

# **HISPANIC SCHOLARSHIP FUND**

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## **Independent Auditor's Report and Consolidated Financial Statements**

**March 31, 2014 and 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

### **Report on the Consolidated Financial Statements**

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, 2014, 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, 2014, 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.

## **Report on Summarized Comparative Information**

We have previously audited the Fund's 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 29, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **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.

*JLK Rosenberger, LLP*

Irvine, California  
July 8, 2014

## Hispanic Scholarship Fund

### Consolidated Statements of Financial Position

<i>March 31,</i>	2014	2013
<b>Assets:</b>		
Cash and cash equivalents	\$ 3,674,159	\$ 1,967,201
Restricted cash		300,000
Investments	23,186,894	24,618,689
Contributions receivable, net	9,514,542	9,057,538
Contracts receivable	106,661	
Property and equipment, net	48,604	57,195
Prepaid expenses and other assets	583,104	642,369
<b>Total assets</b>	<b>\$ 37,113,964</b>	<b>\$ 36,642,992</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Scholarships payable	\$ 154,574	\$ 286,445
Accounts payable and accrued expenses	831,747	801,969
Deferred rent	114,922	70,506
<b>Total liabilities</b>	<b>1,101,243</b>	<b>1,158,920</b>
<b>Net Assets:</b>		
Unrestricted	45,175	(2,534,688)
Temporarily restricted	22,541,104	24,871,230
Permanently restricted	13,426,442	13,147,530
<b>Total net assets</b>	<b>36,012,721</b>	<b>35,484,072</b>
<b>Total liabilities and net assets</b>	<b>\$ 37,113,964</b>	<b>\$ 36,642,992</b>

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

## Hispanic Scholarship Fund

### Consolidated Statements of Activities

Year Ended March 31, 2014 (with comparative totals for 2013)

	2014				2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>Support and Revenues:</b>					
Support:					
Grants and contributions	\$ 2,830,539	\$ 39,023,606	\$ 278,912	\$ 42,133,057	\$ 39,278,272
Government grants	1,327,890			1,327,890	-
Contribution received from HCF	15,279	328,038		343,317	-
Special events (net of direct expenses of \$689,054 for 2014)	1,015,107			1,015,107	874,015
Investment income, net	14,485	1,162,530		1,177,015	1,104,121
In-kind contributions	344,483			344,483	26,980
Other Revenue	6,148			6,148	21,280
Net assets released from restrictions	42,844,300	(42,844,300)		-	-
<b>Total support and revenues</b>	<b>48,398,231</b>	<b>(2,330,126)</b>	<b>278,912</b>	<b>46,347,017</b>	<b>41,304,668</b>
<b>Expenses and Losses:</b>					
Program services:					
Scholarships	39,481,871			39,481,871	38,531,756
Education and information	3,156,853			3,156,853	3,597,808
<b>Total program services</b>	<b>42,638,724</b>	<b>-</b>	<b>-</b>	<b>42,638,724</b>	<b>42,129,564</b>
Support services:					
Administration	2,646,488			2,646,488	3,319,361
Fund raising	533,156			533,156	698,608
<b>Total support services</b>	<b>3,179,644</b>	<b>-</b>	<b>-</b>	<b>3,179,644</b>	<b>4,017,969</b>
<b>Total expenses</b>	<b>45,818,368</b>	<b>-</b>	<b>-</b>	<b>45,818,368</b>	<b>46,147,533</b>
<b>Change in Net Assets</b>	<b>2,579,863</b>	<b>(2,330,126)</b>	<b>278,912</b>	<b>528,649</b>	<b>(4,842,865)</b>
<b>Net Assets, beginning of year</b>	<b>(2,534,688)</b>	<b>24,871,230</b>	<b>13,147,530</b>	<b>35,484,072</b>	<b>40,326,937</b>
<b>Net Assets, end of year</b>	<b>\$ 45,175</b>	<b>\$ 22,541,104</b>	<b>\$ 13,426,442</b>	<b>\$ 36,012,721</b>	<b>\$ 35,484,072</b>

