

HISPANIC SCHOLARSHIP FUND

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

March 31, 2019 and 2018

Hispanic Scholarship Fund

Independent Auditor's Report and Consolidated Financial Statements

Independent Auditor's Report	1 - 2
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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 - 24

Supplementary Information

Consolidating Statement of Financial Position	25
Consolidating Statement of Activities	26

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, 2019 and 2018, 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, 2019 and 2018, 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 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 17, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2018, 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 25 - 26 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
August 21, 2019

Hispanic Scholarship Fund

Consolidated Statements of Financial Position

<i>March 31,</i>	2019	2018
Assets:		
Cash and cash equivalents	\$ 34,326,617	\$ 5,940,650
Investments	17,684,126	17,405,338
Contributions receivable, net	20,818,059	15,832,146
Property and equipment, net	1,817,972	1,703,643
Prepaid expenses and other assets	1,706,313	1,633,484
Total assets	\$ 76,353,087	\$ 42,515,261
Liabilities and Net Assets		
Liabilities:		
Line of credit	\$ 3,470,000	\$
Scholarships payable	146,793	140,598
Accounts payable and accrued expenses	976,439	927,460
Deferred rent	473,948	488,851
Total liabilities	5,067,180	1,556,909
Net Assets:		
Without donor restrictions	(1,289,313)	(1,457,193)
With donor restrictions:		
Perpetual in nature	13,494,002	13,543,682
Purpose restricted	31,769,350	21,872,988
Time-restricted for future periods	27,311,868	6,998,875
Total net assets	71,285,907	40,958,352
Total liabilities and net assets	\$ 76,353,087	\$ 42,515,261

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

Hispanic Scholarship Fund

Consolidated Statements of Activities

Year Ended March 31, 2019 (with comparative totals for 2018)

	2019		Total	2018 Total
	Without Donor Restrictions	With Donor Restrictions		
Support and Revenues:				
Support:				
Grants and contributions	\$ 1,679,088	\$ 73,591,791	\$ 75,270,879	\$ 51,483,632
Special events (net of direct expenses of \$485,566 for 2019)	245,598		245,598	364,595
Investment income, net		940,459	940,459	1,521,975
In-kind contributions	1,606,024		1,606,024	2,695,372
Other Revenue	45,095	26,513	71,608	52,462
Net assets released from restrictions:				
Satisfaction of program restrictions	42,847,825	(42,847,825)	-	-
Satisfaction of equipment acquisition restrictions	820,100	(820,100)	-	-
Satisfaction of special event restrictions	731,163	(731,163)	-	-
Total support and revenues	47,974,893	30,159,675	78,134,568	56,118,036
Expenses:				
Program services:				
Scholarships	36,939,668		36,939,668	36,904,373
Education and information	4,921,171		4,921,171	3,936,683
Total program services	41,860,839	-	41,860,839	40,841,056
Support services:				
Administration	3,971,823		3,971,823	4,498,975
Fund raising	1,974,351		1,974,351	1,448,556
Total support services	5,946,174	-	5,946,174	5,947,531
Total expenses	47,807,013	-	47,807,013	46,788,587
Change in Net Assets	167,880	30,159,675	30,327,555	9,329,449
Net Assets, beginning of year	(1,457,193)	42,415,545	40,958,352	31,628,903
Net Assets, end of year	\$ (1,289,313)	\$ 72,575,220	\$ 71,285,907	\$ 40,958,352

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

Hispanic Scholarship Fund

Consolidated Statements of Functional Expenses

Year Ended March 31, 2019 (with comparative totals for 2018)

