

HISPANIC SCHOLARSHIP FUND

Independent Auditor's Report and Consolidated Financial Statements

March 31, 2013

Hispanic Scholarship Fund

Independent Auditor's Report and Consolidated Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Hispanic Scholarship Fund

We have audited the accompanying consolidated financial statements of Hispanic Scholarship Fund (the Fund) which comprise the consolidated statement of financial position as of March 31, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hispanic Scholarship Fund as of March 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules on pages 21 - 22 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The consolidated financial statements of Hispanic Scholarship Fund as of March 31, 2012, were audited by other auditors whose report dated August 20, 2012, expressed an unmodified opinion on those statements.

JLK Rosenberg, LLP

Irvine, California
August 29, 2013

Hispanic Scholarship Fund

Consolidated Statements of Financial Position

<i>March 31,</i>	2013	2012
Assets:		
Cash and cash equivalents	\$ 1,967,201	\$ 2,673,392
Restricted cash	300,000	300,000
Investments	24,618,689	30,403,242
Contributions receivable, net	9,057,538	8,850,220
Property and equipment, net	57,195	37,485
Prepaid expenses and other assets	642,369	271,029
Total assets	\$ 36,642,992	\$ 42,535,368
Liabilities and Net Assets		
Liabilities:		
Scholarships payable	\$ 286,445	\$ 1,533,060
Accounts payable and accrued expenses	801,969	651,573
Obligations under capital leases		23,798
Deferred rent	70,506	
Total liabilities	1,158,920	2,208,431
Net Assets:		
Unrestricted	(2,534,688)	(836,947)
Temporarily restricted	24,871,230	28,048,964
Permanently restricted	13,147,530	13,114,920
Total net assets	35,484,072	40,326,937
Total liabilities and net assets	\$ 36,642,992	\$ 42,535,368

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

Hispanic Scholarship Fund

Consolidated Statements of Activities

Year Ended March 31, 2013 (with comparative totals for 2012)

	2013				2012 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Support and Revenues:					
Support:					
Grants and contributions	\$ 1,583,746	\$ 37,661,916	\$ 32,610	\$ 39,278,272	\$ 51,112,976
Special events (net of direct expenses of \$524,554 for 2013)	874,015			874,015	981,537
Investment income, net	37,611	1,066,510		1,104,121	179,489
In-kind contributions	26,980			26,980	208,812
Other Revenue	21,280			21,280	34,119
Net assets released from restrictions	41,906,160	(41,906,160)		-	-
Total support and revenues	44,449,792	(3,177,734)	32,610	41,304,668	52,516,933
Expenses and Losses:					
Program services:					
Scholarships	38,531,756			38,531,756	36,209,065
Education and information	3,597,808			3,597,808	3,078,998
Total program services	42,129,564	-	-	42,129,564	39,288,063
Support services:					
Administration	3,319,361			3,319,361	2,273,872
Fund raising	698,608			698,608	774,481
Total support services	4,017,969	-	-	4,017,969	3,048,353
Total expenses	46,147,533	-	-	46,147,533	42,336,416
Change in Net Assets	(1,697,741)	(3,177,734)	32,610	(4,842,865)	10,180,517
Net Assets, beginning of year	(836,947)	28,048,964	13,114,920	40,326,937	30,146,420
Net Assets, end of year	\$ (2,534,688)	\$ 24,871,230	\$ 13,147,530	\$ 35,484,072	\$ 40,326,937

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

Hispanic Scholarship Fund

Consolidated Statements of Functional Expenses

Year Ended March 31, 2013 (with comparative totals for 2012)

