

**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, 2018 AND 2017



**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, 2018 and 2017, 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 June 30, 2018 and 2017, 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, 2018 and 2017, 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 November 19, 2019, 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 CPAs
Sacramento, California

November 19, 2019

HEALTH PROFESSIONS EDUCATION FOUNDATION

BALANCE SHEETS SPECIAL REVENUE FUND JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and Cash Equivalents	\$ 5,956,067	\$ 4,964,840
Appropriated Funds Available	27,271,626	29,524,326
Due from Other State Funds	18,923	11,099
Accounts Receivable	<u>266,238</u>	<u>196,891</u>
 Total Assets	 <u>\$ 33,512,854</u>	 <u>\$ 34,697,156</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Student Financial Aid Payable	\$ 7,923,751	\$ 8,526,878
Due to Other State Funds	961,159	847,770
Reserve for Long-Term Receivables	<u>97,975</u>	<u>123,097</u>
Total Liabilities	<u>8,982,885</u>	<u>9,497,745</u>
 Deferred Inflows of Resources:		
Advanced Fee Collections	<u>79,067</u>	<u>140,755</u>
 Fund Balance:		
Restricted for Education of Registered Nurses	3,958,368	3,393,626
Restricted for Student Financial Aid	502,038	449,880
Restricted for Scholarships to Vocational Nurses	909,259	837,603
Restricted for Prop 63, Mental Health Services Act	<u>19,081,237</u>	<u>20,377,547</u>
Total Fund Balance	<u>24,450,902</u>	<u>25,058,656</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 <u>\$ 33,512,854</u>	 <u>\$ 34,697,156</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 FUND YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
Surcharges for Professional Licensing Fees	\$ 2,599,826	\$ 2,676,032
Student Loan Repayments	24,619	78,871
Interest Income	<u>66,551</u>	<u>45,334</u>
Total Revenues	<u>2,690,996</u>	<u>2,800,237</u>
EXPENDITURES		
Student Financial Aid	13,926,894	13,838,440
Salaries and Benefits	779,668	828,303
Departmental Services	1,474	308,340
Facilities Operations	160,671	123,174
Travel	20,146	21,922
Central Administrative Services	30,320	14,849
Training	2,458	1,926
Communications	8,657	1,837
Other Operating	<u>70,589</u>	<u>116,654</u>
Total Expenditures	<u>15,000,877</u>	<u>15,255,445</u>
Deficiency of Revenues over Expenditures	(12,309,881)	(12,455,208)
OTHER FINANCING SOURCES		
Operating Transfers In from the California Department of Mental Health	<u>11,702,127</u>	<u>13,758,716</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures	(607,754)	1,303,508
Fund Balance, Beginning	<u>25,058,656</u>	<u>23,755,148</u>
Fund Balance, Ending	<u>\$ 24,450,902</u>	<u>\$ 25,058,656</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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and Cash Equivalents	\$ 25,376,724	\$ 32,492,515
Due from Other State Funds	104,521	75,833
Accounts Receivable	213,582	183,993
Other Assets	<u>17,374</u>	<u>17,374</u>
Total Assets	<u>25,712,201</u>	<u>32,769,715</u>
LIABILITIES		
Student Financial Aid Payable	4,133,171	1,467,888
Due to Other State Funds	152,631	31,365
Unearned Grant Revenue	9,204,783	17,898,838
Reserve for Long-Term Receivables	<u>70,003</u>	<u>107,861</u>
Total Liabilities	<u>13,560,588</u>	<u>19,505,952</u>
DEFERRED INFLOWS OF RESOURCES		
Advanced Fee Collections	<u>80,724</u>	<u>141,425</u>
NET POSITION		
Assets Held in Trust for Scholarships	<u>\$ 12,070,889</u>	<u>\$ 13,122,338</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION PRIVATE PURPOSE TRUST FUNDS YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ADDITIONS		
Grants	\$ 9,321,775	\$ 5,745,041
Surcharges for Professional Licensing Fees	2,007,095	2,023,519
Interest Income	345,667	250,495
Student Loan Repayments	<u>24,261</u>	<u>55,075</u>
Total Additions to Net Position	<u>11,698,798</u>	<u>8,074,130</u>
DEDUCTIONS		
Student Financial Aid	13,457,927	7,180,554
Administrative	<u>292,320</u>	<u>359,983</u>
Total Deductions from Net Position	<u>13,750,247</u>	<u>7,540,537</u>
Increase (Decrease) in Net Position	(2,051,449)	533,593
OTHER FINANCING SOURCES		
Operating Transfers In from the California Department of Managed Care	<u>1,000,000</u>	<u>1,000,000</u>
Increase (Decrease) in Net Position and Other Financing Sources	(1,051,449)	1,533,593
Net Position, Beginning	<u>13,122,338</u>	<u>11,588,745</u>
Net Position, Ending	<u>\$ 12,070,889</u>	<u>\$ 13,122,338</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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

The Foundation has nine 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.