	2019					2018 Total
	Program Activities			Supporting Activities		
	Scholarship	Education and Information	Administration	Fund Raising	Total	
Program Distributions:						
Scholarships awarded	\$ 31,692,580				\$ 31,692,580	\$ 33,126,169
Total program distributions	31,692,580	-	-	-	31,692,580	33,126,169
Personnel Expenses:						
Salaries	1,859,891	907,581	1,097,018	1,190,275	5,054,765	4,091,077
Payroll taxes	138,026	63,071	79,577	91,711	372,385	308,288
Employee benefits	282,444	150,294	198,500	205,691	836,929	601,939
Recruiting and temporary workers	187,305	9,146	380,043		576,494	511,344
Total personnel expenses	2,467,666	1,130,092	1,755,138	1,487,677	6,840,573	5,512,648
Other Expenses:						
Professional fees	129,349	162,552	518,527	279,976	1,090,404	707,157
Occupancy	132,730	4,669	444,716	36,692	618,807	582,558
Dues and subscriptions	2,997	880	33,443	10,203	47,523	33,173
Interest, fees and taxes	41,260		30,474	5,955	77,689	68,124
Newsletters, printing and postage	20,316	58,181	8,519	87,013	174,029	159,959
Office expense and equipment	292,249	32,831	436,149	52,095	813,324	501,853
Telephone	25,284	16,720	65,289	8,240	115,533	106,223
Insurance	9,909		56,149		66,058	59,755
Equipment rental and maintenance	5,114		34,570	2,817	42,501	35,444
Travel and conferences	366,191	991,935	66,967	187,037	1,612,130	1,079,604
Outreach events	392,438	1,043,115	45,011	150,279	1,630,843	1,242,739
Marketing	116,011	401,016	19,549	29,368	565,944	262,797
Bad debt						(7,894)
Legal						51,025
In-kind goods & services	161,014	561,975	787,972	114,501	1,625,462	2,670,372
Depreciation	430,870	652	362,091		793,613	596,881
Total other expenses	2,125,732	3,274,526	2,909,426	964,176	9,273,860	8,149,770
Overhead allocation	653,690	516,553	(692,741)	(477,502)	-	-
Total Expenses	\$ 36,939,668	\$ 4,921,171	\$ 3,971,823	\$ 1,974,351	\$ 47,807,013	\$ 46,788,587
Expense Allocation	77%	10%	8%	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>	2019	2018
Operating Activities:		
Change in net assets	\$ 30,327,555	\$ 9,329,449
Adjustments to reconcile net change to net cash from operating activities:		
Depreciation	793,613	596,882
Bond accretion amortization		(17)
Realized and unrealized gain on investments	(612,254)	(1,152,102)
Uncollectible pledges loss		(7,894)
Changes in assets and liabilities:		
Contributions receivable	(4,985,913)	(4,392,622)
Prepaid expenses and other assets	(72,829)	(313,774)
Scholarships payable	6,195	(375,924)
Accounts payable and accrued expenses	48,979	224,133
Deferred rent	(14,903)	(5,339)
Net cash flows from operating activities	25,490,443	3,902,792
Investing Activities:		
Purchase of investments	(428,752)	(8,493,772)
Proceeds from sale of investments	762,218	8,833,159
Purchase of property and equipment	(907,942)	(893,622)
Net cash flows from investing activities	(574,476)	(554,235)
Financing Activities:		
Net advances on line of credit	3,470,000	
Net cash used by financing activities	3,470,000	-
Increase in Net Cash	28,385,967	3,348,557
Cash and Cash Equivalents, beginning of year	5,940,650	2,592,093
Cash and Cash Equivalents, end of year	\$ 34,326,617	\$ 5,940,650
Supplemental Cash Flow Information:		
Interest paid	\$ -	\$ -
In-kind contributions	\$ 1,606,024	\$ 2,695,372

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” or “HSF”) is a non-profit, tax-exempt 501(c)(3) corporation founded in 1975. The Hispanic Scholarship Fund empowers Latino families with knowledge and resources needed to successfully complete a higher education, and provides 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—each individual, over a lifetime, in every way they can. HSF also seeks to give its Scholars all the tools they need to do well in their course work, graduate, enter, and excel in a profession. As the nation’s largest nonprofit organization supporting Hispanic American higher education, HSF has awarded over \$619 million in scholarships and provides programs and support services for students and parents, HSF Scholars, and Alumni. For more information about the Hispanic Scholarship Fund, please visit HSF.net.

The Fund is headquartered in Gardena, California and has a regional presence in 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.

