

HISPANIC SCHOLARSHIP FUND

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

March 31, 2017 and 2016

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, 2017, 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, 2017, 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 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2016, 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 22 - 23 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 18, 2017

Hispanic Scholarship Fund

Consolidated Statements of Financial Position

<i>March 31,</i>	2017	2016
Assets:		
Cash and cash equivalents	\$ 2,592,093	\$ 2,446,392
Investments	16,592,606	19,133,037
Contributions receivable, net	11,431,630	8,301,147
Property and equipment, net	1,406,903	1,688,738
Prepaid expenses and other assets	1,319,710	1,127,291
Total assets	\$ 33,342,942	\$ 32,696,605
Liabilities and Net Assets		
Liabilities:		
Scholarships payable	\$ 516,522	\$ 111,905
Accounts payable and accrued expenses	703,327	769,408
Deferred rent	494,190	485,222
Total liabilities	1,714,039	1,366,535
Net Assets:		
Unrestricted	(1,609,347)	(654,460)
Temporarily restricted	19,765,056	18,480,459
Permanently restricted	13,473,194	13,504,071
Total net assets	31,628,903	31,330,070
Total liabilities and net assets	\$ 33,342,942	\$ 32,696,605

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

Hispanic Scholarship Fund

Consolidated Statements of Activities

Year Ended March 31, 2017 (with comparative totals for 2016)

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenues:					
Support:					
Grants and contributions	\$ 1,538,228	\$ 45,169,672	\$ (30,877)	\$ 46,677,023	\$ 43,409,860
Government grants	-			-	896,389
Special events (net of direct expenses of \$513,290 for 2017)	1,216,412			1,216,412	1,022,772
Investment income (loss), net	8,612	1,363,450		1,372,062	(277,175)
In-kind contributions	2,028,585			2,028,585	2,461,379
Other Revenue	62,280			62,280	17,222
Net assets released from restrictions	45,248,525	(45,248,525)		-	-
Total support and revenues	50,102,642	1,284,597	(30,877)	51,356,362	47,530,447
Expenses:					
Program services:					
Scholarships	40,911,338			40,911,338	40,094,935
Education and information	4,352,702			4,352,702	4,335,130
Total program services	45,264,040	-	-	45,264,040	44,430,065
Support services:					
Administration	3,736,786			3,736,786	3,210,875
Fund raising	2,056,703			2,056,703	2,393,719
Total support services	5,793,489	-	-	5,793,489	5,604,594
Total expenses	51,057,529	-	-	51,057,529	50,034,659
Change in Net Assets	(954,887)	1,284,597	(30,877)	298,833	(2,504,212)
Net Assets, beginning of year	(654,460)	18,480,459	13,504,071	31,330,070	33,834,282
Net Assets, end of year	\$ (1,609,347)	\$ 19,765,056	\$ 13,473,194	\$ 31,628,903	\$ 31,330,070

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

Hispanic Scholarship Fund

Consolidated Statements of Functional Expenses

Year Ended March 31, 2017 (with comparative totals for 2016)