	2013					2012
	Scholarship	Education and Information	Administration	Fund Raising	Total	Total
Program Distributions:						
Scholarships awarded	\$ 36,400,695	\$	\$	\$	\$ 36,400,695	\$ 33,661,839
Grants and other awards					-	17,558
Total program distributions	36,400,695	-	-	-	36,400,695	33,679,397
Personnel Expenses:						
Salaries	758,275	709,460	1,679,300	868,269	4,015,304	3,269,121
Payroll taxes	63,382	57,714	110,411	75,280	306,787	253,030
Employee benefits	103,546	78,619	355,940	141,887	679,992	727,309
Recruiting and temporary workers	17,942	134	25,062		43,138	33,784
Honorariums and other expenses	40,000	230			40,230	118,535
Total personnel expenses	983,145	846,157	2,170,713	1,085,436	5,085,451	4,401,779
Other Expenses:						
Professional fees	164,294	916,691	777,953	1,130	1,860,068	1,344,384
Occupancy	175,070		327,878		502,948	803,366
Dues and subscriptions	1,803	22,649	35,837	6,954	67,243	65,121
Interest, fees and taxes	6,313	120	63,375	6,182	75,990	82,548
Newsletters, printing and postage	20,638	221,096	63,532	44,999	350,265	215,578
Office expense and equipment	47,276	8,457	185,707	815	242,255	168,314
Telephone	35,844	11,016	104,070	3,941	154,871	86,523
Insurance			34,071		34,071	14,622
Equipment rental and maintenance	23,029	1,029	31,653		55,711	30,069
Travel and conferences	136,024	117,594	207,870	101,743	563,231	474,602
Outreach events	32,236	121,595	4,077	4,206	162,114	557,786
Marketing	38,332	27,770	20,681	18,499	105,282	62,517
Bad debt	571	13	2,568		3,152	125,568
Legal		53	414,682		414,735	82,978
In-kind goods & services	2,800	6,370	3,200	14,610	26,980	108,812
Depreciation	6,586	1,721	31,264	2,900	42,471	32,452
Total other expenses	690,816	1,456,174	2,308,418	205,979	4,661,387	4,255,240
Overhead allocation	457,100	1,295,477	(1,159,770)	(592,807)	-	-
Total Expenses	\$ 38,531,756	\$ 3,597,808	\$ 3,319,361	\$ 698,608	\$ 46,147,533	\$ 42,336,416
Expense Allocation	83%	8%	7%	2%	100%	100%

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

Hispanic Scholarship Fund

Consolidated Statements of Cash Flows

<i>Year Ended March 31,</i>	2013	2012
Operating Activities:		
Change in net assets	(4,842,865)	10,180,517
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:		
Depreciation	42,473	32,452
Gain on sale of property and equipment	(587)	
Realized and unrealized (gain) loss on investment	(909,004)	197,024
Uncollectible pledges loss	3,152	148,568
Changes in assets and liabilities:		
Contributions receivable	(210,470)	(4,462,425)
Prepaid expenses and other assets	(371,340)	(119,413)
Scholarships payable	(1,246,615)	1,533,060
Accounts payable and accrued expenses	150,396	66,900
Deferred rent	70,506	
Net cash (used) provided by operating activities	(7,314,354)	7,576,683
Investing Activities:		
Purchase of investments	(13,962,223)	(28,989,082)
Proceeds from sale of investments	20,655,780	22,650,683
Purchase of equipment	(61,596)	
Net cash provided (used) by investing activities	6,631,961	(6,338,399)
Financing Activities:		
Payments on capital lease	(23,798)	(10,985)
Net cash used by financing activities	(23,798)	(10,985)
(Decrease) Increase in Net Cash	(706,191)	1,227,299
Cash and Cash Equivalents, beginning of year	2,673,392	1,446,093
Cash and Cash Equivalents, end of year	1,967,201	2,673,392
Supplemental Cash Flow Information:		
Interest paid	7,278	2,975
In-kind contributions	26,980	208,812

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

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 1 - Organization:

The Hispanic Scholarship Fund (The Fund, HSF) is a non-profit, tax-exempt corporation established to provide college scholarships, and related educational outreach services, to members of the Hispanic community. It also promotes the importance of higher education within the Hispanic community, corporate and institutional giving, and a philosophy of every family contributing what they can to this cause, throughout their lives.

