

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

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
AND SUPPLEMENTARY FINANCIAL INFORMATION**

JUNE 30, 2016 AND 2015



**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**

Report on the Financial Statements

We have audited the accompanying financial statements of the special revenue fund and the private purpose trust funds of the Health Professions Education Foundation (Foundation) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the special revenue fund and private purpose trust funds of the Foundation, as of June 30, 2016 and 2015, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial positions, and the changes in financial position of the Foundation and do not purport to, and do not, present fairly the financial position of the State of California or the Office of Statewide Health Planning and Development as of June 30, 2016 and 2015, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Financial Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Foundation's basic financial statements. The accompanying Supplementary Financial Information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Financial Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017, on our consideration of the Foundation's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 10, 2017

HEALTH PROFESSIONS EDUCATION FOUNDATION

BALANCE SHEETS SPECIAL REVENUE FUND JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Cash Equivalents	\$ 4,664,922	\$ 4,739,763
Appropriated Funds Available	26,865,211	22,102,523
Due from Other State Funds	8,097	7,904
Accounts Receivable	<u>184,861</u>	<u>313,522</u>
 Total Assets	 <u>\$ 31,723,091</u>	 <u>\$ 27,163,712</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Student Financial Aid Payable	\$ 7,031,374	\$ 7,484,073
Due to Other State Funds	610,487	449,290
Reserve for Long-Term Receivables	<u>121,432</u>	<u>243,357</u>
 Total Liabilities	 <u>7,763,293</u>	 <u>8,176,720</u>
 Deferred Inflows of Resources:		
Advanced Fee Collections	<u>204,650</u>	<u>124,340</u>
 Fund Balance:		
Restricted for Education of Registered Nurses	2,966,022	2,962,654
Restricted for Student Financial Aid	593,410	792,713
Restricted for Scholarships to Vocational Nurses	827,808	738,643
Restricted for Prop 63, Mental Health Services Act	<u>19,367,908</u>	<u>14,368,642</u>
 Total Fund Balance	 <u>23,755,148</u>	 <u>18,862,652</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 <u>\$ 31,723,091</u>	 <u>\$ 27,163,712</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE SPECIAL REVENUE FUND YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
REVENUES		
Surcharges for Professional Licensing Fees	\$ 2,480,486	\$ 2,427,777
Student Loan Repayments	112,165	69,738
Interest Income	31,462	26,443
Total Revenues	<u>2,624,113</u>	<u>2,523,958</u>
EXPENDITURES		
Student Financial Aid	13,406,318	9,957,399
Salaries and Benefits	716,042	805,838
Departmental Services	314,192	363,032
Facilities Operations	123,993	118,124
Central Administrative Services	21,146	662,683
Travel	9,079	19,239
Communications	3,201	3,712
Training	2,761	2,284
Other Operating	<u>48,131</u>	<u>70,788</u>
Total Expenditures	<u>14,644,863</u>	<u>12,003,099</u>
Deficiency of Revenues over Expenditures	(12,020,750)	(9,479,141)
OTHER FINANCING SOURCES		
Operating Transfers In from the California Department of Mental Health	<u>16,913,246</u>	<u>2,460,858</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures	4,892,496	(7,018,283)
Fund Balance, Beginning	<u>18,862,652</u>	<u>25,880,935</u>
Fund Balance, Ending	<u>\$ 23,755,148</u>	<u>\$ 18,862,652</u>

