

**HEALTH PROFESSIONS EDUCATION FOUNDATION**

**AUDITED FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT**

**FOR FISCAL YEAR ENDED  
JUNE 30, 2007**

**HEALTH PROFESSIONS EDUCATION FOUNDATION**

**JUNE 30, 2007**

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# **INDEPENDENT AUDITOR'S REPORT**

**To the Board of Trustees of  
Health Professions Education Foundation**

I have audited the accompanying statement of financial position of the Health Professions Education Foundation (a non-profit organization) as of June 30, 2007 and 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 the Health Professions Education Foundation's management. My responsibility is to express opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted 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 the Health Professions Education Foundation as of June 30, 2007, 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.

**Jones and Company Professional Corporation  
Fontana, CA  
March 27, 2008**

**HEALTH PROFESSIONS EDUCATION FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2007**

	Health Professions Education Fund	Mental Health Practitioner Education Fund	Registered Nurse Education Fund	Vocational Nurse Education Fund	Medically Underserved Account for Physicians	Total
Cash and cash equivalents	(\$ 27,689)	\$ 666	\$ 172	\$ 28,557	\$ 313	\$ 2,019
Short-term investments	2,644,000	861,000	3,157,000	332,000	4,018,000	11,012,000
Accounts receivable	0	11,070	16,190	9,875	645	37,780
Due from other funds	37,267	11,047	40,949	4,440	52,551	146,254
Prepaid expenses	77,039	48,502	77,016	41,502	20,000	264,059
Total current assets	<u>2,730,617</u>	<u>932,285</u>	<u>3,291,327</u>	<u>416,374</u>	<u>4,091,509</u>	<u>11,462,112</u>
Loan receivable	<u>178,349</u>	<u>0</u>	<u>580,714</u>	<u>0</u>	<u>0</u>	<u>759,063</u>
TOTAL ASSETS	<u>\$ 2,908,966</u>	<u>\$ 932,285</u>	<u>\$ 3,872,041</u>	<u>\$ 416,374</u>	<u>\$ 4,091,509</u>	<u>\$ 12,221,175</u>
Accounts payable	840,340	261	\$ 1,083,895	29,942	3,002,715	4,957,153
Due to other funds	49,761	1,670	43,946	3,878	8,588	107,843
Deferred revenue	755,469	0	151	-	114,917	870,537
Total current liabilities	<u>1,645,570</u>	<u>1,931</u>	<u>1,127,992</u>	<u>33,820</u>	<u>3,126,220</u>	<u>5,935,533</u>
Reserve for prepaid items	77,039	48,502	77,016	41,502	20,000	264,059
Provisions for loan receivable	<u>178,349</u>	<u>0</u>	<u>580,714</u>	<u>0</u>	<u>0</u>	<u>759,063</u>
TOTAL LIABILITIES	<u>1,900,958</u>	<u>50,433</u>	<u>1,785,722</u>	<u>75,322</u>	<u>3,146,220</u>	<u>6,958,655</u>
Unrestricted	1,008,008	0	0	0	945,289	1,953,297
Temporarily restricted	0	881,852	2,086,319	341,052	0	3,309,223
Permanently restricted	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL NET ASSETS	<u>1,008,008</u>	<u>881,852</u>	<u>2,086,319</u>	<u>341,052</u>	<u>945,289</u>	<u>5,262,520</u>
TOTAL LIABILITIES AND NETASSETS	<u>\$ 2,908,966</u>	<u>\$ 932,285</u>	<u>\$ 3,872,041</u>	<u>\$ 416,374</u>	<u>\$ 4,091,509</u>	<u>\$ 12,221,175</u>

See accompanying notes to financial statement.