HSF, is a tax-exempt 501(c) (3) charitable organization. The Fund moved its headquarters from San Francisco, California to the Los Angeles, California area in October 2012. The Fund has a regional presence in New York, Texas, Colorado, and Georgia. The majority of the Fund's revenue comes from foundations, corporations, and individuals. The primary roles of the Fund are fundraising, administration, education, and services.

The primary services provided by the Fund are:

Scholarship Programs – The Fund administers scholarship programs funded by donations from corporations, non-profit organizations, and individuals.

Outreach Programs – The Fund provides educational services to Hispanic, other minority parents and their children from kindergarten through twelfth grade. HSF's staff conduct evening and weekend workshops that address how to prepare for college, college selection, the college application process, and how to apply for scholarships and financial aid.

University Programs – The Fund offers programs to Hispanic students enrolled in college. These include on-campus student groups designed to increase a students' connection with his/her college, as well as academic support services for scholarship recipients and their parents.

Note 2 - Summary of Significant Accounting Policies:

a. Principles of Consolidation

The consolidated financial statements include the Fund and the Hispanic Scholarship Fund Institute (the Institute), since the Fund is the sole member of HSFI. All inter-entity transactions have been eliminated upon consolidation.

b. Basis of Presentation and Description of Net Assets

The consolidated financial statements are prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Accordingly, the Fund presents information regarding its net assets and activities according to three classes of net assets:

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued):

Unrestricted Net Assets - The portion of net assets that are not subject to donor imposed restriction or the donor imposed restriction has expired. These assets are neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets - The portion of net assets that are subject to donor-imposed restrictions. The use by the Fund is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Fund. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets - The portion of net assets that are subject to donor-imposed restrictions that they be maintained permanently. These assets consist of the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds where the donor indicated that a portion of the donation be retained permanently.

c. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include the Fund's operating and checking accounts, exclusive of cash and cash equivalents held as part of the Fund's investments.

d. Contributions and Receivables

Contributions and grants are recognized as revenue when received or unconditionally promised. Contributions of assets other than cash are recorded at their estimated fair value. Restricted contributions and grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

Long term contributions receivable are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using market interest rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributed income.

The Fund reviews the individual receivable balances at year end to evaluate the appropriate allowance for uncollectible receivables and contributions.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued):

e. Investments

Investments in debt and equity securities are carried at fair value based upon quoted market prices, with changes in unrealized gain and losses reflected in the consolidated statement of activities. Alternative investments are valued at net asset value per unit or percentage of ownership as reported by the funds at March 31, 2013.

Realized gains and losses resulting from sales of securities are calculated on an adjusted cost based on the trade date for publicly traded investments or upon closing of the transaction for private investments. Dividend and interest income are accrued when earned.

For purposes of reporting cash flows, purchases of investments represent the total additions to the portfolio from revenues received during the year.

f. Fair Value Measurements

The Fund carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Fund classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted prices included within Level 1 such as quoted prices for similar securities or quoted prices in inactive markets.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

g. Property and Equipment

Furniture and equipment are recorded at cost. Depreciation is computed on a straight-line basis over the useful lives of the assets, ranging from three to five years. The Fund capitalizes property and equipment with cost or donated fair value over \$5,000.

h. Scholarships Payable

The Fund reports scholarship awards payable at the total value of the awards granted to the identified scholars. The Fund records the payable based on the value of the award that is due in the current year to be paid in the subsequent year.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued):

i. Endowment Funds

The Fund follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-205 “Endowments of Not-for Profit Organizations – Net Assets Classification of Funds Subject to Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.” The State of California adopted a version of the Uniform Prudent Management of Institutional Funds Act as its State Prudent Management of Institutional Funds Act (“SPMIFA”).