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

HEALTH PROFESSIONS EDUCATION FOUNDATION

STATEMENTS OF FIDUCIARY NET POSITION PRIVATE PURPOSE TRUST FUNDS JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Cash Equivalents	\$ 38,637,497	\$ 33,615,225
Due from Other State Funds	52,286	28,858
Accounts Receivable	189,464	232,859
Other Assets	<u>15,802</u>	<u>14,001</u>
Total Assets	<u>38,895,049</u>	<u>33,890,943</u>
LIABILITIES		
Student Financial Aid Payable	3,657,109	2,659,982
Due to Other State Funds	32,212	41,643
Unearned Grant Revenue	23,322,539	20,373,901
Reserve for Long-Term Receivables	<u>116,092</u>	<u>172,548</u>
Total Liabilities	<u>27,127,952</u>	<u>23,248,074</u>
DEFERRED INFLOWS OF RESOURCES		
Advanced Fee Collections	<u>178,352</u>	<u>114,075</u>
NET POSITION		
Assets Held in Trust for Scholarships	<u>\$ 11,588,745</u>	<u>\$ 10,528,794</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION PRIVATE PURPOSE TRUST FUNDS YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ADDITIONS		
Surcharges for Professional Licensing Fees	\$ 1,873,645	\$ 1,858,450
Grants	5,188,923	4,412,093
Interest Income	157,406	85,074
Student Loan Repayments	<u>40,511</u>	<u>35,374</u>
Total Additions to Net Position	<u>7,260,485</u>	<u>6,390,991</u>
DEDUCTIONS		
Student Financial Aid	6,967,508	6,332,910
Administrative	<u>233,026</u>	<u>232,523</u>
Total Deductions from Net Position	<u>7,200,534</u>	<u>6,565,433</u>
Increase (Decrease) in Net Position	59,951	(174,442)
OTHER FINANCING SOURCES		
Operating Transfers In from the California Department of Managed Care	<u>1,000,000</u>	<u>1,000,000</u>
Increase in Net Position and Other Financing Sources	1,059,951	825,558
Net Position, Beginning	<u>10,528,794</u>	<u>9,703,236</u>
Net Position, Ending	<u>\$ 11,588,745</u>	<u>\$ 10,528,794</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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 which varies depending on the award in order to receive loan payment credits.

The Foundation has eleven 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.

The activities of the Foundation are accounted for in two fund types, Special Revenue and Private Purpose Trust, and six separate funds are maintained in the State Treasury.

Reporting Entity and Operations

The accounts of the Foundation are organized on the basis of funds. A fund is a separate, 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.

The majority of revenues for the Special Revenue Fund and Private Purpose Trust Funds are from the following sources:

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

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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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.

The **Mental Health Services Act Fund (MHSA)** is used to provide funding for 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 Health Care Services controls and accounts for the full activities and assets of this fund.

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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

The Special Revenue Fund utilizes 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 are 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.

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.

Unearned Grant Revenue

Unearned grant revenue represents grant funding that has been received by the Foundation for use on scholarships that has yet to be expensed. Grant revenue not expensed during the grant period will be returned to the granting agency.

Advanced Fee Collections

Advanced fee collections represent Registered and Vocational Nurse, Psychologist, Marriage and Family Therapist, Licensed Clinical Social Worker, and Physician licensing fees received in advance that are recognized as deferred inflows of resources 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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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.

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, 2016 and 2015.

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.

3. CASH AND CASH EQUIVALENTS

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

	<u>2016</u>	<u>2015</u>
Cash in State Treasury	\$ 922	\$ 1,763
Deposits in Surplus Money Investment Fund	<u>4,664,000</u>	<u>4,738,000</u>
Total cash and equivalents	<u>\$ 4,664,922</u>	<u>\$ 4,739,763</u>

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

	<u>2016</u>	<u>2015</u>
Cash in State Treasury	\$ 497	\$ 1,225
Deposits in Surplus Money Investment Fund	<u>38,637,000</u>	<u>33,614,000</u>
Total cash and equivalents	<u>\$ 38,637,497</u>	<u>\$ 33,615,225</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, 2016 AND 2015

Additional disclosure details required by Government Accounting Standards Board Statements No. 3, No. 31, No. 40 and No. 72 regarding cash deposits and investments in State Treasury, including disclosures related to interest rate risk, credit risk, and concentration risks, are presented in the financial statements of the State of California as of June 30, 2016 and 2015.

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>2016</u>	<u>2015</u>
SMIF	Interest Income	\$ 1,926	\$ 3,506
Hospital Building Fund	Miscellaneous payments	<u>6,171</u>	<u>4,398</u>
Total		<u>\$ 8,097</u>	<u>\$ 7,904</u>

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

<u>Due From</u>	<u>Description</u>	<u>2016</u>	<u>2015</u>
SMIF	Interest Income	\$ 52,286	\$ 23,858
Other Governmental Entities	Miscellaneous payments	<u> </u>	<u>5,000</u>
Total		<u>\$ 52,286</u>	<u>\$ 28,858</u>