	2017					2016 Total
	Scholarship	Education and Information	Administration	Fund Raising	Total	
Program Distributions:						
Scholarships awarded	\$ 37,980,209	\$	\$	\$	\$ 37,980,209	\$ 37,540,690
Grants and other awards					-	277,037
Total program distributions	37,980,209	-	-	-	37,980,209	37,817,727
Personnel Expenses:						
Salaries	1,080,291	567,710	1,335,914	726,326	3,710,241	4,052,969
Payroll taxes	92,056	47,269	92,441	53,635	285,401	296,365
Employee benefits	173,073	105,754	186,541	105,166	570,534	650,364
Recruiting and temporary workers	128,598	4,356	315,701	5,810	454,465	186,009
Honorariums and other expenses	-	-	-	-	-	58,528
Total personnel expenses	1,474,018	725,089	1,930,597	890,937	5,020,641	5,244,235
Other Expenses:						
Professional fees	47,381	143,728	772,049	20,081	983,239	1,025,510
Occupancy	197,471	6,852	385,173		589,496	585,442
Dues and subscriptions	2,833	220	40,144	9,734	52,931	109,301
Service fees	2,804	349	62,601	1,495	67,249	79,385
Newsletters, printing and postage	5,905	115,013	36,484	20,982	178,384	201,400
Office expense and equipment	75,706	21,706	272,062	21,173	390,647	371,928
Telephone	18,272	13,391	57,274	9,379	98,316	105,854
Insurance			59,040		59,040	53,825
Equipment rental and maintenance	5,666	150	27,099		32,915	53,005
Travel and conferences	55,880	391,800	46,804	106,075	600,559	639,148
Outreach events	6,942	1,001,913	83,059	56,141	1,148,055	561,370
Marketing	1,921	160,653	13,715	98,493	274,782	324,614
Bad debts	240,000		103,903		343,903	1,510
Loss on disposal of software	147,548	330,306	32,451		510,305	-
Legal			996		996	6,279
In-kind goods & services		408,038	533,958	1,111,589	2,053,585	2,440,619
Depreciation	434,019	20,647	217,611		672,277	413,507
Total other expenses	1,242,348	2,614,766	2,744,423	1,455,142	8,056,679	6,972,697
Overhead allocation	214,763	1,012,847	(938,234)	(289,376)	-	-
Total Expenses	\$ 40,911,338	\$ 4,352,702	\$ 3,736,786	\$ 2,056,703	\$ 51,057,529	\$ 50,034,659
Expense Allocation	80%	9%	7%	4%	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>	2017	2016
Operating Activities:		
Change in net assets	\$ 298,833	\$ (2,504,212)
Adjustments to reconcile net change to net cash used by operating activities:		
Depreciation	672,277	398,388
Bond accretion amortization	17,359	103,441
Realized and unrealized loss (gain) on investments	(1,234,375)	577,964
Loss on disposal of software	510,305	
Uncollectible pledges loss	343,902	1,510
Donated assets		3,000
Changes in assets and liabilities:		
Contributions receivable	(3,474,385)	(1,397,848)
Contracts receivable		205,712
Prepaid expenses and other assets	(192,419)	(34,376)
Scholarships payable	404,617	(75,026)
Accounts payable and accrued expenses	(66,081)	(119,587)
Deferred rent	8,968	21,623
Net cash used by operating activities	(2,710,999)	(2,819,411)
Investing Activities:		
Purchase of investments	(3,292,305)	(7,163,871)
Proceeds from sale of investments	7,049,752	10,928,189
Purchase of property and equipment	(900,747)	(901,044)
Net cash provided by investing activities	2,856,700	2,863,274
Increase in Net Cash	145,701	43,863
Cash and Cash Equivalents, beginning of year	2,446,392	2,402,529
Cash and Cash Equivalents, end of year	\$ 2,592,093	\$ 2,446,392
Supplemental Cash Flow Information:		
Interest paid	\$ -	\$ -
In-kind contributions	\$ 2,028,585	\$ 2,461,379

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

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 1 - Organization:

The Hispanic Scholarship Fund (the Fund, HSF) is a non-profit, tax-exempt 501(c)(3) corporation founded in 1975. The Hispanic Scholarship Fund empowers Latino families with the knowledge and resources to successfully complete a higher education, while providing scholarships and support services to as many exceptional Hispanic American students as possible. HSF strives to make college education a top priority for every Latino family across the nation, mobilizing our community to proactively advance that goal for each individual, over a lifetime, in every way he/she can. HSF also seeks to give its Scholars all the tools they need to do well in their course work, graduate, enter a profession, excel, help lead our nation going forward, and mentor the generations to come.

The Fund is headquartered in Gardena, California and has a regional presence in Georgia, and Washington DC. The majority of the Fund's revenue comes from donations by foundations, corporations, and individuals.

The Fund's activities fall into three major categories—scholarships, programs, and information:

Scholarships – The Fund administers scholarships funded by donations from foundations, corporations, and individuals.