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):

The Fund's current significant programs are as follows:

The Gates Scholarship

During fiscal year ending March 31, 2016, HSF received a \$417 million grant from the Bill & Melinda Gates Foundation to develop and implement a new scholarship program—The Gates Scholarship®. The Gates Foundation named HSF as the program's sole administrator. Funded by the Bill & Melinda Gates Foundation and launched in 2018, this program covers the cost of an undergraduate education for 300 Pell-eligible minority students per year, over a 10-year period, with the intent of promoting their academic excellence, through college graduation.

Wells Fargo Academic Leaders Fellowship Program

During fiscal year ending March 31, 2018, HSF received a \$4 million grant from the Wells Fargo Foundation named The Wells Fargo Academic Leaders Fellowship Program. This is a highly selective, full scholarship for Pell-eligible high school seniors. Fellowships were awarded to 20 student leaders in 2018, with the intent of promoting their academic excellence and leadership development, through college graduation. Selected Fellows are eligible for up to five years of funding to complete their bachelor's programs. Fellows receive funding for the full cost of attendance not already covered by other financial aid, as determined by the Free Application for Federal Student Aid (FAFSA).

Hispanic Career Pathways Initiative

During fiscal year ending March 31, 2019, HSF received a \$25 million grant from the Lilly Endowment Inc. to create the Hispanic Career Pathways Initiative ("HCPI" or "the Initiative"). HCPI looks to improve the education to employment pathway for thousands of Hispanic students at colleges and universities across the United States. This program seeks to improve career pathways and employment success for Hispanic students by focusing on the following key areas: (i) career planning and preparation, (ii) career discernment, exploration and guidance, and (iii) the transition from college to a quality job. HSF will work with its higher education, employer and community partners as well as its large network of advisers and alumni to build a best in class program that supports Hispanic students at each stage of the journey from college to career.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

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

On 4/1/2018, the Fund adopted ASC 2016-14, *Not-for-Profit Entities (Topic 958)* issued by the Financial Accounting Standards Board. This update was effective for annual financial statements issued for fiscal years beginning after December 15, 2017.

On the Statement of Financial Position, the existing three-classification net asset reporting was replaced with two classes of net assets. The consolidated financial statements continue to be 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.

Net Assets without Donor Restrictions – The portion of net assets that are not subject to donor imposed restriction or the donor imposed restriction has expired.

Net Assets with Donor Restrictions – The portion of net assets that are subject to donor-imposed restrictions. Restrictions may include donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Fund or may be restricted by the donor in perpetuity for a specific purpose. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets are reclassified from Net Assets with Donor Restrictions to Net Assets without Donor Restrictions and reported in the statement of activities as net assets released from restrictions.

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

Expiration of Capital Restrictions – A change was made in fiscal year end March 31, 2019 to comply with ASC 2016-14, *Not-for-Profit Entities (Topic 958)*. Restrictions on long-lived assets, if any, or cash to acquire or construct long-lived assets are considered to have expired when the assets are placed in service as opposed to over their estimated useful life.

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.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

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

d. Contributions Receivables

Contributions 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 Net Assets with Donor Restrictions 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 contributions. Contributions receivable are written off when deemed uncollectable. At March 31, 2019 and 2018, the allowance was \$95,860 and \$102,380, respectively.

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. Historically, alternative investments were valued at net asset value per unit or percentage of ownership as reported by the funds at the end of the fiscal year.

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 seven 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, 2019 and 2018 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”).

Underwater Endowment Funds – If a donor-restricted endowment fund is an underwater endowment fund, the accumulated losses shall be included together with that fund in net assets with donor restrictions. An NFP shall disclose the required information. The HSF Endowment was not underwater as of the year-ended March 31, 2019 and is therefore, not applicable.

Board-Designated Net Assets – Net assets without donor restrictions subject to self-imposed limits by action of the governing board. Net assets may be earmarked for future programs, investment, contingencies, purchase of construction of fixed assets, or other uses. These assets may be invested to provide income for generally a long but not necessarily specified period. In rare circumstances, funds functioning as endowment also can include a portion of net assets with donor restrictions. For example, if an NFP is unable to spend donor-restricted contributions in the near term, the board sometimes considers the long-term investment of these funds. (Sometimes referred to as a quasi-endowment or board-designated endowment fund.) The governing board has the right to decide at any time to expend such funds, contingent upon any donor restrictions. The Fund’s governing board has not earmarked any portion of its net assets as a Board-Designated Endowment Fund as of the fiscal year ended March 31, 2019.