**HEALTH PROFESSIONS EDUCATION FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**June 30, 2007**

	Health Professions Education Fund	Mental Health Practitioner Fund	Registered Nurse Education Fund	Vocational Nurse Education Fund	Medically Underserved Account for Physicians	Total
<b>PUBLIC SUPPORT AND REVENUE</b>						
Contributions	\$ 225,843	\$ 0	\$ 0	\$ 0	\$ 445,029	\$ 670,872
Grants	0	0	0	0	0	0
Operating transfer in	0	0	0	0	5,220,424	5,220,424
Surcharge	0	292,969	1,551,696	162,165	0	2,006,830
Loan repayments	12,386	0	65,709	0	0	78,095
Interest income	2,221	0	5,727	0	0	7,948
Investment income	94,902	38,215	145,154	14,464	215,731	508,466
	<u>\$ 335,352</u>	<u>\$ 331,184</u>	<u>\$ 1,768,286</u>	<u>\$ 176,629</u>	<u>\$ 5,881,184</u>	<u>\$ 8,492,635</u>
<b>EXPENSES</b>						
Program services						
Program Support	\$ 395,464	\$ 46,379	\$ 296,917	\$ 49,033	\$ 46,658	\$ 834,451
Student Financial Aid	241,823	0	789,612	0	4,881,002	5,912,437
Managerial and general	<u>69,787</u>	<u>8,185</u>	<u>52,397</u>	<u>8,653</u>	<u>8,235</u>	<u>147,257</u>
<b>TOTAL EXPENSES</b>	<u>707,074</u>	<u>54,564</u>	<u>1,138,926</u>	<u>57,686</u>	<u>4,935,895</u>	<u>6,894,145</u>
Prior Period Adjustment	<u>0</u>	<u>520</u>	<u>1,741</u>	<u>444</u>	<u>0</u>	<u>2,705</u>
<b>CHANGE IN NET ASSETS</b>	<u>\$ (371,722)</u>	<u>\$ 276,100</u>	<u>\$ 627,619</u>	<u>\$ 118,499</u>	<u>\$ 945,289</u>	<u>\$ 1,595,785</u>
NET ASSETS AS OF BEGINNING OF YEAR	<u>1,379,730</u>	<u>605,752</u>	<u>1,458,700</u>	<u>222,553</u>	<u>0</u>	<u>3,666,735</u>
<b>NET ASSETS AS OF END OF YEAR</b>	<u><u>\$ 1,008,008</u></u>	<u><u>\$ 881,852</u></u>	<u><u>\$ 2,086,319</u></u>	<u><u>\$ 341,052</u></u>	<u><u>\$ 945,289</u></u>	<u><u>\$ 5,262,520</u></u>

See accompanying notes to financial statements.

**HEALTH PROFESSIONS EDUCATION FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**June 30, 2007**

	Health Professions Education Fund			Mental Health Practitioner Education Fund		
	Program	Management & General	Total	Program	Management & General	Total
Salaries and wages	\$ 143,890	\$ 25,392	\$ 169,282	\$ 20,948	\$ 3,697	\$ 24,645
Staff benefits	36,357	6,416	42,773	3,796	670	4,466
Pension contributions	14,532	2,564	17,096	2,468	435	2,903
<b>Total Wages &amp; Benefits</b>	<b>194,779</b>	<b>34,372</b>	<b>229,151</b>	<b>27,212</b>	<b>4,802</b>	<b>32,014</b>
General expense	16,602	2,930	19,532	632	112	744
Printing	4,669	824	5,493	19	3	22
Communications	1,850	327	2,177	294	52	346
Postage	3,967	700	4,667	164	29	193
Insurance	968	171	1,139	0	0	0
Travel	9,953	1,757	11,710	212	38	250
Training	2,467	435	2,902	144	25	169
Facilities operation	51,325	9,057	60,382	10,817	1,909	12,726
Professional service	48,842	8,619	57,461	1,802	318	2,120
Departmental service	35,606	6,283	41,889	2,051	362	2,413
Data processing	5,176	914	6,090	77	14	91
Central admin service	16,663	2,940	19,603	2,955	521	3,476
Major equipment	2,597	458	3,055	0	0	0
<b>Total G&amp;A</b>	<b>200,685</b>	<b>35,415</b>	<b>236,100</b>	<b>19,167</b>	<b>3,383</b>	<b>22,550</b>
Student financial aid	241,823	0	241,823	0	0	0
<b>Total expenditures</b>	<b>\$ 637,287</b>	<b>\$ 69,787</b>	<b>\$ 707,074</b>	<b>\$ 46,379</b>	<b>\$ 8,185</b>	<b>\$ 54,564</b>

See accompanying notes to financial statements.