Additionally, the Mental Health Services Fund has appropriated funds available totaling \$26,865,211 and \$22,102,523 as of June 30, 2016 and 2015, respectively. These amounts are appropriated funds from the Department of Mental Health that have either been expended by the Foundation and are awaiting payment as of June 30, 2016, or have been encumbered for future periods.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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>2016</u>	<u>2015</u>
General Fund	Outstanding Expenditures	\$ 293	\$ 1,041
Hospital Building Fund	Outstanding Expenditures	518,887	447,461
Other Governmental Entities	Outstanding Expenditures	91,307	315
Prison Fund	Outstanding Expenditures		473
Total		<u>\$ 610,487</u>	<u>\$ 449,290</u>

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

<u>Due To</u>	<u>Description</u>	<u>2016</u>	<u>2015</u>
General Fund	Outstanding Expenditures		\$ 180
Hospital Building Fund	Outstanding Expenditures	\$ 32,211	36,356
Other Governmental Entities	Outstanding Expenditures	1	5,107
Total		<u>\$ 32,212</u>	<u>\$ 41,643</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, 2016 and 2015, the Foundation was charged \$144,446 and \$136,479, 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, 2016 AND 2015

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 95811.

Additional disclosure detail required by Government Accounting Standards Board Statement No. 68, regarding the defined benefit plan are presented in the Comprehensive Annual Financial Report of the State of California (the State) for the year ended June 30, 2016, which is available on the State Controllers website at www.sco.ca.gov.

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.

SUPPLEMENTARY FINANCIAL INFORMATION

HEALTH PROFESSIONS EDUCATION FOUNDATION

**CONSOLIDATING BALANCE SHEETS - SPECIAL REVENUE FUND
JUNE 30, 2016**

	<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	\$ 3,194,488	\$ 626,270	\$ 844,164		\$ 4,664,922
Appropriated Funds Available				\$ 26,865,211	26,865,211
Due from Other State Funds	4,129	2,850	1,118		8,097
Accounts Receivable	<u>131,863</u>	<u>12,003</u>	<u>40,995</u>		<u>184,861</u>
Total Assets	<u>\$ 3,330,480</u>	<u>\$ 641,123</u>	<u>\$ 886,277</u>	<u>\$26,865,211</u>	<u>\$31,723,091</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE

Liabilities:

Student Financial Aid					
Payable	\$ 73,368	\$ 26,279	\$ 4,166	\$ 6,927,561	\$ 7,031,374
Due to Other State Funds	34,911	11	5,823	569,742	610,487
Reserve for Long-Term					
Receivables	<u>87,439</u>	<u>263</u>	<u>33,730</u>		<u>121,432</u>
Total Liabilities	<u>195,718</u>	<u>26,553</u>	<u>43,719</u>	<u>7,497,303</u>	<u>7,763,293</u>

Deferred Inflows of Resources:

Advanced Fee Collections	<u>168,740</u>	<u>21,160</u>	<u>14,750</u>		<u>204,650</u>
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Fund Balance, Restricted for
Fund Purpose

	<u>2,966,022</u>	<u>593,410</u>	<u>827,808</u>	<u>19,367,908</u>	<u>23,755,148</u>
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Total Liabilities, Deferred Inflows
of Resources and Fund Balance

	<u>\$ 3,330,480</u>	<u>\$ 641,123</u>	<u>\$ 886,277</u>	<u>\$ 26,865,211</u>	<u>\$ 31,723,091</u>
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* 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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