Interpretation of relevant law

The Board of Directors of the Funds, with the advice of legal counsel, has determined it holds net assets that meet the definition of endowment funds under SPMIFA. As a result of this interpretation, the Fund classifies as permanently restricted net assets both the original value of the gifts donated plus all subsequent gifts to the donor restricted endowment funds. Appropriation for expenditure for endowed funds is made in a manner consistent with the standards of prudence prescribed by SPMIFA, which include: (1) The duration and preservation of the fund, (2) The purposes of the organization and the donor-restricted endowment fund, (3) General economic conditions, (4) The possible effect of inflation and deflation, (5) The expected total return from income and the appreciation of investment, (6) Other resources of the Fund, (7) The investment policies of the Fund.

From time to time, the fair value of the assets associated with individual donor restricted net endowment funds may fall below the level classified as permanently restricted net assets.

Investment and spending policies

The Fund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported while seeking to maintain the purchasing power of the endowment assets. The Fund’s spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current return objective is to return a percentage in excess of the annual rate of inflation, net of investment fees. Actual returns in any given year may vary from this amount. To satisfy its long-term return objective, the Fund relies on a total return strategy, in which investment returns are achieved through both capital appreciation of equity securities (realized and unrealized) and current yield (dividends and interest). The Fund uses a diversified asset allocation to support the long-term return objective within prudent risk parameters.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued):

The spending policy calculates the amount of money annually distributed from the Fund's endowed funds for scholarships and administration. The current scholarship spending policy is to distribute an amount equal to 5% of the average of the closing market value of the preceding twelve quarters, provided that accumulated total returns are sufficient to allow expenditures without drawing upon the principle of the original contributions, including any matching funds. This is consistent with the Fund's objective of maintaining purchasing power of endowed assets as well as to provide additional real growth through new gifts and investment returns.

j. Functional Allocation of Expenses

The Fund's expense allocations are based on the amount of unfunded activities (development, operations, etc.) and pooled occupancy related costs less all revenues that cover these activities (interest, unrestricted funds, etc.). The remaining balance is called "unfunded overhead". This "unfunded overhead" is allocated across all funded employees (outreach, regions, etc.) in order to allocate the overhead of supporting these funded employees. Certain costs have been allocated among programs on a direct cost basis specified by donors.

k. Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosure. Actual results may differ from those estimates.

l. Donated Goods and Services

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

During the year ended March 31, 2013, the Fund recorded in-kind donations, consisting primarily of legal services and airline vouchers. These contributions are reflected in the financial statements as both in-kind donations and expenses.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued):

m. Comparative Information and Reclassifications

The consolidated financial statements include certain comparative information for which the prior year information is summarized in total but not by net asset class. Accordingly, such information should be read in conjunction with the Fund's consolidated financial statements for the year ended March 31, 2012, from which the summarized information is derived.

Certain reclassifications have been made to the prior year consolidated financial statements in order for them to conform to current year presentation. These reclassifications had no effect on net assets or change in net assets.

n. Income Taxes

The Fund and Institute are tax-exempt organizations under the Internal Revenue Code, Section 501(c) (3).

The Fund follows the guidance on accounting for uncertainty in income taxes issued by FASB ASC Topic 740. As of March 31, 2013, management evaluated the Fund's tax positions and concluded that the Fund had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the consolidated financial statements. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

o. Subsequent Events

The management of the Fund has evaluated subsequent events for the period of time from its fiscal year ended March 31, 2013 through August 29, 2013, the date the financial statements were available to be issued. With the exception of the matter discussed in the following paragraphs, there were no adjustments or additional disclosures in the accompanying consolidated financial statements.

The Fund acquired the assets of the Hispanic College Fund (HCF) on April 1, 2013. The Hispanic College Fund is a Washington DC based not-for-profit organization founded in 1993 whose mission was to prepare the next generation of Hispanic professionals by working with high school and college students. HCF's programs include granting scholarships, administering the Hispanic Youth Institutes, and administering NASA's Motivating Undergraduates in Science and Technology program, which provides scholarships and academic support to underserved students pursuing Science, Technology, Engineering, and Math (STEM) careers.

