

HISPANIC SCHOLARSHIP FUND

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

March 31, 2018 and 2017

Hispanic Scholarship Fund

Independent Auditor's Report and Consolidated Financial Statements

Independent Auditor's Report	1 - 2
-------------------------------------	-------

Financial Statements

Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7 - 21

Supplementary Information

Consolidating Statement of Financial Position	22
Consolidating Statement of Activities	23

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 statements of financial position as of March 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years 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 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2017, 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 17, 2018

Hispanic Scholarship Fund

Consolidated Statements of Financial Position

<i>March 31,</i>	2018	2017
Assets:		
Cash and cash equivalents	\$ 5,940,650	\$ 2,592,093
Investments	17,405,338	16,592,606
Contributions receivable, net	15,832,146	11,431,630
Property and equipment, net	1,703,643	1,406,903
Prepaid expenses and other assets	1,633,484	1,319,710
Total assets	\$ 42,515,261	\$ 33,342,942
Liabilities and Net Assets		
Liabilities:		
Scholarships payable	\$ 140,598	\$ 516,522
Accounts payable and accrued expenses	927,460	703,327
Deferred rent	488,851	494,190
Total liabilities	1,556,909	1,714,039
Net Assets:		
Unrestricted	(1,457,193)	(1,609,347)
Temporarily restricted	28,871,863	19,765,056
Permanently restricted	13,543,682	13,473,194
Total net assets	40,958,352	31,628,903
Total liabilities and net assets	\$ 42,515,261	\$ 33,342,942

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

Hispanic Scholarship Fund

Consolidated Statements of Activities

Year Ended March 31, 2018 (with comparative totals for 2017)

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenues:					
Support:					
Grants and contributions	\$ 1,461,692	\$ 49,951,452	\$ 70,488	\$ 51,483,632	\$ 46,677,023
Special events (net of direct expenses of \$549,114 for 2018)	364,595			364,595	1,216,412
Investment income, net	-	1,521,975		1,521,975	1,372,062
In-kind contributions	2,695,372			2,695,372	2,028,585
Other Revenue	31,520	20,942		52,462	62,280
Net assets released from restrictions	42,387,562	(42,387,562)		-	-
Total support and revenues	46,940,741	9,106,807	70,488	56,118,036	51,356,362
Expenses:					
Program services:					
Scholarships	36,904,373			36,904,373	40,911,338
Education and information	3,936,683			3,936,683	4,352,702
Total program services	40,841,056	-	-	40,841,056	45,264,040
Support services:					
Administration	4,498,975			4,498,975	3,736,786
Fund raising	1,448,556			1,448,556	2,056,703
Total support services	5,947,531	-	-	5,947,531	5,793,489
Total expenses	46,788,587	-	-	46,788,587	51,057,529
Change in Net Assets	152,154	9,106,807	70,488	9,329,449	298,833
Net Assets, beginning of year	(1,609,347)	19,765,056	13,473,194	31,628,903	31,330,070
Net Assets, end of year	\$ (1,457,193)	\$ 28,871,863	\$ 13,543,682	\$ 40,958,352	\$ 31,628,903

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

Hispanic Scholarship Fund

Consolidated Statements of Functional Expenses

Year Ended March 31, 2018 (with comparative totals for 2017)