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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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.

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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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.

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, 2018 and 2017.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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>2018</u>	<u>2017</u>
Cash in State Treasury	\$ 79,067	\$ 840
Deposits in Surplus Money Investment Fund	<u>5,877,000</u>	<u>4,964,000</u>
Total cash and equivalents	<u>\$ 5,956,067</u>	<u>\$ 4,964,840</u>

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

	<u>2018</u>	<u>2017</u>
Cash in State Treasury	\$ 330,724	\$ 515
Deposits in Surplus Money Investment Fund	<u>25,046,000</u>	<u>32,492,000</u>
Total cash and equivalents	<u>\$ 25,376,724</u>	<u>\$ 32,492,515</u>

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

Additional disclosure details required by Government Accounting Standards Board Statements No. 3, No. 31, 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, 2018 and 2017.

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.

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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>2018</u>	<u>2017</u>
SMIF	Interest Income	\$ 18,923	\$ 11,099
Total		<u>\$ 18,923</u>	<u>\$ 11,099</u>

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

<u>Due From</u>	<u>Description</u>	<u>2018</u>	<u>2017</u>
SMIF	Interest Income	\$ 100,489	\$ 74,427
Hospital Building Fund	Miscellaneous payments	4,032	1,406
Total		<u>\$ 104,521</u>	<u>\$ 75,833</u>

Additionally, the Mental Health Services Fund has appropriated funds available totaling \$27,271,626 and \$29,524,326 as of June 30, 2018 and 2017, 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, 2018, or have been encumbered for future periods.

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>2018</u>	<u>2017</u>
General Fund	Outstanding Expenditures		\$ 256
Hospital Building Fund	Outstanding Expenditures	\$ 961,159	551,298
Other Governmental Entities	Outstanding Expenditures		296,216
Total		<u>\$ 961,159</u>	<u>\$ 847,770</u>

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

<u>Due To</u>	<u>Description</u>	<u>2018</u>	<u>2017</u>
General Fund	Outstanding Expenditures		\$ 7
Hospital Building Fund	Outstanding Expenditures	\$ 152,631	31,325
Other Governmental Entities	Outstanding Expenditures		33
Total		<u>\$ 152,631</u>	<u>\$ 31,365</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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, 2018 and 2017, the Foundation was charged \$150,646 and \$177,337, 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.

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, 2018, 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, 2018

	Registered Nurse Education	Mental Health Practitioner Education	Vocational Nurse Education	Mental Health Services*	Total
ASSETS					
Cash and Cash Equivalents	\$ 4,402,735	\$ 578,690	\$ 974,642		\$ 5,956,067
Appropriated Funds Available				\$ 27,271,626	27,271,626
Due from Other State Funds	13,810	1,558	3,555		18,923
Accounts Receivable	175,743	37,212	42,197	11,086	266,238
Total Assets	\$ 4,592,288	\$ 617,460	\$ 1,020,394	\$27,282,712	\$33,512,854
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities:					
Student Financial Aid					
Payable	\$ 277,707	\$ 22,120	\$ 15,709	\$ 7,608,215	\$ 7,923,751
Due to Other State Funds	218,425	83,612	65,862	593,260	961,159
Reserve for Long-Term					
Receivables	72,053		25,922		97,975
Total Liabilities	568,185	105,732	107,493	8,201,475	8,982,885
Deferred Inflows of Resources:					
Advanced Fee Collections	65,735	9,690	3,642		79,067
Fund Balance, Restricted for					
Fund Purpose	3,958,368	502,038	909,259	19,081,237	24,450,902
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 4,592,288	\$ 617,460	\$ 1,020,394	\$ 27,282,712	\$ 33,512,854