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.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

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

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.

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 Consolidated Statement of Functional Expenses reports expenses by nature and by function. Expenses are disaggregated into program and supporting activities as well as by functional area such as salaries, rent, electricity, etc. Investment and fundraising event expenses are not included in the functional expense schedule, as they have been presented on a net basis in the Consolidated Statement of Activities.

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.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

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

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, 2019 and 2018, 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.

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, 2018, 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, 2019, 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. In December 2017, the Tax cuts and Jobs Act was enacted, which may result in additional unrelated business taxable income on certain fringe benefits. The Fund had nominal unrelated business income requiring recognition for the year ended March 31, 2019. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

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

p. Subsequent Events

Management of the Fund has evaluated subsequent events for the period of time from its fiscal year ended March 31, 2019 through August 21, 2019, the date the consolidated financial statements were available to be issued. There are no adjustments or additional disclosures in the accompanying consolidated financial statements.

q. Recently Issued Accounting Pronouncements

In August 2016, FASB released ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The update amends the current reporting model for non-profit organizations and enhances their required disclosures. The major changes relate to: (a) presentation of classes of net assets, (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restriction on gifts used to acquire or construct long-lived assets absent explicit donor stipulations, (d) statement of functional expenses, (e) disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and a few smaller items. The ASU is effective for fiscal years beginning after December 15, 2017. These changes have been incorporated during the year ended March 31, 2019.

In May 2014, the FASB issued ASU 2014-19, *Revenue from Contracts with Customers (Topic 606) (ASU 2014-09)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective in fiscal years beginning after December 15, 2018. The Fund is currently evaluating the impact of the adoption of the new standard on the 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, 2019:

	Cost	Fair Value	Unrealized Gain (loss)
Money market accounts	\$ 125,981	\$ 125,981	\$ -
Fixed income	1,724,805	1,723,533	(1,272)
U.S. equity ETFs	6,346,768	10,084,026	3,737,258
International equity ETFs	3,238,669	3,342,555	103,886
Mutual funds	2,460,377	2,408,031	(52,346)
	<u>\$ 13,896,600</u>	<u>\$ 17,684,126</u>	<u>\$ 3,787,526</u>

Investments are summarized below as of March 31, 2018:

	Cost	Fair Value	Unrealized Gain (loss)
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>

Net investment income consists of the following at March 31, 2019 and 2018:

	2019	2018
Interest and dividends	\$ 396,880	\$ 435,940
Realized (loss) gain	373,042	(48,878)
Unrealized gain	239,212	1,200,980
Less: investment fees	(68,675)	(66,067)
	<u>\$ 940,459</u>	<u>\$ 1,521,975</u>

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, 2019.

	Total	Level 1	Level 2	Level 3
Money market accounts	\$ 125,981	\$ 125,981	\$	\$
Exchange Trade Funds:				
U.S. equity ETFs	10,084,026	10,084,026		
U.S. fixed income ETFs	1,723,533	1,723,533		
International equity ETFs	3,342,555	3,342,555		
Mutual funds:				
Fixed income	2,408,031	2,408,031		
	\$ 17,684,126	\$ 17,684,126	\$ -	\$ -

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 4 - Contributions Receivable:

Contributions receivable consisted primarily of commitments made by corporations and foundations. Contributions receivable are due as follows at March 31, 2019 and 2018:

	2019	2018
Receivable in less than one year	\$ 16,647,428	\$ 11,538,492
Receivable in more than one year	4,724,567	4,776,567
Less discounts to net present value	(458,076)	(380,533)
Allowance for doubtful accounts	(95,860)	(102,380)
Total Contributions Receivable	\$ 20,818,059	\$ 15,832,146

The present value of estimated future cash flows on unconditional promises to give was determined using a discount rate of 2.1% for the year ended March 31, 2019 and 1.5% for the year ended March 31, 2018.