	2018					2017 Total
	Scholarship	Education and Information	Administration	Fund Raising	Total	
Program Distributions:						
Scholarships awarded	\$ 33,126,169	\$ -	\$ -	\$ -	\$ 33,126,169	\$ 37,980,209
Total program distributions	33,126,169	-	-	-	33,126,169	37,980,209
Personnel Expenses:						
Salaries	1,719,951	574,011	1,054,610	742,505	4,091,077	3,710,241
Payroll taxes	128,434	48,747	71,450	59,657	308,288	285,401
Employee benefits	262,579	91,764	144,609	102,987	601,939	570,534
Recruiting and temporary workers	72,471	32,377	403,632	2,864	511,344	454,465
Total personnel expenses	2,183,435	746,899	1,674,301	908,013	5,512,648	5,020,641
Other Expenses:						
Professional fees	139,028	39,544	454,125	74,460	707,157	983,239
Occupancy	157,834	3,596	421,128	-	582,558	589,496
Dues and subscriptions	2,749	148	24,622	5,654	33,173	52,931
Service fees	11,317	-	54,509	2,298	68,124	67,249
Newsletters, printing and postage	16,234	71,995	5,812	65,918	159,959	178,384
Office expense and equipment	102,477	23,091	343,136	33,149	501,853	390,647
Telephone	23,158	10,303	62,793	9,969	106,223	98,316
Insurance	16,951	-	42,804	-	59,755	59,040
Equipment rental and maintenance	4,699	-	30,745	-	35,444	32,915
Travel and conferences	75,263	863,438	56,942	83,961	1,079,604	600,559
Outreach events	31,557	1,104,524	65,598	41,060	1,242,739	1,148,055
Marketing	6,693	213,159	17,387	25,558	262,797	274,782
Bad debts	-	-	(7,894)	-	(7,894)	343,903
Loss on disposal of software	-	-	-	-	-	510,305
Legal	-	-	51,025	-	51,025	996
In-kind goods & services	157,809	287,977	1,700,628	523,958	2,670,372	2,053,585
Depreciation	233,338	-	363,543	-	596,881	672,277
Total other expenses	979,107	2,617,775	3,686,903	865,985	8,149,770	8,056,679
Overhead allocation	615,662	572,009	(862,229)	(325,442)	-	-
Total Expenses	\$ 36,904,373	\$ 3,936,683	\$ 4,498,975	\$ 1,448,556	\$ 46,788,587	\$ 51,057,529
Expense Allocation	79%	8%	10%	3%	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>	2018	2017
Operating Activities:		
Change in net assets	\$ 9,329,449	\$ 298,833
Adjustments to reconcile net change to net cash used by operating activities:		
Depreciation	596,882	672,277
Bond accretion amortization	(17)	17,359
Realized and unrealized loss (gain) on investments	(1,152,102)	(1,234,375)
Loss on disposal of software	-	510,305
Uncollectible pledges loss	(7,894)	343,902
Changes in assets and liabilities:		
Contributions receivable	(4,392,622)	(3,474,385)
Prepaid expenses and other assets	(313,774)	(192,419)
Scholarships payable	(375,924)	404,617
Accounts payable and accrued expenses	224,133	(66,081)
Deferred rent	(5,339)	8,968
Net cash flows from operating activities	3,902,792	(2,710,999)
Investing Activities:		
Purchase of investments	(8,493,772)	(3,292,305)
Proceeds from sale of investments	8,833,159	7,049,752
Purchase of property and equipment	(893,622)	(900,747)
Net cash flows from investing activities	(554,235)	2,856,700
Increase in Net Cash	3,348,557	145,701
Cash and Cash Equivalents, beginning of year	2,592,093	2,446,392
Cash and Cash Equivalents, end of year	\$ 5,940,650	\$ 2,592,093
Supplemental Cash Flow Information:		
Interest paid	\$ -	\$ -
In-kind contributions	\$ 2,695,372	\$ 2,028,585

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, two 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 starting in Fall 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, 2018.

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, 2018 and 2017 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, 2018 and 2017, 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, 2017, 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, 2018, 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, 2018 through July 17, 2018, 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, 2018:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (loss)</u>
Money market accounts	\$ 154,558	\$ 154,558	\$ -
US government agency bonds	1,934	1,934	-
Fixed income ETFs	1,677,908	1,649,515	(28,393)
U.S. equity ETFs	6,175,329	9,750,411	3,575,082
International equity ETFs	3,531,059	3,531,059	-
Mutual funds	2,384,448	2,317,861	(66,587)
	<u>\$ 13,925,236</u>	<u>\$ 17,405,338</u>	<u>\$ 3,480,102</u>

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>

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, 2018 and 2017:

	2018	2017
Interest and dividends	\$ 435,940	\$ 203,781
Bond accretion amortization	-	(17,359)
Realized (loss) gain	(48,878)	179,405
Unrealized gain	1,200,980	1,055,187
Less: investment fees	(66,067)	(48,952)
	\$ 1,521,975	\$ 1,372,062

Fair Value Measurements:

The table below presents investments measured at fair value on a recurring basis at March 31, 2018.