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

# Hispanic Scholarship Fund

## Consolidated Statements of Functional Expenses

Year Ended March 31, 2014 (with comparative totals for 2013)

	2014					2013
	Scholarship	Education and Information	Administration	Fund Raising	Total	Total
<b>Program Distributions:</b>						
Scholarships awarded	\$ 35,526,112	\$ 128,760	\$	\$	\$ 35,654,872	\$ 36,400,695
Grants and other awards	612,517				612,517	-
Total program distributions	36,138,629	128,760	-	-	36,267,389	36,400,695
<b>Personnel Expenses:</b>						
Salaries	1,180,084	704,085	1,320,516	588,673	3,793,358	4,015,304
Payroll taxes	79,549	59,776	97,930	41,443	278,698	306,787
Employee benefits	202,387	95,383	206,295	66,695	570,760	679,992
Recruiting and temporary workers	36,289	4,118	107,297	560	148,264	43,138
Honorariums and other expenses	134,371	18,334	(2,750)		149,955	40,230
Total personnel expenses	1,632,680	881,696	1,729,288	697,371	4,941,035	5,085,451
<b>Other Expenses:</b>						
Professional fees	90,545	309,323	839,642	36,866	1,276,376	1,860,068
Occupancy	95,363		148,779		244,142	502,948
Dues and subscriptions	1,734	9,443	49,941	6,946	68,064	67,243
Interest, fees and taxes	3,361		50,860	141	54,362	75,990
Newsletters, printing and postage	45,216	64,026	36,422	50,419	196,083	350,265
Office expense and equipment	79,672	43,449	360,882	2,042	486,045	242,255
Telephone	19,576	15,555	50,640	8,570	94,341	154,871
Insurance			16,305		16,305	34,071
Equipment rental and maintenance	16,015	2,633	(5,096)	24,000	37,552	55,711
Travel and conferences	72,503	174,317	86,747	92,136	425,703	563,231
Outreach events	97,708	231,334	(28,449)	11,577	312,170	162,114
Marketing	55,340	350,802	(2,641)	11,699	415,200	105,282
Bad debt	524,280		61,500		585,780	3,152
Legal			44,747		44,747	414,735
In-kind goods & services	800	500	297,172	46,011	344,483	26,980
Depreciation	2,879		5,418	294	8,591	42,471
Total other expenses	1,104,992	1,201,382	2,012,869	290,701	4,609,944	4,661,387
Overhead allocation	605,570	945,015	(1,095,669)	(454,916)	-	-
<b>Total Expenses</b>	<b>\$ 39,481,871</b>	<b>\$ 3,156,853</b>	<b>\$ 2,646,488</b>	<b>\$ 533,156</b>	<b>\$ 45,818,368</b>	<b>\$ 46,147,533</b>
<b>Expense Allocation</b>	86%	7%	6%	1%	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>	2014	2013
<b>Operating Activities:</b>		
Change in net assets	528,649	(4,842,865)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation	8,591	42,473
Bond accretion amortization	148,718	
Gain on sale of property and equipment		(587)
Realized and unrealized gain on investment	(915,816)	(909,004)
Uncollectible pledges loss	585,780	3,152
Changes in assets and liabilities:		
Contributions receivable	(1,042,784)	(210,470)
Contracts receivable	(106,661)	
Prepaid expenses and other assets	59,265	(371,340)
Scholarships payable	(131,871)	(1,246,615)
Accounts payable and accrued expenses	29,778	150,396
Deferred rent	44,416	70,506
Net cash used by operating activities	(791,935)	(7,314,354)
<b>Investing Activities:</b>		
Purchase of investments	(11,128,444)	(13,962,223)
Proceeds from sale of investments	13,327,337	20,655,780
Proceeds from maturity of certificate of deposit	300,000	
Purchase of equipment		(61,596)
Net cash provided by investing activities	2,498,893	6,631,961
<b>Financing Activities:</b>		
Payments on capital lease		(23,798)
Net cash used by financing activities	-	(23,798)
<b>Increase (Decrease) in Net Cash</b>	1,706,958	(706,191)
<b>Cash and Cash Equivalents, beginning of year</b>	1,967,201	2,673,392
<b>Cash and Cash Equivalents, end of year</b>	3,674,159	1,967,201
<b>Supplemental Cash Flow Information:</b>		
Interest paid	256	7,278
In-kind contributions	344,483	26,980