* 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, 2018

	<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	\$ 1,964,088	\$ 403,940	\$ 231,798		\$ 2,599,826
Student Loan Repayments	19,775		4,844		24,619
Interest Income	48,933	5,336	12,282		66,551
Total Revenues	<u>2,032,796</u>	<u>409,276</u>	<u>248,924</u>		<u>2,690,996</u>
EXPENDITURES					
Student Financial Aid	1,064,377	244,288	75,556	\$ 12,542,673	13,926,894
Salaries and Benefits	219,967	97,552	77,030	385,119	779,668
Departmental Services				1,474	1,474
Facilities Operations	110,976	968	10,268	38,459	160,671
Travel	7,057	380	735	11,974	20,146
Central Administrative Services	22,055	4,446	3,819		30,320
Training	484	476	128	1,370	2,458
Communications	3,543	51	718	4,345	8,657
Other Operating	39,595	8,957	9,014	13,023	70,589
Total Expenditures	<u>1,468,054</u>	<u>357,118</u>	<u>177,268</u>	<u>12,998,437</u>	<u>15,000,877</u>
Excess (Deficiency) of Revenues over Expenditures	564,742	52,158	71,656	(12,998,437)	(12,309,881)
OTHER FINANCING SOURCES					
Operating Transfers In from the California Department of Mental Health				11,702,127	11,702,127
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures	564,742	52,158	71,656	(1,296,310)	(607,754)
Fund Balance, Beginning	<u>3,393,626</u>	<u>449,880</u>	<u>837,603</u>	<u>20,377,547</u>	<u>25,058,656</u>
Fund Balance, Ending	<u>\$ 3,958,368</u>	<u>\$ 502,038</u>	<u>\$ 909,259</u>	<u>\$ 19,081,237</u>	<u>\$ 24,450,902</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING STATEMENTS OF FIDUCIARY NET POSITION PRIVATE PURPOSE TRUST FUNDS JUNE 30, 2018

	Health Professions Education	Medically Underserved Account	Total
ASSETS			
Cash and Cash Equivalents	\$ 12,392,674	\$ 12,984,050	\$ 25,376,724
Due from Other State Funds	51,699	52,822	104,521
Accounts Receivable	70,003	143,579	213,582
Other Assets		17,374	17,374
Total Assets	<u>12,514,376</u>	<u>13,197,825</u>	<u>25,712,201</u>
LIABILITIES			
Student Financial Aid Payable	1,999,569	2,133,602	4,133,171
Due to Other State Funds	146,376	6,255	152,631
Unearned Grant Revenue	9,204,783		9,204,783
Reserve for Long-Term Receivables	70,003		70,003
Total Liabilities	<u>11,420,731</u>	<u>2,139,857</u>	<u>13,560,588</u>
DEFERRED INFLOWS OF RESOURCES			
Advanced Fee Collections	<u>2,674</u>	<u>78,050</u>	<u>80,724</u>
NET POSITION			
Assets Held in Trust for Scholarships	<u>\$ 1,090,971</u>	<u>\$ 10,979,918</u>	<u>\$ 12,070,889</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION			
	<u>\$ 12,514,376</u>	<u>\$ 13,197,825</u>	<u>\$ 25,712,201</u>

HEALTH PROFESSIONS EDUCATION FOUNDATION

COMBINING STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION PRIVATE PURPOSE TRUST FUNDS YEAR ENDED JUNE 30, 2018

	Health Professions Education	Medically Underserved Account	Total
ADDITIONS			
Grants	\$ 9,272,542	\$ 49,233	\$ 9,321,775
Surcharges for Professional Licensing Fees		2,007,095	2,007,095
Interest Income	191,083	154,584	345,667
Student Loan Repayments	24,261		24,261
Total Additions to Net Position	9,487,886	2,210,912	11,698,798
DEDUCTIONS			
Student Financial Aid	9,326,873	4,131,054	13,457,927
Salaries and Benefits	176,819	28,059	204,878
Departmental Services			
Facilities Operations	25,911	15,230	41,141
Central Administrative Services	10,485	7,713	18,198
Travel	4,179	781	4,960
Professional Services	8,072	4,845	12,917
General Expenses	1,545	2,730	4,275
Training	185	145	330
Communications	815	803	1,618
Other Operating	1,813	2,190	4,003
Total Deductions from Net Position	9,556,697	4,193,550	13,750,247
Decrease in Net Position	(68,811)	(1,982,638)	(2,051,449)
OTHER FINANCING SOURCES			
Operating Transfers In from the California Department of Managed Care		1,000,000	1,000,000
Decrease in Net Position and Other Financing Sources	(68,811)	(982,638)	(1,051,449)
Net Position, Beginning	1,159,782	11,962,556	13,122,338
Net Position, Ending	\$ 1,090,971	\$ 10,979,918	\$ 12,070,889

**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, 2018, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated November 19, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations as items 2018-001 and 2018-002 that we consider to be material weaknesses.

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*.