	Total	Level 1	Level 2	Level 3
Money market accounts	\$ 154,558	\$ 154,558	\$	\$
US government agency bonds	1,934	1,934		
Exchange Trade Funds:				
U.S. equity ETFs	9,750,411	9,750,411		
U.S. fixed income ETFs	1,649,515	1,649,515		
International equity ETFs	3,531,059	3,531,059		
Mutual funds:				
Fixed income	2,317,861	2,317,861		
	\$ 17,405,338	\$ 17,405,338	\$ -	\$ -

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, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	
	<u>\$ 16,592,606</u>	<u>\$ 15,654,566</u>	<u>\$ 938,040</u>	<u>\$ -</u>

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. ACL was liquidated in 2017.

The changes in investments classified as Level 3 are as follows for the years ended March 31, 2018 and 2017:

	2018	2017
Balance, beginning of year	\$ -	\$ 15,031
Redemptions	-	(15,031)
<hr/>		
Balance, end of year	\$ -	\$ -

Note 4 - Contributions Receivable:

Contributions receivable consisted primarily of commitments made by corporations and foundations. Contributions receivable are due as follows at March 31, 2018 and 2017:

	2018	2017
Receivable in less than one year	\$ 11,538,492	\$ 9,160,226
Receivable in more than one year	4,776,567	2,741,666
Less discounts to net present value	(380,533)	(358,488)
Allowance for doubtful accounts	(102,380)	(111,774)
<hr/>		
	\$ 15,832,146	\$ 11,431,630

The present value of estimated future cash flows on unconditional pledges was determined using a discount rate of 1.5% for the year ended March 31, 2018 and 2% for the year ended March 31, 2017.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 5 - Property and Equipment:

Property and equipment consists of the following at March 31, 2018 and 2017:

	2018	2017
Equipment and furniture	\$ 457,630	\$ 448,131
Software	2,082,910	1,244,264
Leasehold improvement	263,602	218,126
	2,804,142	1,910,521
Less: accumulated depreciation and amortization	(1,100,499)	(503,618)
	\$ 1,703,643	\$ 1,406,903

Depreciation and amortization expense was \$596,882 and \$672,277 for the years ended March 31, 2018 and 2017, 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, 2018 and 2017 are as follows:

	2018			2017
	Temporarily Restricted	Permanently Restricted	Total	Total
Endowment Net Assets, beginning of year	\$ 4,094,649	\$ 13,473,194	\$ 17,567,843	\$ 16,921,234
Investment return:				
Income	410,619		410,619	192,777
Investment fees	(66,064)		(66,064)	(44,967)
Realized and unrealized loss on investments	1,152,102		1,152,102	1,234,375
Total investment return	1,496,657		1,496,657	1,382,185
Contributions	20,943		20,943	12,640
NPV adjustment		70,488	70,488	(43,517)
Transfer to release donor endowment	(754,885)		(754,885)	(704,699)
Change in endowment net assets	762,715	70,488	833,203	646,609
Endowment Net Assets, end of year	\$ 4,857,364	\$ 13,543,682	\$ 18,401,046	\$ 17,567,843

Note 8 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes or periods as of March 31, 2018 and 2017:

	2018	2017
Gates Millennium Scholarships	\$ 967,275	\$ 564,735
Gates Scholarships	8,553,682	1,941,254
HSF Scholarships	4,610,044	8,911,432
WF ALF Scholarships	3,880,330	-
Programs and other	10,860,532	8,347,635
	\$ 28,871,863	\$ 19,765,056

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 2018 and 2017:

	2018	2017
Gates Millennium Scholars	\$ 27,898,219	\$ 31,115,259
HSF Scholarships	5,227,950	6,864,950
Programs and other	9,261,393	7,268,316
	\$ 42,387,562	\$ 45,248,525

Note 9 - Permanently Restricted Net Assets:

Permanently restricted net assets of \$13,543,682 and \$13,473,194 are restricted to investment in perpetuity, the income from which supports scholarships of the Fund as of March 31, 2018 and 2017, 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
2019	\$ 536,540
2020	553,115
2021	570,304
2022	587,493
2023	604,682
Thereafter	1,208,954
Total future minimum lease commitments	\$ 4,061,088

The Fund has a ten year lease with a third party. Over the term of the lease, monthly payments range between \$40,107 and \$53,818.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 11 - Line of Credit:

On August 30, 2017, the Fund entered a revolving line of credit with a bank. The line allows for maximum borrowings up to \$4,000,000 with interest at the Prime Rate (the Prime Rate was 4.75% at March 31, 2018). The Fund had no balance outstanding under this line of credit as of March 31, 2018. The line of credit expires on September 1, 2018.