Programs – The Fund provides free, bilingual, 2 hour and half-day, college preparation workshops held in various cities across the country, designed to help middle and high school students and their parents prepare, plan, and pay for college. Additional programs for selected HSF Scholars provide leadership training, networking, professional development and opportunities to interview for internships and full-time employment positions.

Government Programs – Through Hispanic Scholarship Fund Institute (HSFI), the Fund previously administered two NASA grants and one Department of Energy grant which provided scholarships, academic support, and internships to underserved students pursuing Science, Technology, Engineering, and Math (STEM) careers. All three grants ended during the prior fiscal year.

Information – Through its online portal, HSF provides free information to visitors, including potential scholarship applicants and their parents, current Scholars, and Alumni, on a range of topics related to college and the transition from college to profession.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 1 - Organization (continued):

During fiscal year ending March 31, 2016, the Fund was awarded a \$417 million grant from the Bill and Melinda Gates Foundation. The program, named The Gates Scholarship, is slated to launch in 2018 and will fund undergraduate education for 3,000 low-income minority students over a 10-year period. Gates Scholars will be selected on the basis of both academic performance and demonstration of non-academic skills such as leadership. In addition to financial support, the program will be designed to provide academic support and peer-networking through innovative technologies.

Note 2 - Summary of Significant Accounting Policies:

a. Principles of Consolidation

The consolidated financial statements include the Fund and its wholly owned subsidiary 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:

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.

Intra-fund Borrowing of Net Assets - Periodically operating shortfalls are funded utilizing money borrowed from Temporarily Restricted Net Assets. There is no interest charged on these borrowings as they are generally expected to be short-term in nature.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

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

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.

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

The Fund received funding under grants and contracts from federal agencies for direct and indirect program costs in prior fiscal years. This funding was subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants were considered exchange transactions and were recorded as unrestricted income to the extent that related expenses were 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, 2017.

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. Dividends 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.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

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

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. Capitalized Software

Certain development costs associated with software to be used internally are capitalized during the application development stage or upon installation. Internally developed software costs are amortized using the straight-line method over the estimated useful life of the software. Capitalized software at March 31, 2017 and 2016 is included in the property and equipment in the accompanying consolidated statements of financial position.

i. 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 the Consolidated Financial Statements

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

j. 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 the 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 principal 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.

k. 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 (scholarships, programs, 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.

l. 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.

m. 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.

During the years ended March 31, 2017 and 2016, the Fund recorded in-kind donations, consisting primarily of legal and consulting services. These contributions are reflected in the consolidated financial statements as both in-kind donations and expenses or contributed assets, as applicable.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

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

n. 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, 2016, from which the summarized information is derived.

o. 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, 2017, 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.

p. Subsequent Events

Management of the Fund has evaluated subsequent events for the period of time from its fiscal year ended March 31, 2017 through July 18, 2017, 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, 2017:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (loss)</u>
Money market accounts	\$ 449,880	\$ 449,880	\$
US government agency bonds	1,917	1,917	
Fixed income	2,485,654	2,356,397	(129,257)
Domestic equities	472,686	554,392	81,706
International equities	214,713	248,255	33,542
Mutual funds	9,836,576	12,045,642	2,209,066
Alternative investments	850,000	936,123	86,123
	<u>\$ 14,311,426</u>	<u>\$ 16,592,606</u>	<u>\$ 2,281,180</u>

Investments are summarized below as of March 31, 2016:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (loss)</u>
Money market accounts	\$ 696,969	\$ 696,969	\$
Corporate bonds	2,882,002	2,881,846	(156)
US government agency bonds	400,476	400,630	154
Fixed income	2,520,108	2,410,120	(109,988)
Domestic equities	418,082	506,431	88,349
International equities	205,294	218,308	13,014
Mutual funds	9,943,497	10,959,490	1,015,993
Alternative investments	840,616	1,059,243	218,627
	<u>\$ 17,907,044</u>	<u>\$ 19,133,037</u>	<u>\$ 1,225,993</u>

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

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

Net investment income (loss) consists of the following at March 31, 2017 and 2016:

	2017	2016
Interest and dividends	\$ 203,781	\$ 458,877
Bond accretion amortization	(17,359)	(103,441)
Realized gain	179,405	23,015
Unrealized (loss) gain	1,055,187	(600,979)
Less: investment fees	(48,952)	(54,647)
	\$ 1,372,062	\$ (277,175)

Fair Value Measurements:

The table below presents investments measured at fair value on a recurring basis at March 31, 2017.