CONSOLIDATING STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - SPECIAL REVENUE FUND YEAR ENDED JUNE 30, 2016

	<u>Registered Nurse Education</u>	<u>Mental Health Practitioner Education</u>	<u>Vocational Nurse Education</u>	<u>Mental Health Services</u>	<u>Total</u>
REVENUES					
Surcharges for Professional Licensing Fees	\$ 1,889,630	\$ 364,660	\$ 226,196		\$ 2,480,486
Student Loan Repayments	94,497	2,235	15,433		112,165
Interest Income	21,177	3,283	7,002		31,462
Total Revenues	<u>2,005,304</u>	<u>370,178</u>	<u>248,631</u>		<u>2,624,113</u>
EXPENDITURES					
Student Financial Aid	1,558,669	472,048	64,961	\$ 11,310,640	13,406,318
Salaries and Benefits	243,162	66,356	60,058	346,466	716,042
Departmental Services	73,600	27,361	17,094	196,137	314,192
Facilities Operations	51,078	4	8,318	64,593	123,993
Central Administrative Services	14,439	2,630	4,077		21,146
Travel	8,258	17	143	661	9,079
Communications	2,626	2	174	399	3,201
Training	1,235	15	26	1,485	2,761
Other Operating	48,869	1,048	4,615	(6,401)	48,131
Total Expenditures	<u>2,001,936</u>	<u>569,481</u>	<u>159,466</u>	<u>11,913,980</u>	<u>14,644,863</u>
Excess (Deficiency) of Revenues over Expenditures	3,368	(199,303)	89,165	(11,913,980)	(12,020,750)
OTHER FINANCING SOURCES					
Operating Transfers In from the California Department of Mental Health				16,913,246	16,913,246
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures	3,368	(199,303)	89,165	4,999,266	4,892,496
Fund Balance, Beginning	<u>2,962,654</u>	<u>792,713</u>	<u>738,643</u>	<u>14,368,642</u>	<u>18,862,652</u>
Fund Balance, Ending	<u>\$ 2,966,022</u>	<u>\$ 593,410</u>	<u>\$ 827,808</u>	<u>\$ 19,367,908</u>	<u>\$ 23,755,148</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING STATEMENTS OF FIDUCIARY NET POSITION PRIVATE PURPOSE TRUST FUNDS JUNE 30, 2016

	<u>Health Professions Education</u>	<u>Medically Underserved Account</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 26,322,491	\$ 12,315,006	\$ 38,637,497
Due from Other State Funds	35,926	16,360	52,286
Accounts Receivable	117,145	72,319	189,464
Other Assets	<u>15,802</u>	<u>15,802</u>	<u>15,802</u>
Total Assets	<u>26,475,562</u>	<u>12,419,487</u>	<u>38,895,049</u>
LIABILITIES			
Student Financial Aid Payable	2,110,993	1,546,116	3,657,109
Due to Other State Funds	19,024	13,188	32,212
Unearned Grant Revenue	23,290,464	32,075	23,322,539
Reserve for Long-Term Receivables	<u>116,092</u>	<u></u>	<u>116,092</u>
Total Liabilities	<u>25,536,573</u>	<u>1,591,379</u>	<u>27,127,952</u>
DEFERRED INFLOWS OF RESOURCES			
Advanced Fee Collections	<u></u>	<u>178,352</u>	<u>178,352</u>
NET POSITION			
Assets Held in Trust for Scholarships	<u>\$ 938,989</u>	<u>\$ 10,649,756</u>	<u>\$ 11,588,745</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION PRIVATE PURPOSE TRUST FUNDS YEAR ENDED JUNE 30, 2016

	<u>Health Professions Education</u>	<u>Medically Underserved Account</u>	<u>Total</u>
ADDITIONS			
Surcharges for Professional Licensing Fees		\$ 1,873,645	\$ 1,873,645
Grants	\$ 5,139,690	49,233	5,188,923
Interest Income	108,901	48,505	157,406
Student Loan Repayments	40,511		40,511
Total Additions to Net Position	<u>5,289,102</u>	<u>1,971,383</u>	<u>7,260,485</u>
DEDUCTIONS			
Student Financial Aid	4,720,975	2,246,533	6,967,508
Salaries and Benefits	91,679	57,158	148,837
Departmental Services	14,666	18,662	33,328
Facilities Operations	216	12,172	12,388
Central Administrative Services		9,407	9,407
Travel	8,145	726	8,871
Professional Services	1,568	5,088	6,656
General Expenses	4,881	296	5,177
Training	1,418	604	2,022
Communications	17	716	733
Other Operating	<u>2,095</u>	<u>3,512</u>	<u>5,607</u>
Total Deductions from Net Position	<u>4,845,660</u>	<u>2,354,874</u>	<u>7,200,534</u>
Increase (Decrease) in Net Position	443,442	(383,491)	59,951
OTHER FINANCING SOURCES			
Operating Transfers In from the California Department of Managed Care		<u>1,000,000</u>	<u>1,000,000</u>
Increase in Net Position and Other Financing Sources	443,442	616,509	1,059,951
Net Position, Beginning	<u>495,547</u>	<u>10,033,247</u>	<u>10,528,794</u>
Net Position, Ending	<u>\$ 938,989</u>	<u>\$ 10,649,756</u>	<u>\$ 11,588,745</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***

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of the special revenue fund and private purpose trust funds of the Health Professions Education Foundation (Foundation), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated March 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 10, 2017