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



# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

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### 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 and support services, to members of the Hispanic community. It also promotes the importance of higher education to the Hispanic community, and to corporate and institutional donors, as well as a philosophy of each individual 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, Georgia, and Washington DC. The majority of the Fund's revenue comes from donations by foundations, corporations, and individuals. The primary roles of the Fund are providing scholarships, services, and education.

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 outreach services to Hispanics, other minority parents, and their children from kindergarten through twelfth grade. HSF's staff conducts evening and weekend workshops for students and parents that address how to prepare for college, college selection, the college application process, and how to apply for scholarships and financial aid.

College Programs – The Fund offers programs to HSF Scholars and other Hispanic students enrolled in college, as well as for students and families in nearby communities. 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.

Government Programs – Through HSFI (Hispanic Scholarship Fund Institute) the Fund administers two NASA grants and one Department of Energy grant which provide scholarships, academic support, and internships to underserved students pursuing Science, Technology, Engineering, and Math (STEM) careers.

### 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.

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

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

#### 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:

*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 Contract 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.

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

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

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

The Fund receives funding under grants and contracts from federal agencies for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreement.

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, 2014.

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.

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

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

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.

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.

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

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

#### *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.

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.

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

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

#### 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, 2014 and 2013, the Fund recorded in-kind donations, consisting primarily of legal services and airline vouchers. These contributions are reflected in the consolidated financial statements as both in-kind donations and expenses.

#### 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, 2013, 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, 2014, 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, 2014 through July 8, 2014, the date the consolidated financial statements were available to be issued. There are no adjustments or additional disclosures in the accompanying consolidated financial statements.

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

**Note 3 - Investments and Fair Value Measurements:**

*Investments:*

Investments are summarized below as of March 31, 2014:

	Cost	Fair Value	Unrealized Gain (loss)
Money market accounts	\$ 1,451,621	\$ 1,451,621	\$
Corporate bonds	6,070,453	6,072,028	1,575
US government agency bonds	1,204,406	1,205,729	1,323
Fixed income	2,332,885	2,284,475	(48,410)
Domestic equities	309,198	386,565	77,367
International equities	268,681	304,163	35,482
Mutual funds	9,435,041	10,597,058	1,162,017
Alternative investments	948,452	885,255	(63,197)
	\$ 22,020,737	\$ 23,186,894	\$ 1,166,157

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

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

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

Net investment income consists of the following at March 31, 2014 and 2013:

	2014	2013
Interest and dividends	\$ 462,683	\$ 645,895
Bond accretion amortization	(148,718)	(383,588)
Realized gain	166,641	726,440
Unrealized gain	749,175	182,564
Less: investment fees	(52,766)	(67,190)
	\$ 1,177,015	\$ 1,104,121

*Fair Value Measurements:*

The table below presents investments measured at fair value on a recurring basis at March 31, 2014:

	Total	Level 1	Level 2	Level 3
<b>Money market accounts</b>	\$ 1,451,621	\$ 1,451,621	\$	\$
<b>Corporate bonds</b>	6,072,028		6,072,028	
<b>US government agency bonds</b>	1,205,729		1,205,729	
<b>Domestic equities:</b>				
Financials	386,565	386,565		
<b>International equities:</b>				
Energy	97,017	97,017		
Material/industrials	131,280	131,280		
Consumer	48,181	48,181		
Health care	7,900	7,900		
Financials	19,784	19,784		
<b>Mutual funds:</b>				
International equity	2,480,025	2,480,025		
US equity	6,111,314	6,111,314		
Fixed income	4,016,179	4,016,179		
Commodity	274,018	274,018		
<b>Alternative investments:</b>				
SelectInvest ARV Ltd.	157,776			157,776
ACL Alternative Fund	727,477		727,477	
	\$ 23,186,894	\$ 15,023,884	\$ 8,005,234	\$ 157,776