Note 5 - Property and Equipment:

Property and equipment consists of the following at March 31, 2019 and 2018:

	2019	2018
Equipment and furniture	\$ 457,630	\$ 457,630
Software	2,990,852	2,082,910
Leasehold improvement	263,602	263,602
Subtotal	3,712,084	2,804,142
Less: accumulated depreciation and amortization	(1,894,112)	(1,100,499)
Total Property and Equipment	\$ 1,817,972	\$ 1,703,643

Depreciation and amortization expense was \$793,613 and \$596,882 for the years ended March 31, 2019 and 2018, respectively.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 6 - The Gates Scholarship Program:

During fiscal year ending March 31, 2016, HSF received a \$417 million grant from the Bill & Melinda Gates Foundation to develop and implement a new scholarship program—The Gates Scholarship®. The Gates Foundation named HSF as the program’s sole administrator. Funded by the Bill & Melinda Gates Foundation and launched in 2018, this program covers the cost of an undergraduate education for 300 Pell-eligible minority students per year, over a 10-year period, with the intent of promoting their academic excellence, through college graduation, and providing them the opportunity to reach their full potential. The 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 net assets with donor restrictions 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.

Note 7 - The Hispanic Career Pathways Initiative:

During fiscal year ending March 31, 2019, HSF received a \$25 million grant from the Lilly Endowment Inc. to create the Hispanic Career Pathways Initiative (“HCPI” or “the Initiative”). HCPI will improve the education to employment pathway for thousands of Hispanic students at colleges and universities across the United States. Since Hispanic graduates will account for a significant majority of employment growth over the coming decade, it is essential that these graduates are equipped with the knowledge and skills to find and succeed in high quality jobs. This proposal seeks to improve career pathways and employment success for Hispanic students by focusing on the following key areas: (i) career planning and preparation, (ii) career discernment, exploration and guidance, and (iii) the transition from college to a quality job. HSF will work with its higher education, employer and community partners as well as its large network of advisers and alumni to build a best in class program that supports Hispanic students at each stage of the journey from college to career.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 7 - The Hispanic Career Pathways Initiative (continued):

In accordance with FASB ASC Topic 958-605-25, revenue for this multi-year grant was recognized in fiscal year ended March 31, 2019. The grant agreement requires the Fund to abide by specific performance targets, milestones, and/or reporting deliverables. At the end of the grant period, grant funds not expended or dedicated as required in the grant agreement are subject to reversion unless the Endowment has extended the grant period in writing. Under no circumstances may grant funds be expended, borrowed (inter-fund), pledged or transferred for reasons unassociated with the stated purpose of the grant.

The Lilly Endowment Inc. has also promised to give an additional \$5 million in matching funds conditioned upon the Fund's procurement of additional promised donations up to \$5 million by January 31, 2021. These promises to give will be matched by the Lilly Endowment Inc. on a \$1(grantor)-for-\$1(grantee) basis. The purpose of the additional amount is to establish an endowment to sustain the Hispanic Career Pathways Initiative. Qualifying matching funds must be paid to the Fund no later than December 31, 2022.

Note 8 - Endowments:

Changes in Endowment Net Asset for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Endowment Net Assets, beginning of year	\$ 18,401,046	\$ 17,567,843
Investment return:		
Income	460,981	410,619
Investment fees	(68,675)	(66,064)
Realized and unrealized gain on investments	612,254	1,152,102
Total investment return	1,004,560	1,496,657
Contributions	26,513	20,943
NPV adjustment	(49,680)	70,488
Transfer to release donor endowment	(795,850)	(754,885)
Change in endowment net assets	185,543	833,203
Endowment Net Assets, end of year	\$ 18,586,589	\$ 18,401,046

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 9 - Net Assets with Donor Restrictions:

Donor restricted net assets are available for the following specified purposes as of March 31, 2019 and 2018:

	2019	2018
Gates Millennium Scholarships	\$ 785,398	\$ 967,275
Gates Scholarships	14,204,976	8,553,682
HSF Scholarships	9,352,092	4,610,044
WFALFP Scholarships	3,236,760	3,880,330
Hispanic Career Pathways Initiative	24,879,470	-
Programs and other	6,622,522	10,860,532
	\$ 59,081,218	\$ 28,871,863