	Total	Level 1	Level 2	Level 3
Money market accounts	\$ 449,880	\$ 449,880	\$	\$
US government agency bonds	1,917		1,917	
Domestic equities:				
Financials	554,392	554,392		
International equities:				
Energy	8,274	8,274		
Material/Industrials	118,792	118,792		
Consumer	53,124	53,124		
Health care	24,136	24,136		
Financials	43,929	43,929		
Mutual funds:				
International equity	2,483,921	2,483,921		
US equity	7,764,423	7,764,423		
Fixed income	3,896,586	3,896,586		
Commodity	257,109	257,109		
Alternative investments:				
ACL Alternative Fund	936,123		936,123	
	\$ 16,592,606	\$ 15,654,566	\$ 938,040	\$

Hispanic Scholarship Fund

Notes to the 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, 2016:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market accounts	\$ 696,969	\$ 696,969	\$	\$
Corporate bonds	2,881,846		2,881,846	
US government agency bonds	400,630		400,630	
Domestic equities:				
Financials	506,431	506,431		
International equities:				
Energy	7,358	7,358		
Material/industrials	87,709	87,709		
Consumer	55,156	55,156		
Health care	37,309	37,309		
Financials	30,776	30,776		
Mutual funds:				
International equity	2,204,717	2,204,717		
US equity	6,789,800	6,789,800		
Fixed income	4,142,982	4,142,982		
Commodity	232,111	232,111		
Alternative investments:				
SelectInvest ARV Ltd.	15,031			15,031
ACL Alternative Fund	1,044,212		1,044,212	
	<u>\$ 19,133,037</u>	<u>\$ 14,791,318</u>	<u>\$ 4,326,688</u>	<u>\$ 15,031</u>

SelectInvest ARV, Ltd. was a fund of hedge funds that allocates capital to a select group of investment managers. These funds specialized on event driven arbitrage and relative value strategies. SelectInvest ARV, Ltd. was liquidated in 2016.

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 December 31, 2015, ACL allocated in excess of 80% of its assets to 22 underlying managers. 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 years ended March 31, 2017 and 2016:

	2017	2016
Balance, beginning of year	\$ 15,031	\$ 69,185
Redemptions	(15,031)	(64,629)
Realized gain		12,074
Unrealized loss		(1,599)
Balance, end of year	\$ -	\$ 15,031

Note 4 - Contributions Receivable:

Contributions receivable consisted primarily of commitments made by corporations and foundations. Contributions receivable are due as follows at March 31, 2017 and 2016:

	2017	2016
Receivable in less than one year	\$ 9,160,226	\$ 5,812,904
Receivable in more than one year	2,741,666	2,875,000
Less discounts to net present value	(358,488)	(285,252)
Allowance for doubtful accounts	(111,774)	(101,505)
	\$ 11,431,630	\$ 8,301,147

The present value of estimated future cash flows on unconditional pledges was determined using a discount rate of 2% for the year ended March 31, 2017 and 1.5% for the year ended March 31, 2016.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 4 - Contributions Receivable (continued):

As of March 31, 2016, the Fund had one conditional grant of \$107,500 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, 2017 and 2016:

	2017	2016
Equipment and furniture	\$ 448,131	\$ 423,291
Software	1,244,264	1,635,526
Leasehold improvement	218,126	216,693
	1,910,521	2,275,510
Less: accumulated depreciation and amortization	(503,618)	(586,772)
	\$ 1,406,903	\$ 1,688,738

Depreciation and amortization expense was \$672,277 and \$398,388 for the years ended March 31, 2017 and 2016, respectively.