## Hispanic Scholarship Fund

### Notes to the Consolidated Financial Statements

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**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, 2013:

	Total	Level 1	Level 2	Level 3
<b>Money market accounts</b>	\$ 1,133,118	\$ 1,133,118	\$	\$
<b>Corporate bonds</b>	7,626,138		7,626,138	
<b>US government agency bonds</b>	1,108,561		1,108,561	
<b>Domestic equities:</b>				
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		
<b>Mutual funds:</b>				
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		
<b>Alternative investments:</b>				
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

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 2014-2015.

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

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

The ACL Alternative Fund ("ACL" or the "Fund") 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, 2014, ACL allocated in excess of 75% of its assets to 22 underlying managers with a total of 23 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, 2014 and 2013:

	2014	2013
Balance, beginning of year	\$ 281,620	\$ 312,666
Redemptions	(130,914)	(64,661)
Realized gain	45,392	18,221
Unrealized (loss) gain	(38,322)	15,394
Balance, end of year	\$ 157,776	\$ 281,620

### Note 4 - Contributions Receivable:

Contributions receivable consisted primarily of commitments made by corporations and foundations. Contribution receivables are due as follows at March 31, 2014 and 2013:

	2014	2013
Receivable in less than one year	\$ 5,631,641	\$ 5,290,075
Receivable in one to five years	4,452,385	4,277,833
Less discounts to net present value	(415,759)	(441,928)
Allowance for doubtful accounts	(153,725)	(68,442)
	\$ 9,514,542	\$ 9,057,538

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, 2014 and 2013.

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

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**Note 4 - Contributions Receivable (continued):**

As of March 31, 2014 and 2013, the Fund had two conditional grants of \$1,087,500 and \$722,500, 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, 2014 and 2013:

	2014	2013
Equipment and furniture	\$ 61,595	\$ 61,595
Software	99,274	99,274
	160,869	160,869
Less: accumulated depreciation and amortization	(112,265)	(103,674)
	\$ 48,604	\$ 57,195

Depreciation and amortization expense was \$8,591 and \$42,473 for the years ended March 31, 2014 and 2013, respectively.

**Note 6 - Acquisition of Hispanic College Fund (HCF)**

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. The Fund recognized a \$343,317 contribution received in the acquisition, which included \$15,279 and \$328,038 unrestricted and temporarily restricted contributions, respectively.

**Note 7 - 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, 2012. The Letter of Credit agreement was terminated as of March 31, 2013.

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

**Note 8 - Endowments:**

Changes in Endowment Net Asset for the year ended March 31, 2014 and 2013 are as follows:

	2014			2013
	Temporary Restricted	Permanently Restricted	Total	Total
Endowment Net Assets, beginning of year	\$ 3,192,968	\$ 13,147,530	\$ 16,340,498	\$ 15,586,203
Investment return:				
Income	287,607		287,608	355,298
Bond accretion amortization			-	(145,830)
Investment fees	(40,294)		(40,294)	(49,570)
Realized and unrealized gain on investments	915,216		915,216	906,612
<b>Total investment return</b>	<b>1,162,530</b>	<b>-</b>	<b>1,162,530</b>	<b>1,066,510</b>
Contributions		250,000	250,000	5,000
NPV adjustment		28,912	28,912	27,610
Transfer to release donor endowment	(599,027)		(599,027)	(212,260)
Appropriation of endowment for expenditure			-	(132,565)
<b>Change in endowment net assets</b>	<b>(599,027)</b>	<b>278,912</b>	<b>(320,115)</b>	<b>(312,215)</b>
Endowment Net Assets, End of year	\$ 3,756,471	\$ 13,426,442	\$ 17,182,913	\$ 16,340,498