Net assets were released in accordance with the donors' intent by incurring expenses satisfying the restricted purposes; the releases were as follows in 2019 and 2018:

	2019	2018
Gates Millennium Scholars (GMS)	\$ 24,549,216	\$ 27,898,219
The Gates Scholarship (TGS)	2,056,009	-
The Wells Fargo Academic Leaders Fellowship Program (WFALFP)	207,855	-
Hispanic Career Pathways Initiative (HCPI)	884,200	-
HSF Scholarships	4,879,500	5,227,950
Programs and other	11,822,308	9,261,393
	\$ 44,399,088	\$ 42,387,562

Donor restricted net assets of \$13,494,002 and \$13,543,682 are restricted to investment in perpetuity, the income from which supports scholarships of the Fund as of March 31, 2019 and 2018, respectively.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 10 - Liquidity and Availability:

	2019	2018
Current Assets:		
Cash and cash equivalents	\$ 34,326,617	\$ 5,940,650
Contributions receivable	17,119,337	12,059,993
Prepaid and inventory	1,175,079	1,070,358
Endowment	17,684,126	17,405,338
Less: Long-term assets restricted for scholarships	(9,383,730)	(6,877,135)
Less: Long-term assets restricted for major grant programs (GMS, TGS, ALF, HCP)	(20,302,166)	(1,484,111)
Less: Long-term assets timing restricted for sponsorship of events	(632,053)	(1,164,091)
Less: Long-term assets restricted in perpetuity for the scholarship endowment	(13,494,002)	(13,543,681)
Total current available assets	26,493,208	13,407,320
Short-Term Liabilities:		
Accounts payable and other accrued expenses	1,122,463	1,067,288
Line of credit	3,470,000	-
Scholarship disbursements projected for fiscal year 2020	14,064,591	10,233,775
Major grant program expenses projected for fiscal year 2020 (GMS, TGS, ALF, HCP)	8,218,059	4,086,178
Event expenses projected for current year	3,598,614	3,084,249
Total short-term liabilities and commitments	30,473,727	18,471,490
Financial assets available to meet cash needs for general expenditures within one year	\$ (3,980,519)	\$ (5,064,169)

HSF's goal is to maintain financial assets which consist of cash and short-term investments on hand to meet two months of normal operating expenses which are, on average, approximately \$430,000 a month excluding event expenses, paid for with timing restricted funds.

HSF expects to meet cash flow needs in fiscal year 2020 by raising \$56 million in revenue. In fiscal year 2019, HSF established new planning practices to optimize the delivery of all programs to minimize both personnel and events expenses. Also, existing foundation grants will continue to fund a growing portion of HSF's staffing, programmatic, and technology infrastructure needs. In addition, HSF has a \$4 million line of credit.

Hispanic Scholarship Fund

Notes to the Consolidated Financial Statements

Note 10 - Liquidity and Availability (continued):

Funds for The Gates Millennium Scholarship and The Gates Scholarship are held in separate bank accounts and fund programmatic expenses specific to each program. Also, funding for the Hispanic Career Pathways Initiative provided by the Lilly Endowment, Inc. is restricted and used to fund associated program expenses.

Efforts to optimize the organization's personnel structure and operating expense model coupled with the fiscal year 2019 award of a \$30.7 million grant from the Lilly Endowment, Inc., has resulted in a year over year improvement in HSF's liquidity position.

Note 11 - 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
2020	\$ 649,947
2021	669,742
2022	690,303
2023	699,157
2024	716,685
Thereafter	652,286
<hr/>	
Total future minimum lease commitments	\$ 4,078,120

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 12 - Line of Credit:

On October 16, 2018, the Fund renewed the 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 5.00% at March 31, 2019). The Fund had \$3,470,000 outstanding under this line of credit as of March 31, 2019. The line of credit expires on November 1, 2019.

Note 13 - 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, 2019 and 2018, the Fund's contribution to the plan totaled \$137,133 and \$111,981, respectively.

Note 14 - 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 15 - 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 donors comprised approximately 65% and one donor comprised approximately 50% of the contribution revenue for the years ended March 31, 2019 and 2018, respectively. Two donors comprised approximately 74% and 66% of the contributions receivable as of March 31, 2019 and 2018, respectively.