**HEALTH PROFESSIONS EDUCATION FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES (Continued)**  
**June 30, 2007**

	Registered Nurse Education Fund			Vocational Nurse Education Fund		
	Program	Management & General	Total	Program	Management & General	Total
Salaries and wages	\$ 129,036	\$ 22,771	\$ 151,807	\$ 21,879	\$ 3,861	\$ 25,740
Staff benefits	19,712	3,479	23,191	4,459	787	5,246
Pension contributions	19,675	3,472	23,147	4,308	760	5,068
Total Wages & Benefits	168,423	29,722	198,145	30,646	5,408	36,054
General expense	5,442	960	6,402	1,170	207	1,377
Printing	3,349	591	3,940	1,486	262	1,748
Communications	2,221	392	2,613	581	102	683
Postage	793	139	932	1,055	186	1,241
Insurance	0	0	0	0	0	0
Travel	2,309	408	2,717	20	4	24
Training	790	140	930	200	35	235
Facilities operation	53,216	9,391	62,607	7,183	1,268	8,451
Cons prof service - other	40,151	7,086	47,237	1,843	325	2,168
Departmental service	14,072	2,483	16,555	2,051	362	2,413
Data processing	993	175	1,168	127	23	150
Central admin service	5,158	910	6,068	2,671	471	3,142
Major equipment	0	0	0	0	0	0
Total G&A	128,494	22,675	151,169	18,387	3,245	21,632
Student financial aid	789,612	0	789,612	0	0	0
Total expenditures	\$ 1,086,529	\$ 52,397	\$ 1,138,926	\$ 49,033	\$ 8,653	\$ 57,686

See accompanying notes to financial statements.

**HEALTH PROFESSIONS EDUCATION FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES (Continued)**  
**June 30, 2007**

	Medically Underserved Account for Physicians			Combined Total Fund Expenses		
	Program	Management & General	Total	Program	Management & General	Total
Salaries and wages	\$ 11,632	\$ 2,053	\$ 13,685	\$ 327,385	\$ 57,774	\$ 385,159
Staff benefits	83	15	98	64,407	11,367	75,774
Pension contributions	5,120	904	6,024	46,103	8,135	54,238
Total Wages & Benefits	16,835	2,972	19,807	437,895	77,276	515,171
General expense	4,304	759	5,063	28,150	4,968	33,118
Printing	232	41	273	9,755	1,721	11,476
Communications	386	68	454	5,332	941	6,273
Postage	385	68	453	6,364	1,122	7,486
Insurance	0	0	0	968	171	1,139
Travel	14	3	17	12,508	2,210	14,718
Training	0	0	0	3,601	635	4,236
Facilities operation	19,903	3,512	23,415	142,444	25,137	167,581
Cons prof service - other	1,720	304	2,024	94,358	16,652	111,010
Departmental service	0	0	0	53,780	9,490	63,270
Data processing	398	70	468	6,771	1,196	7,967
Central admin service	0	0	0	27,447	4,842	32,289
Major equipment	2,481	438	2,919	5,078	896	5,974
Total G&A	29,823	5,263	35,086	396,556	69,981	466,537
Student financial aid	4,881,002	0	4,881,002	5,912,437	0	5,912,437
Total expenditures	\$ 4,927,660	\$ 8,235	\$ 4,935,895	\$ 6,746,888	\$ 147,257	\$ 6,894,145

See accompanying notes to financial statements.

**HEALTH PROFESSIONS EDUCATION FOUNDATION**  
**STATEMENT OF CASH FLOWS**  
**June 30, 2007**

	Health Professions Education Fund	Mental Health Practitioner Education Fund	Registered Nurse Education Fund	Vocational Nurse Education Fund	Medically Underserved Account for Physicians	Total
Operating activities						
Change in net assets	\$ (371,722)	\$ 276,100	\$ 627,619	\$ 118,499	\$ 945,289	\$ 1,595,785
Adjustments to reconcile change in net assets to net cash provided by operating activities						
Change in due from other funds	(32,781)	3,735	(12,560)	(1,816)	(52,551)	(95,973)
Change in prepaid expenses	(38,539)	(10,002)	(38,516)	(3,002)	(20,000)	(110,059)
Change in accounts receivable	111,518	(11,070)	5,040	(4,990)	(645)	99,853
Change in nurses loan receivable	(10,537)	(0)	(26,510)	0	0	(37,047)
Change in accounts payable	(196,240)	(187)	56,348	29,494	3,002,715	2,892,130
Change in due to other funds	(13,291)	(1,134)	14,027	1,469	8,588	9,659
Change in deferred revenue	129,477	0	(49)	0	114,917	244,345
Change in reserve for prepaid items	77,039	10,002	38,516	3,002	20,000	148,559
Change in provisions for loans receivable	10,537	0	26,510	0	0	37,047
Net cash provided by operating activities	\$ (334,539)	\$ 267,444	\$ 690,425	\$ 142,656	\$ 4,018,313	\$ 4,784,299
Investing activities						
Net deposits in surplus investments	300,848	(267,000)	(691,000)	(115,000)	(4,018,000)	(4,790,152)
Net cash used in investing activities	300,848	(267,000)	(691,000)	(115,000)	(4,018,000)	(4,790,152)
Financing activities						
Net cash used in financing activities	0	0	0	0	0	0
Net increase (decrease) in cash and cash equivalents	\$ (33,691)	\$ 444	\$ (575)	\$ 27,656	\$ 313	\$ (5,853)
Cash and cash equivalents as of beginning of year	6,002	222	747	901	0	7,872
Cash and cash equivalents as of end of year	\$ (27,689)	\$ 666	\$ 172	\$ 28,557	\$ 313	\$ 2,019

See accompanying notes to financial statements.