Note 12 - 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, 2018 and 2017, the Fund's contribution to the plan totaled \$111,981 and \$84,712, 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.

One donor comprised approximately 50% and 66% of the contribution revenue for the years ended March 31, 2018 and 2017, respectively. Two donors comprised approximately 66% and 34% of the contributions receivable as of March 31, 2018 and 2017, 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, 2018 and 2017, such total contributions were approximately \$10,900,000 and \$10,100,000, respectively. Included in the years ended March 31, 2018 and 2017 is approximately \$1,400,000 and \$1,100,000 of in-kind donations, respectively.

Hispanic Scholarship Fund

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

Schedule 1

March 31, 2018

	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	\$	\$ 5,940,650	\$	\$	\$	\$	\$	\$ 5,940,650	\$	\$ 5,940,650
Investments		4,859,297	12,546,041					4,859,297	12,546,041	17,405,338
Contributions receivable, net	496,915	14,337,590	997,641				496,915	14,337,590	997,641	15,832,146
Property and equipment, net	1,703,643						1,703,643			1,703,643
Prepaid expenses and other assets	1,040,364	695,132				(102,012)	938,352	695,132		1,633,484
(Due to)/due from	(3,100,889)	3,100,889					(3,100,889)	3,100,889		-
Total assets	\$ 140,033	\$ 28,933,558	\$ 13,543,682	\$ -	\$ -	\$ (102,012)	\$ 38,021	\$ 28,933,558	\$ 13,543,682	\$ 42,515,261
Liabilities and Net Assets:										
Liabilities:										
Scholarships payable	\$ 140,598	\$	\$	\$	\$	\$	\$ 140,598	\$	\$	\$ 140,598
Accounts payable and accrued expenses	864,996	61,695		102,781		(102,012)	865,765	61,695		927,460
Deferred rent	488,851						488,851			488,851
Total liabilities	1,494,445	61,695	-	102,781	-	(102,012)	1,495,214	61,695	-	1,556,909
Net assets:	(1,354,412)	28,871,863	13,543,682	(102,781)	-	-	(1,457,193)	28,871,863	13,543,682	40,958,352
Total liabilities and net assets	\$ 140,033	\$ 28,933,558	\$ 13,543,682	\$ -	\$ -	\$ (102,012)	\$ 38,021	\$ 28,933,558	\$ 13,543,682	\$ 42,515,261

Hispanic Scholarship Fund

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

Schedule 2

Year Ended March 31, 2018

	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	\$ 1,461,692	\$ 49,951,452	\$ 70,488	\$	\$	\$ 1,461,692	\$ 49,951,452	\$ 70,488	\$ 51,483,632
Special events (net of direct expenses of \$549,114 for 2018)	364,595					364,595			364,595
Investment income, net		1,521,975					1,521,975		1,521,975
In-kind contributions	2,695,372					2,695,372			2,695,372
Other Revenue	31,520	20,942				31,520	20,942		52,462
Net assets released from restrictions	42,387,562	(42,387,562)				42,387,562	(42,387,562)		-
Total support and revenues	46,940,741	9,106,807	70,488	-	-	46,940,741	9,106,807	70,488	56,118,036
Expenses and Losses:									
Program services:									
Scholarships	36,904,373					36,904,373			36,904,373
Education and information	3,936,683					3,936,683			3,936,683
Total program services	40,841,056	-	-	-	-	40,841,056	-	-	40,841,056
Support services:									
Administration	4,460,895			38,080		4,498,975			4,498,975
Fund raising	1,448,556					1,448,556			1,448,556
Total support services	5,909,451	-	-	38,080	-	5,947,531	-	-	5,947,531
Total expenses	46,750,507	-	-	38,080	-	46,788,587	-	-	46,788,587
Change in Net Assets	190,234	9,106,807	70,488	(38,080)	-	152,154	9,106,807	70,488	9,329,449
Net Assets, beginning 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
Net Assets, end of year	\$ (1,354,412)	\$ 28,871,863	\$ 13,543,682	\$ (102,781)	\$ -	\$ (1,457,193)	\$ 28,871,863	\$ 13,543,682	\$ 40,958,352