Note 6 - The Gates Scholarship Program:

During the fiscal year ended March 31, 2016, the Fund received a grant from the Bill and Melinda Gates Foundation (the "Foundation") for \$417 million over a 19 year period to administer The Gates Scholarship Program (the "Program"). The overall goal of the program is to provide scholarships for 3,000 outstanding low-income Hispanic American, African American, American Indian/Alaska Native, and Asian & Pacific Islander American students to attend the undergraduate institutions of their choice. The program has been designed for 10 cohorts of 300 students each year for 10 years. This grant is conditioned on the Fund's successful annual administration of the Program as determined by the administration agreement with the Foundation.

The Program funds are invested and held in a separate account by the Fund and all investment interest earned is restricted to the purpose of the grant. Returns on the Program investments are recognized as revenue and an increase in temporarily restricted net assets in the period such returns are generated by the underlying investments.

In accordance with FASB ASC Topic 958-605-25, revenue recognition is based on the unconditional/conditional promise to give. The grant agreement requires the Fund to abide by specific performance targets, milestones, and/or reporting deliverables. If the requirements are not met, the grant agreement may be terminated, and any unspent funds, including the accumulated returns on invested assets, will be returned to the Foundation.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 7 - Endowments:

Changes in Endowment Net Asset for the years ended March 31, 2017 and 2016 are as follows:

	2017			2016
	Temporarily Restricted	Permanently Restricted	Total	Total
Endowment Net Assets, beginning of year	\$ 3,417,163	\$ 13,504,071	\$ 16,921,234	\$ 17,812,187
Investment return:				
Income	192,777		192,777	330,320
Investment fees	(44,967)		(44,967)	(44,753)
Realized and unrealized loss on investments	1,234,375		1,234,375	(577,964)
Total investment return	1,382,185		1,382,185	(292,397)
Contributions		12,640	12,640	
NPV adjustment		(43,517)	(43,517)	57,970
Transfer to release donor endowment	(704,699)		(704,699)	(656,526)
Change in endowment net assets	677,486	(30,877)	646,609	(598,556)
Endowment Net Assets, End of year	\$ 4,094,649	\$ 13,473,194	\$ 17,567,843	\$ 16,921,234

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes or periods as of March 31, 2017 and 2016:

	2017	2016
Gates Millennium Scholarships	\$ 564,735	\$ 484,732
Gates Scholarships	1,941,254	1,711,702
HSF Scholarships	8,911,432	7,740,544
Programs and other	8,347,635	8,543,481
	\$ 19,765,056	\$ 18,480,459

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 8 - Temporarily Restricted Net Assets (continued):

Net assets were released in accordance with the donors' intent by incurring expenses satisfying the restricted purposes; the releases were as follows in 2017 and 2016:

	2017	2016
Gates Millennium Scholars	\$ 31,115,259	\$ 29,385,564
HSF Scholarships	6,864,950	8,157,626
Programs and other	7,268,316	5,474,437
	\$ 45,248,525	\$ 43,017,627

Note 9 - Permanently Restricted Net Assets:

Permanently restricted net assets of \$13,473,194 and \$13,504,071 are restricted to investment in perpetuity, the income from which supports scholarships of the Fund as of March 31, 2017 and 2016, respectively.

Note 10 - 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
2018	\$ 594,455
2019	588,691
2020	554,562
2021	570,304
2022	587,493
Thereafter	1,813,636
Total future minimum lease commitments	\$ 4,709,141

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 11 - Retirement Plan:

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 \$265,000. For the years ended March 31, 2017 and 2016, the Fund's contribution to the plan totaled \$84,712 and \$105,178, 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 comprised approximately 66% and 65% of the contribution revenue for the years ended March 31, 2017 and 2016, respectively. Two and four donors comprised approximately 34% and 70% of the contributions receivable as of March 31, 2017 and 2016, 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, 2017 and 2016, such total contributions were approximately \$10,100,000 and \$8,300,000, respectively. Included in the year ended March 31, 2017 is approximately \$1,100,000 of in-kind donations.