These programs will be administered by the Fund and HSFI beginning fiscal year 2014.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 3 - Investments and Fair Value Measurements:

Investments:

Investments are summarized below as of March 31, 2013:

	Cost	Fair Value	Unrealized Gain (loss)
Money market accounts	\$ 1,133,118	\$ 1,133,118	\$
Corporate bonds	7,623,841	7,626,138	2,297
US government agency bonds	1,108,561	1,108,561	
Fixed income	2,418,262	2,510,231	91,969
Domestic equities	286,825	385,928	99,103
International equities	264,841	260,073	(4,768)
Mutual funds	10,346,168	10,502,151	155,983
Alternative investments	1,033,974	1,092,489	58,515
	\$ 24,215,590	\$ 24,618,689	\$ 403,099

Investments are summarized below as of March 31, 2012:

	Cost	Fair Value	Unrealized Gain (loss)
Money market accounts	\$ 10,804,365	\$ 10,804,365	\$
Corporate bonds	2,962,715	2,960,876	(1,839)
US government agency bonds	3,098,569	3,097,226	(1,343)
Domestic equities	4,847,731	5,613,912	766,181
International equities	2,902,027	2,441,632	(460,395)
Mutual funds	4,486,256	4,309,134	(177,122)
Alternative investments	1,081,043	1,176,097	95,054
	\$ 30,182,706	\$ 30,403,242	\$ 220,536

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 3 - Investments and Fair Value Measurements (continued):

Net investment income consists of the following at March 31, 2013 and 2012:

		2013		2012
Interest and dividends	\$	645,895	\$	460,447
Bond accretion amortization		(383,588)		
Realized gain		726,440		631,385
Unrealized gain (loss)		182,564		(828,409)
Less: investment fees		(67,190)		(83,934)
	\$	1,104,121	\$	179,489

Fair Value Measurements:

The table below presents investments measured at fair value on a recurring basis at March 31, 2013:

	Total	Level 1	Level 2	Level 3
Money market accounts	\$ 1,133,118	\$ 1,133,118	\$	\$
Corporate bonds	7,626,138		7,626,138	
US government agency bonds	1,108,561		1,108,561	
Domestic equities:				
Energy	78,235	78,235		
Material/industrials	112,757	112,757		
Consumer	46,962	46,962		
Health care	6,630	6,630		
Financials	401,648	401,648		
Mutual funds:				
International equity	2,425,780	2,425,780		
US equity	5,932,928	5,932,928		
Fixed income	4,356,383	4,356,383		
Commodity	297,060	297,060		
Alternative investments:				
SelectInvest ARV Ltd.	281,620			281,620
ACL Alternative Fund	810,869		810,869	
	\$ 24,618,689	\$ 14,791,501	\$ 9,545,568	\$ 281,620

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 3 - Investments and Fair Value Measurements (continued):

Fair Value Measurements:

The table below presents investments measured at fair value on a recurring basis at March 31, 2012:

	Total	Level 1	Level 2	Level 3
Money market accounts	\$ 10,804,365	\$ 10,804,365	\$	\$
Corporate bonds	2,960,876		2,960,876	
US government agency bonds	3,709,386		3,709,386	
Domestic equities:				
Energy	434,716	434,716		
Material/industrials	628,499	628,499		
Consumer	606,729	606,729		
Health care	477,203	477,203		
Financials	966,660	966,660		
Information technology/ communications	954,863	954,863		
Utilities	15,670	15,670		
International equities				
Energy	105,177	105,177		
Material/industrials	151,481	151,481		
Consumer	75,279	75,279		
Health care	24,175	24,175		
Financials	38,940	38,940		
Information technology/ communications	52,166	52,166		
Utilities	27,091	27,091		
Equity mutual funds:				
International equity	1,964,072	1,964,072		
US equity	2,361,839	2,361,839		
Fixed income	2,575,185	2,575,185		
Commodity	292,773	292,773		
Alternative investments:				
SelectInvest ARV Ltd.	312,666			312,666
ACL Alternative Fund	863,431		863,431	
	\$ 30,403,242	\$ 22,556,883	\$ 7,533,693	\$ 312,666