Note 16 - 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, 2019 and 2018, such total contributions were approximately \$8,622,000 and \$10,900,000, respectively. Included in the years ended March 31, 2019 and 2018 is approximately \$586,000 and \$1,400,000 of in-kind donations, respectively.

Hispanic Scholarship Fund

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

Schedule 1

March 31, 2019

	Hispanic Scholarship Fund		Hispanic Scholarship Fund Institute		Eliminations	Total		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions		Without Donor Restrictions	With Donor Restrictions	
Assets:								
Cash and cash equivalents	\$ 691,966	\$ 33,634,651	\$	\$	\$	\$ 691,966	\$ 33,634,651	\$ 34,326,617
Investments		17,684,126					17,684,126	17,684,126
Contributions receivable, net	395,099	20,422,960				395,099	20,422,960	20,818,059
Property and equipment, net	1,817,972					1,817,972		1,817,972
Prepaid expenses and other assets	965,339	842,986			(102,012)	863,327	842,986	1,706,313
(Due to)/due from	9,503	(9,503)				9,503	(9,503)	-
Total assets	\$ 3,879,879	\$ 72,575,220	-	\$ -	\$ (102,012)	\$ 3,777,867	\$ 72,575,220	\$ 76,353,087
Liabilities and Net Assets:								
Liabilities:								
Line of credit	\$ 3,470,000	\$	\$	\$	\$	\$ 3,470,000	\$	\$ 3,470,000
Scholarships payable	146,793					146,793		146,793
Accounts payable and accrued expenses	975,670		102,781		(102,012)	976,439		976,439
Deferred rent	473,948					473,948		473,948
Total liabilities	5,066,411	-	102,781	-	(102,012)	5,067,180	-	5,067,180
Net assets:	(1,186,532)	72,575,220	(102,781)			(1,289,313)	72,575,220	71,285,907
Total liabilities and net assets	\$ 3,879,879	\$ 72,575,220	-	\$ -	\$ (102,012)	\$ 3,777,867	\$ 72,575,220	\$ 76,353,087

Hispanic Scholarship Fund

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

Schedule 2

Year Ended March 31, 2019

	Hispanic Scholarship Fund		Hispanic Scholarship Fund Institute		Consolidated Totals		Total
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions	
Support and Revenues:							
Support:							
Grants and contributions	\$ 1,679,088	\$ 73,591,791	\$	\$	\$ 1,679,088	\$ 73,591,791	\$ 75,270,879
Special events (net of direct expenses of \$485,566 for 2019)	245,598				245,598		245,598
Investment income, net		940,459				940,459	940,459
In-kind contributions	1,606,024				1,606,024		1,606,024
Other Revenue	45,095	26,513			45,095	26,513	71,608
Net assets released from restrictions:							
Satisfaction of program restrictions	42,847,825	(42,847,825)			42,847,825	(42,847,825)	-
Satisfaction of equipment acquisition restrictions	820,100	(820,100)			820,100	(820,100)	-
Satisfaction of special event restrictions	731,163	(731,163)			731,163	(731,163)	-
Total support and revenues	47,974,893	30,159,675	-	-	47,974,893	30,159,675	78,134,568
Expenses and Losses:							
Program services:							
Scholarships	36,939,668				36,939,668		36,939,668
Education and information	4,921,171				4,921,171		4,921,171
Total program services	41,860,839	-	-	-	41,860,839	-	41,860,839
Support services:							
Administration	3,971,823				3,971,823		3,971,823
Fund raising	1,974,351				1,974,351		1,974,351
Total support services	5,946,174	-	-	-	5,946,174	-	5,946,174
Total expenses	47,807,013	-	-	-	47,807,013	-	47,807,013
Change in Net Assets	167,880	30,159,675	-	-	167,880	30,159,675	30,327,555
Net Assets, beginning of year	(1,354,412)	42,415,545	(102,781)	-	(1,457,193)	42,415,545	40,958,352
Net Assets, end of year	\$ (1,186,532)	\$ 72,575,220	\$ (102,781)	\$ -	\$ (1,289,313)	\$ 72,575,220	\$ 71,285,907