The Foundation's Responses to Findings

The Foundation's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Recommendations. The Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 CPAs
Sacramento, California

November 19, 2019

FINDINGS AND RECOMMENDATIONS

HEALTH PROFESSIONS EDUCATION FOUNDATION

FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT FINDINGS

2018-001. STUDENT FINANCIAL AID PAYABLE

Condition:

One element of an entity's internal control over expenditures is the ability to accrue expenditures in accordance with Generally Accepted Accounting Principles (GAAP). Adjustments arising from the audit of the Foundation's financial statements, as well as adjustments recorded significantly after fiscal year end, are generally indications that internal controls and processes are insufficient or not functioning properly. There were errors identified during the audit for student financial aid payable and student financial aid expenditures. These errors resulted in an increase in special revenue fund liabilities and expenditures of \$2,930,877. These errors resulted in an increase in fiduciary fund liabilities and expenditures of \$121,635.

Criteria:

An essential aspect of any organization's internal control over its expenditures process is the ability accrue expenditures in accordance with Generally Accepted Accounting Principles (GAAP). Accurate and timely financial reporting enables management and the Board to have a sound financial basis for decision making.

Questioned Costs:

There are no questioned costs as the errors identified were corrected.

Cause:

The Foundation receives accounting services from OSHPD (contracted accountant), as part of their administrative oversight fee. The closing process did not include sufficient procedures to accrue student financial aid expenditures in accordance with GAAP. The contracted accountants indicated this was due to staff retirements and while there were efforts made to reconcile the financial statements, material adjustments were necessary to produce statements in accordance with GAAP.

Effect:

Accurate accrual of expenditures enables management and the Board to have a sound financial basis for decision making. The accrual of student financial aid expenditures represents a significant internal control process and the Foundation should not rely on the additional level of control supplied by an external financial audit.

Recommendation:

We recommend that the policy and procedures for accruing student financial aid expenditures be re-defined and documented. In addition, if personnel changes occur, that the policy and procedures continue to be followed by the contracted accountants.

HEALTH PROFESSIONS EDUCATION FOUNDATION

FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2018

Corrective Action Plan:

The Foundation agrees with the findings and recommendation.

The Foundation's Board of Trustees and management is working with the contracted accountants to ensure control deficiencies are corrected in the future.

2018-002. FINANCIAL CLOSE

Condition:

One element of an entity's internal control over financial reporting is the ability to produce financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in a timely manner. This includes internal controls that can detect misstatements in the financial statements independent of a financial statement audit. Adjustments arising from the audit of the Foundation's financial statements, as well as adjustments recorded significantly after fiscal year end, are generally indications that internal controls over the financial close and reporting are insufficient or not functioning properly. There were errors identified during the audit for cash, advance collections, grant revenues, and surcharge revenue. These errors resulted in a net increase in special revenue fund assets of \$74,430, a net decrease in liabilities of \$56,910, and an increase in revenue of \$131,340. These errors resulted in an increase in fiduciary fund assets of \$78,050, a net decrease in liabilities of \$8,984,192, and an increase in revenue of \$9,062,242.

Criteria:

An essential aspect of any organization's internal control over its financial reporting process is the ability to produce accurate and timely financial data in accordance with Generally Accepted Accounting Principles (GAAP). Accurate and timely financial reporting enables management and the Board to have a sound financial basis for decision making.

Questioned Costs:

There are no questioned costs as the errors identified were corrected.

Cause:

The close process was not sufficient to produce timely and accurate financial statements in accordance with GAAP. The contracted accountants indicated this was due to system conversion to FISCAL and while there were efforts made to reconcile the financial statements, material adjustments were necessary to produce statements in accordance with GAAP.

Effect:

Accurate and timely financial monthly reporting enables management and the Board to have a sound financial basis for decision making. Conversely, the absence of accurate and timely financial data may undermine the plans and initiatives of management and the Board.

HEALTH PROFESSIONS EDUCATION FOUNDATION

FINDINGS AND RECOMMENDATIONS YEAR ENDED JUNE 30, 2018

Furthermore, the year-end close and reconciliation of the Foundation's financial data represents a significant internal control process of its financial reporting and should not rely on the additional level of control supplied by an external financial audit.

Recommendation:

We recommend that the Foundation work with the contracted accountants to assess the impact of the system conversion in order to redefine and implement financial policies and procedures for monthly, quarterly, and year-end closing processes to ensure the financial records and financial statements prepared are maintained in accordance with generally accepted accounting principles. We recommend that there be a formal document of the year-end closing process to include procedures, responsible parties, reviewers, and timelines to improve the efficiency and accuracy of the process.

Corrective Action Plan:

The Foundation agrees with the findings and recommendations.

The Foundation's Board of Trustees and management is working with the contracted accountants to ensure control deficiencies are corrected in the future.

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS:

There were no findings for the year ended June 30, 2017.