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.

Hispanic Scholarship Fund

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

Schedule 1

March 31, 2017

	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	\$	\$ 2,592,093	\$	\$	\$	\$	\$	\$ 2,592,093	\$	\$ 2,592,093
Investments		4,096,566	12,496,040					4,096,566	12,496,040	16,592,606
Contributions receivable, net	599,325	9,855,151	977,154				599,325	9,855,151	977,154	11,431,630
Property and equipment, net	1,406,903						1,406,903			1,406,903
Prepaid expenses and other assets	1,178,522	204,643				(63,455)	1,115,067	204,643		1,319,710
(Due to)/due from	(3,016,603)	3,016,603					(3,016,603)	3,016,603		-
Total assets	\$ 168,147	\$ 19,765,056	\$ 13,473,194	-	\$ -	\$ (63,455)	\$ 104,692	\$ 19,765,056	\$ 13,473,194	\$ 33,342,942
Liabilities and Net Assets:										
Liabilities:										
Scholarships payable	\$ 516,522	\$	\$	\$	\$	\$	\$ 516,522	\$	\$	\$ 516,522
Accounts payable and accrued expenses	702,081			64,701		(63,455)	703,327			703,327
Deferred rent	494,190			-			494,190			494,190
Total liabilities	1,712,793	-	-	64,701	-	(63,455)	1,714,039	-	-	1,714,039
Net assets:	(1,544,646)	19,765,056	13,473,194	(64,701)	-	-	(1,609,347)	19,765,056	13,473,194	31,628,903
Total liabilities and net assets	\$ 168,147	\$ 19,765,056	\$ 13,473,194	-	\$ -	\$ (63,455)	\$ 104,692	\$ 19,765,056	\$ 13,473,194	\$ 33,342,942

Hispanic Scholarship Fund

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

Schedule 2

Year Ended March 31, 2017

	Hispanic Scholarship Fund			Hispanic Scholarship Fund Institute		Consolidated Totals			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenues:									
Support:									
Grants and contributions	\$ 1,538,228	\$ 45,169,672	\$ (30,877)	\$	\$	\$ 1,538,228	\$ 45,169,672	\$ (30,877)	\$ 46,677,023
Government grants						-			-
Special events (net of direct expenses of \$513,290 for 2017)	1,216,412					1,216,412			1,216,412
Investment income (loss), net	8,612	1,363,450				8,612	1,363,450		1,372,062
In-kind contributions	2,028,585					2,028,585			2,028,585
Other Revenue	2,280			60,000		62,280			62,280
Net assets released from restrictions	45,248,525	(45,248,525)				45,248,525	(45,248,525)		-
Total support and revenues	50,042,642	1,284,597	(30,877)	60,000	-	50,102,642	1,284,597	(30,877)	51,356,362
Expenses and Losses:									
Program services:									
Scholarships	40,911,338					40,911,338			40,911,338
Education and information	4,352,702					4,352,702			4,352,702
Total program services	45,264,040	-	-	-	-	45,264,040	-	-	45,264,040
Support services:									
Administration	3,625,080			111,706		3,736,786			3,736,786
Fund raising	2,056,703					2,056,703			2,056,703
Total support services	5,681,783	-	-	111,706	-	5,793,489	-	-	5,793,489
Total expenses	50,945,823	-	-	111,706	-	51,057,529	-	-	51,057,529
Change in Net Assets	(903,181)	1,284,597	(30,877)	(51,706)	-	(954,887)	1,284,597	(30,877)	298,833
Net Assets, beginning of year	(641,465)	18,480,459	13,504,071	(12,995)		(654,460)	18,480,459	13,504,071	31,330,070
Net Assets, end of year	\$ (1,544,646)	\$ 19,765,056	\$ 13,473,194	\$ (64,701)	-	\$ (1,609,347)	\$ 19,765,056	\$ 13,473,194	\$ 31,628,903