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 3 - Investments and Fair Value Measurements (continued):

SelectInvest ARV, Ltd. is a fund of hedge funds that allocates capital to a select group of investment managers. These funds specialize on event driven arbitrage and relative value strategies. SelectInvest ARV is in the process of liquidating and the redemption is expected to be complete in 2013.

The ACL Alternative Fund (ACL) is a segregated account of ACL Alternative Fund SAC Limited. ACL Alternative Fund SAC Limited is registered as an open ended segregated accounts company under the Segregated Accounts Companies Act 2000 of Bermuda (the "Act"). Under the Act, persons investing in and dealing with a segregated account of ACL Alternative Fund SAC Limited shall only have recourse to that segregated account and their interest shall be limited to the assets from time to time attributable to that segregated account. The provisions of the Act have not yet been tested by a Court. As of March 31, 2013, ACL allocated in excess of 75% of its assets to 23 underlying managers with a total of 24 programs. The investment objective of ACL is to seek long-term capital appreciation for its Shareholders. ACL offers daily liquidity upon receipt of all documentation as outlined in the Fund's Private Placement Memorandum.

The changes in investments classified as Level 3 are as follows for the year ended March 31, 2013 and 2012:

	2013	2012
Balance, beginning of year	\$ 312,666	\$ 443,586
Redemptions	(64,661)	(124,302)
Realized gain	18,221	34,796
Unrealized gain (loss)	15,394	(41,414)
Balance, end of year	\$ 281,620	\$ 312,666

Note 4 - Contributions Receivable:

Contributions receivable consisted primarily of commitments made by corporations and foundations. Contribution receivables are due as follows at March 31, 2013 and 2012:

	2013	2012
Receivable in less than one year	\$ 5,290,075	\$ 4,342,305
Receivable in one to five years	4,277,833	5,264,492
Less discounts to net present value	(441,928)	(520,785)
Allowance for doubtful accounts	(68,442)	(235,792)
	\$ 9,057,538	\$ 8,850,220

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 4 - Contributions Receivable (continued):

The present value of estimated future cash flows on unconditional pledges was determined using a discount rate of 1.8% for the years ended March 31, 2013 and 2012.

As of March 31, 2013 and 2012, the Fund had two conditional grants of \$722,500 and \$847,500, respectively contingent on the Fund meeting the grantor's satisfactory review of program activities.

Note 5 - Property and Equipment:

Property and equipment consists of the following at March 31, 2013 and 2012:

	2013	2012
Capital lease equipment	\$ 61,595	\$ 534,554
Equipment and furniture	99,274	317,843
Software	175,389	99,274
Leasehold improvements	160,869	175,389
	160,869	1,127,060
Less: accumulated depreciation and amortization	(103,674)	(1,089,575)
	\$ 57,195	\$ 37,485

Depreciation and amortization expense was \$42,473 and \$32,452 for the years ended March 31, 2013 and 2012, respectively.

Note 6 - Letter of Credit

The Fund maintains a Letter of Credit agreement (the Agreement) of \$300,000 with Citibank, N.A. The interest rate at year end is at prime. A certificate of deposit of \$300,000 is collateral for the letter of credit. The Fund had no outstanding balance under the Agreement as of March 31, 2013 and 2012.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 7 - Endowments:

Changes in Endowment Net Asset for the year ended March 31, 2013 and 2012 are as follows:

	2013			2012
	Temporary Restricted	Permanently Restricted	Total	Total
Endowment Net Assets, beginning of year	\$ 2,471,283	\$ 13,114,920	\$ 15,586,203	\$ 14,931,373
Investment return:				
Income	355,298		355,298	409,340
Bond accretion amortization	(145,830)		(145,830)	(75,805)
Investment fees	(49,570)		(49,570)	
Realized and unrealized gain (loss) on investments	906,612		906,612	(231,014)
Total investment return	1,066,510	-	1,066,510	102,521
Contributions		5,000	5,000	1,186,520
NPV adjustment		27,610	27,610	
Transfer to release donor endowment	(212,260)		(212,260)	(2,000)
Appropriation of endowment for expenditure	(132,565)		(132,565)	(632,111)
Change in endowment net assets	(344,825)	32,610	(312,215)	552,409
Endowment Net Assets, End of year	\$ 3,192,968	\$ 13,147,530	\$ 16,340,498	\$ 15,586,303

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 8 - Commitments:

Office agreement and equipment leases

The Fund maintains lease agreements for office space, copiers and office equipment. Future aggregate lease payments are as follows:

Fiscal Year Ending	Operating Leases
2014	\$ 190,639
2015	212,381
2016	220,629
Thereafter	1,298,217
<hr/>	
Total future minimum lease commitments	\$ 1,921,866

Note 9 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes or periods as of March 31, 2013 and 2012:

	2013	2012
Gates Millennium Scholars	\$ 763,093	\$ 795,233
HSF Scholarships	17,895,509	19,270,425
Programs and other	6,212,628	7,983,306
<hr/>		
	\$ 24,871,230	\$ 28,048,964

Net assets were released in accordance with the donors' intent by incurring expenses satisfying the restricted purposes; the releases were as follows in 2013 and 2012:

	2013	2012
Gates Millennium Scholars	\$ 27,620,444	\$ 24,265,169
HSF Scholarships	8,790,251	8,142,362
Programs and other	5,495,465	6,991,768
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	\$ 41,906,160	\$ 39,399,299

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 10 - Permanently Restricted Net Assets:

Permanently restricted net assets of \$13,147,530 and \$13,114,920 are restricted to investment in perpetuity, the income from which supports scholarships of the Fund as of March 31, 2013 and 2012, respectively.

Note 11 - Retirement Plans:

The employees of the Fund participate in a simplified Employee Pension Plan established under the Section 401(k) of the Internal Revenue Code. The contributions made by the Fund are matched to a maximum of 4% of the annual salary of eligible employees up to a maximum salary of \$245,000. For the years ended March 31, 2013 and 2012, the Fund's contribution to the plan totaled \$106,887 and \$94,218, respectively.

Note 12 - Contingencies:

The Fund is involved from time to time in routine matters of litigation or other claims. Management does not believe there are any such matters that could materially affect its financial position.

Note 13 - Concentrations of Risk:

The Fund has defined its financial instruments which are potentially subject to risk as cash, contributions receivable, and investments.

In order to mitigate credit and market risk the Fund maintains a formal investment policy that sets out performance criteria, investment guidelines and requires review of the individual investment manager's performance. The investment custodian is Morgan Stanley.

One donor comprises approximately 70% and 49% of the contribution revenue for the years ended March 31, 2013 and 2012, respectively. Three and four donors comprise approximately 55% and 56% of the contributions receivables for the years ended of March 31, 2013 and 2012, respectively.

Note 14 - Related Parties:

Certain board members and their employers made contributions on an individual basis as well as through corporations by whom they are employed. For the years ended March 31, 2013 and 2012, such total contributions were approximately \$4,984,000 and \$6,595,000, respectively.

In October 2012, the fund entered into a ten year lease agreement with Toyota Motor Sales, the employer of a member of the Board of Directors. Over the term of the lease, monthly payments range between \$11,648 and \$18,170. The lease agreement is in relation to the relocation of the Fund from San Francisco to the Los Angeles area.