# HEALTH PROFESSIONS EDUCATION FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007

### Note 1 – Summary of Significant Accounting Policies

#### Organization and Nature of Activities

The Health Professions Education Foundation (the Foundation) is a non-profit, public benefit corporation created by the California Legislature in 1987. The Foundation's 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 Foundation is a non-profit organization as described in Section 501 (c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

#### Public Support and Revenue

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

Recognition of Revenue: The books and records are maintained and these financial statements are prepared on the accrual method of accounting. The 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. The current year presented is 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 Trustees 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 require 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.

### **Contributed Services**

During the fiscal year ended June 30, 2007, the value of contributed services meeting the requirements for recognition in the financial statements was not material. No objective basis is available to measure the value of services and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Foundation with management and program activities.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles required the use of management's estimates.

### **Cash and Cash Equivalents**

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows excluded permanently restricted cash and cash equivalents.

### **Property and Equipment**

The Foundation's fixed assets are accounted for in the general fixed asset account group of the state of California.

### **Financial Statement Presentation**

The Foundation is required to report information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

### **Note 2 – Investment Fund**

The Foundation invests excess cash funds 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. As of June 30, 2007, the Foundation had invested funds in the SMIF in the amount of \$11,012,000.

Additional disclosure detail required by Government Accounting Standards Board (GASB) Statement No. 3, No. 31, No. 40, and GASB Technical Bulletin 94-1, regarding cash deposits and investments are presented in the financial statements of the State of California for the fiscal year ended June 30, 2007.

In the prior year, the Foundation maintained accounts for checking and investment funds deposited in outside private institutions. In December 2007, the outside accounts were closed and these funds which

consisted of a combination of stock, mutual funds and treasury bills were transferred to the SMIF. Below is a detail of funds transferred into the SMIF in December 2006

Bank of America	\$ 6,011
Merrill Lynch	641,844
UBS/Piper Jaffrey	<u>2,118,402</u>
	<u>\$ 2,766,257</u>

### **Note 3 – Operation Lease Commitment**

The Foundation entered into a month-to-month lease with the Office of Statewide Health Planning and Development (OSHPD).

### **Note 4 – Employee Retirement Plan**

The Foundation’s eligible employees participate in the California Public Employees Retirement System (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 Fund’s employees cannot be determined. The significant actuarial assumptions used to compute the actuarially determined state contribution requirements are the same as those used to compute the state pension benefit obligation as defined by CalPERS. The state charges the Program for its share of the required contributions. For the fiscal year ended June 30, 2007 the Foundation’s contributions to CalPERS was \$54,238. 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 services. Participants are eligible for the service retirement after age of 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 0.50 to 2.418% 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 P Street, Sacramento, CA 95814.

### **Note 5 – Deferred Revenue**

Deferred revenue represents registered nurse licensing fees as resources received in advance that do not apply to the current year and should be recognized as liabilities to the extent that the earnings process has not been completed.

**Note 6 – Due to/from Other Funds**

Due to/from other funds represent advances received from other funds or agencies within the State of California. Advances represent services not yet performed, as well as refunds due to other funds and agencies.

**Note 7 – 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.

Awardees are required to work in a position in an area designated as underserved. If an awardee breaches his/her obligation, funds must be repaid. Fund to be repaid are recorded as a receivable. A provision for loans receivables of equal value is recorded and the loan repayment is recognized when received.

**Note 8 – 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 9 – Prepaid Expenses**

The Foundation's prepaid expenses represent amounts paid to the Architectural Revolving Fund within the State of California to cover the costs associated with moving the Foundation's offices to the current location.

**Note 10 – Functional Allocation of Expenses**

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Note 11 – Prior Period Adjustments**

The prior period adjustments to fund balance of the mental health practitioner, registered nurse and vocation nurse education funds are expenditures charged to the funds by the State Controller but are recorded to appropriations outside of OSHPD. The State Controller recorded these as adjustments that reduce cash and charge fund balance directly.