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

**Note 9 - 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
2015	\$ 245,692
2016	529,108
2017	515,354
2018	523,034
2019	538,995
Thereafter	3,480,962
<u>Total future minimum lease commitments</u>	<u>\$ 5,833,145</u>

**Note 10 - Temporarily Restricted Net Assets:**

Temporarily restricted net assets are available for the following purposes or periods as of March 31, 2014 and 2013:

	2014	2013
Gates Millennium Scholars	\$ 609,724	\$ 763,093
HSF Scholarships	14,688,170	17,895,509
Programs and other	7,243,210	6,212,628
	\$ 22,541,104	\$ 24,871,230

Net assets were released in accordance with the donors' intent by incurring expenses satisfying the restricted purposes; the releases were as follows in 2014 and 2013:

	2014	2013
Gates Millennium Scholars	\$ 27,908,908	\$ 27,620,444
HSF Scholarships	7,983,503	8,790,251
Programs and other	6,930,889	5,495,465
	\$ 42,823,300	\$ 41,906,160

# Hispanic Scholarship Fund

## Notes to the Consolidated Financial Statements

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### **Note 11 - Permanently Restricted Net Assets:**

Permanently restricted net assets of \$13,426,442 and \$13,147,530 are restricted to investment in perpetuity, the income from which supports scholarships of the Fund as of March 31, 2014 and 2013, respectively.

### **Note 12 - 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, 2014 and 2013, the Fund's contribution to the plan totaled \$58,336 and \$106,887, respectively.

### **Note 13 - 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 14 - 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.

Two and one donor comprises approximately 75% and 70% of the contribution revenue for the years ended March 31, 2014 and 2013, respectively. Two and three donors comprise approximately 66% and 55% of the contributions receivables for the years ended of March 31, 2014 and 2013, respectively.

### **Note 15 - 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, 2014 and 2013, such total contributions were approximately \$8,964,000 and \$4,984,000, respectively.

In March 2014, 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 \$40,107 and \$53,818. 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, 2014

	Hispanic Scholarship Fund			Hispanic Scholarship Fund Institute			Total			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Assets:</b>										
Cash and cash equivalents	\$ 573,327	\$ 2,953,781		\$ 147,051		\$	\$ 720,378	\$ 2,953,781		\$ 3,674,159
Investments	(128,220)	11,034,227	12,280,887				(128,220)	11,034,227	12,280,887	23,186,894
Contributions receivable, net	223,777	8,145,210	1,145,555				223,777	8,145,210	1,145,555	9,514,542
Contracts receivable				106,661			106,661			106,661
Property and equipment, net	48,604						48,604			48,604
Prepaid expenses and other assets	411,857	407,886				(236,639)	175,218	407,886		583,104
<b>Total assets</b>	<b>\$ 1,129,345</b>	<b>\$ 22,541,104</b>	<b>\$ 13,426,442</b>	<b>\$ 253,712</b>	<b>\$ -</b>	<b>\$ (236,639)</b>	<b>\$ 1,146,418</b>	<b>\$ 22,541,104</b>	<b>\$ 13,426,442</b>	<b>\$ 37,113,964</b>
<b>Liabilities and Net Assets:</b>										
<b>Liabilities:</b>										
Scholarships payable	\$ 154,574						\$ 154,574			\$ 154,574
Accounts payable and accrued expenses	793,869			274,517		(236,639)	831,747			831,747
Deferred rent	114,922						114,922			114,922
<b>Total liabilities</b>	<b>1,063,365</b>	<b>-</b>	<b>-</b>	<b>274,517</b>	<b>-</b>	<b>(236,639)</b>	<b>1,101,243</b>	<b>-</b>	<b>-</b>	<b>1,101,243</b>
<b>Net assets:</b>	<b>65,980</b>	<b>22,541,104</b>	<b>13,426,442</b>	<b>(20,805)</b>	<b>-</b>		<b>45,175</b>	<b>22,541,104</b>	<b>13,426,442</b>	<b>36,012,721</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,129,345</b>	<b>\$ 22,541,104</b>	<b>\$ 13,426,442</b>	<b>\$ 253,712</b>	<b>\$ -</b>	<b>\$ (236,639)</b>	<b>\$ 1,146,418</b>	<b>\$ 22,541,104</b>	<b>\$ 13,426,442</b>	<b>\$ 37,113,964</b>