Consolidating Statement of Financial Position

Consolidating Statement of Financial Position (See Independent Auditor's Report)

Schedule 1

March 31, 2013

	Hispanic Scholarship Fund			Hispanic Scholarship Fund Institute			Total			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets:										
Cash and cash equivalents	\$ (3,182,885)	\$ 5,106,793	\$	\$ 22,293	\$ 21,000	\$	\$ (3,160,592)	\$ 5,127,793	\$	\$ 1,967,201
Restricted cash	300,000						300,000			300,000
Investments	796,557	11,933,374	11,888,758				796,557	11,933,374	11,888,758	24,618,689
Contributions receivable, net		7,798,766	1,258,772					7,798,766	1,258,772	9,057,538
Property and equipment, net	57,195						57,195			57,195
Prepaid expenses and other assets	697,452	11,297				(66,380)	631,072	11,297		642,369
Total assets	(1,331,681)	24,850,230	13,147,530	22,293	21,000	(66,380)	(1,375,768)	24,871,230	13,147,530	36,642,992
Liabilities and net assets:										
Scholarships payable	286,445						286,445			286,445
Accounts Payable and Accrued Expenses	801,969			66,380		(66,380)	801,969			801,969
Deferred rent	70,506						70,506			70,506
Total Liabilities	1,158,920	-	-	66,380	-	(66,380)	1,158,920	-	-	1,158,920
Net assets:	(2,490,601)	24,850,230	13,147,530	(44,087)	21,000		(2,534,688)	24,871,230	13,147,530	35,484,072
Total liabilities and net assets	\$ (1,331,681)	\$ 24,850,230	\$ 13,147,530	\$ 22,293	\$ 21,000	\$ (66,380)	\$ (1,375,768)	\$ 24,871,230	\$ 13,147,530	\$ 36,642,992

Hispanic Scholarship Fund

Consolidating Statement of Activities (See Independent Auditor's Report)

Schedule 2

Year Ended March 31, 2013

	Hispanic Scholarship Fund			Hispanic Scholarship Institute			Consolidated Totals			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues:										
Support:										
Grants and contributions	\$ 1,583,746	\$ 37,661,916	\$ 32,610	\$	\$	\$	\$ 1,583,746	\$ 37,661,916	\$ 32,610	\$ 39,278,272
Special events (net of direct expenses of \$524,554 for 2013)	874,015						874,015			874,015
Investment income, net	37,576	1,066,510		35			37,611	1,066,510		1,104,121
In-kind contributions	26,980						26,980			26,980
Other Revenue	21,280						21,280			21,280
Net assets released from restrictions	41,906,160	(41,906,160)					41,906,160	(41,906,160)		-
Total support and revenues	44,449,757	(3,177,734)	32,610	35	-	-	44,449,792	(3,177,734)	32,610	41,304,668
Expenses and Losses:										
Program services:										
Scholarships	38,531,756						38,531,756			38,531,756
Education and information	3,597,808						3,597,808			3,597,808
Total program services	42,129,564	-	-	-	-	-	42,129,564	-	-	42,129,564
Support services:										
Administration	3,255,581			63,780			3,319,361			3,319,361
Fund raising	698,608						698,608			698,608
Total support services	3,954,189	-	-	63,780	-	-	4,017,969	-	-	4,017,969
Total expenses	46,083,753	-	-	63,780	-	-	46,147,533	-	-	46,147,533
Change in Net Assets	(1,633,996)	(3,177,734)	32,610	(63,745)	-	-	(1,697,741)	(3,177,734)	32,610	(4,842,865)
Net Assets, beginning of year	(856,605)	28,027,964	13,114,920	19,658	21,000		(836,947)	28,048,964	13,114,920	40,326,937
Net Assets, end of year	\$ (2,490,601)	\$ 24,850,230	\$ 13,147,530	\$ (44,087)	\$ 21,000	\$ -	\$ (2,534,688)	\$ 24,871,230	\$ 13,147,530	\$ 35,484,072