fair value.

Due To/From Other Funds: The due to and due from funds represents amounts advanced or paid by funds from the agencies of the State of California. The Hospital Building Fund manages the investment of cash in the treasury and the due to/from accounts on behalf of the Foundation

Deferred Revenue: Deferred revenue represents amounts collected for registered nurse licensing fees or for grants which apply to the following fiscal year. These amounts are recognized as revenues in the fiscal year in which the fees or grants relate to.

Note 3 – DONATED MATERIALS AND SERVICES

No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services. However, a substantial number of volunteers have donated time in the organization's management and programs.

HEALTH PROFESSIONS EDUCATION FOUNDATION

Notes to the Financial Statements

June 30, 2006

Note 4 – CASH AND CASH EQUIVALENTS

	<u>June 30, 2006</u>
Bank of America Checking	\$ 5,673
General Cash-HPEF Fund	329
General Cash-Mental Health Program	222
General Cash-Registered Nurse Program	747
General Cash-Vocational Nurse Program	901
Surplus Money Fund-HPEF Fund	
Surplus Money Fund-Mental Health	
Surplus Money Fund-Vocational Nurse	
Total	<u>\$ 7,872</u>

The Foundation has instructed the State to invest excess funds on deposit in their Surplus Money Investment Fund. The Foundation's interest is then allocated according to the average cash balance in the Surplus Money Fund based upon the overall investments of the fund.

The State maintains written investment policies which address a wide variety of investment practices, including primary investment objectives, investment authority, allowable investment vehicles, investment maturity terms, eligible financial institutions, capital preservation and cash flow managements. These funds are not FDIC insured.

Note 5 – INVESTMENT FUND

HEALTH PROFESSIONS EDUCATION FUND

In accordance with Statement of Financial Standards 124, Accounting for Certain Investments Held by Not-For-Profit Organizations, are held at fair market value. Below is the detail of the investment funds:

	<u>June 30, 2006</u>
Money Funds	\$ 581,715
Stocks and Mutual Funds	1,504,866
US Treasury Bills and Notes	<u>728,267</u>
Total	<u>\$ 2,813,813</u>

These funds are not federally insured.

HEALTH PROFESSIONS EDUCATION FOUNDATION

Notes to the Financial Statements

June 30, 2006

Note 5 – INVESTMENT FUND (continued)

Components of investment return:	<u>June 30, 2006</u>
Dividends and Interest Net of Fees	\$ 49,675
Realized and Unrealized Gain (Loss)	<u>80,790</u>
Net Return	<u>\$ 130,465</u>

The monies are pooled in the state surplus money fund. These funds are restricted by legislation.

	<u>Market Value</u>
	<u>June 30, 2006</u>
Cash	<u>\$ 3,407,000</u>
Components of investment return:	<u>June 30, 2006</u>
Interest	<u>\$ 130,282</u>

The investments in both of the above funds are available for current and long-term needs. Because of the multiple purposes of the funds, all monies are reported as current assets. Fees and cost basis have not been detailed and are not available for disclosure. These funds are not FDIC insured.

Note 6 – LEASE COMMITMENTS

The foundation has rented month to month from the Office of Statewide Health Planning and Development (OSHPD).

Note 7 – RETIREMENT PLAN

The Foundation funds retirement benefits with the State of California Public Employee's Retirement System (PERS). The amount of pension contributions by the Foundation to PERS is actuarially determined under a program where contributions plus earnings of the retirement system are to provide the necessary funds to pay retirement benefits. The Foundation relies on the competency of the State in determining the funding method and adequacy. The pension costs for 2006 are \$40,899.

HEALTH PROFESSIONS EDUCATION FOUNDATION

Notes to the Financial Statements

June 30, 2006

Note 8 – GRANTS

Scholarship grants are recognized when the awardees are notified. Grants that are paid over several years are recognized in full. A number of awardees elect not to receive the funds and this is reported as Other Source of funds when the award is removed.

Defaults on grants that require the awardees to work in a position in a area designated as underserved are recorded as receivables. A provision for loans receivable of equal value is recorded and the loan repayment is recognized when received.

Note 9 – OTHER SOURCES OF REVENUE

The reverted appropriations are made up of reversals to prior year encumbrances accrued. Scholarship funding is encumbered when the award letter is sent. If the award is declined or the student's financial need has changed, an adjustment to the encumbrance is made.

Note 10- CONTINGENT LIABILITY

The Foundation has received funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under the terms of the grants, it is believed that any required reimbursements will not be material.