## Hispanic Scholarship Fund

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

Schedule 2

Year Ended March 31, 2014

	Hispanic Scholarship Fund			Hispanic Scholarship Fund Institute		Eliminations		Consolidated Totals			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	<b>Support and Revenues:</b>										
Support:											
Grants and contributions	\$ 2,845,818	\$ 39,351,644	\$ 278,912	\$	\$	\$ (15,279)	\$ (328,038)	\$ 2,830,539	\$ 39,023,606	\$ 278,912	\$ 42,133,057
Government grants				1,327,890				1,327,890			1,327,890
Contribution received from HCF				15,279	328,038			15,279	328,038		343,317
Special events (net of direct expenses of \$689,054 for 2014)	1,015,107							1,015,107			1,015,107
Investment income, net	14,477	1,162,530		8				14,485	1,162,530		1,177,015
In-kind contributions	344,483							344,483			344,483
Other Revenue	3,428			2,720				6,148			6,148
Net assets released from restrictions	42,823,300	(42,823,300)		21,000	(21,000)			42,844,300	(42,844,300)		-
<b>Total support and revenues</b>	<b>47,046,613</b>	<b>(2,309,126)</b>	<b>278,912</b>	<b>1,366,897</b>	<b>307,038</b>	<b>(15,279)</b>	<b>(328,038)</b>	<b>48,398,231</b>	<b>(2,330,126)</b>	<b>278,912</b>	<b>46,347,017</b>
<b>Expenses and Losses:</b>											
Program services:											
Scholarships	38,527,452			969,698	328,038	(15,279)	(328,038)	39,481,871			39,481,871
Education and information	2,783,382			373,471				3,156,853			3,156,853
<b>Total program services</b>	<b>41,310,834</b>	<b>-</b>	<b>-</b>	<b>1,343,169</b>	<b>328,038</b>	<b>(15,279)</b>	<b>(328,038)</b>	<b>42,638,724</b>	<b>-</b>	<b>-</b>	<b>42,638,724</b>
Support services:											
Administration	2,646,042			446				2,646,488			2,646,488
Fund raising	533,156							533,156			533,156
<b>Total support services</b>	<b>3,179,198</b>	<b>-</b>	<b>-</b>	<b>446</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,179,644</b>	<b>-</b>	<b>-</b>	<b>3,179,644</b>
<b>Total expenses</b>	<b>44,490,032</b>	<b>-</b>	<b>-</b>	<b>1,343,615</b>	<b>328,038</b>	<b>(15,279)</b>	<b>(328,038)</b>	<b>45,818,368</b>	<b>-</b>	<b>-</b>	<b>45,818,368</b>
<b>Change in Net Assets</b>	<b>2,556,581</b>	<b>(2,309,126)</b>	<b>278,912</b>	<b>23,282</b>	<b>(21,000)</b>	<b>-</b>	<b>-</b>	<b>2,579,863</b>	<b>(2,330,126)</b>	<b>278,912</b>	<b>528,649</b>
<b>Net Assets, beginning of year</b>	<b>(2,490,601)</b>	<b>24,850,230</b>	<b>13,147,530</b>	<b>(44,087)</b>	<b>21,000</b>			<b>(2,534,688)</b>	<b>24,871,230</b>	<b>13,147,530</b>	<b>35,484,072</b>
<b>Net Assets, end of year</b>	<b>\$ 65,980</b>	<b>\$ 22,541,104</b>	<b>\$ 13,426,442</b>	<b>\$ (20,805)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 45,175</b>	<b>\$ 22,541,104</b>	<b>\$ 13,426,442</b>	<b>\$ 36,012,721</b>