

HISPANIC SCHOLARSHIP FUND

MARCH 31, 2012

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

Hispanic Scholarship Fund

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Independent Auditors' Report

THE BOARD OF DIRECTORS
HISPANIC SCHOLARSHIP FUND
San Francisco, California

We have audited the accompanying consolidated statement of financial position of the **HISPANIC SCHOLARSHIP FUND (the Fund)** as of March 31, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Fund's March 31, 2011 financial statements, and in our report dated September 9, 2011, we expressed an unqualified opinion.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hispanic Scholarship Fund as of March 31, 2012, and the results of its activities and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating schedules are presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Hood & Strong LLP

San Francisco, California
August 20, 2012

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Hispanic Scholarship Fund

Consolidated Statement of Financial Position

<i>March 31, 2012 (with comparative totals for 2011)</i>	2012	2011
Assets		
Cash and cash equivalents	\$ 2,673,392	\$ 1,446,093
Restricted cash	300,000	300,000
Investments	30,403,240	24,261,864
Contributions receivable, net	8,850,220	4,536,362
Property and equipment, net	37,485	69,938
Prepaid expenses and other assets	271,031	151,616
	\$ 42,535,368	\$ 30,765,873
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 651,573	\$ 584,672
Scholarships payable	1,533,060	
Obligations under capital leases	23,798	34,781
Total liabilities	2,208,431	619,453
Net Assets:		
Unrestricted	(836,947)	(755,265)
Temporarily restricted	28,048,964	18,971,285
Permanently restricted	13,114,920	11,930,400
Total net assets	40,326,937	30,146,420
	\$ 42,535,368	\$ 30,765,873

The accompanying notes are an integral part of this statement.

Hispanic Scholarship Fund

Consolidated Statement of Activities

Year Ended March 31, 2012 (with comparative totals for 2011)

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and Revenue:					
Support:					
Grants and contributions	\$ 1,606,385	\$ 48,320,071	\$ 1,186,520	\$ 51,112,976	\$ 38,427,990
Special events (net of direct expenses of \$443,334 for 2012)	981,537			981,537	622,271
In-kind contributions	208,812			208,812	86,235
Investment income, net	24,582	154,907		179,489	1,657,222
Other revenue	34,119			34,119	47,786
Net assets released from restrictions	39,399,299	(39,397,299)	(2,000)	-	-
Total support and revenue	42,254,734	9,077,679	1,184,520	52,516,933	40,841,504
Expenses:					
Program services:					
Scholarship programs	36,209,065			36,209,065	32,834,183
Education and information	3,078,998			3,078,998	3,923,501
Total program services	39,288,063	-	-	39,288,063	36,757,684
Support services:					
Administration	2,273,872			2,273,872	1,701,332
Fund raising	774,481			774,481	1,536,899
Total support services	3,048,353	-	-	3,048,353	3,238,231
Total expenses	42,336,416	-	-	42,336,416	39,995,915
Change in Net Assets	(81,682)	9,077,679	1,184,520	10,180,517	845,589
Net Assets, beginning of year	(755,265)	18,971,285	11,930,400	30,146,420	29,300,831
Net Assets, end of year	\$ (836,947)	\$ 28,048,964	\$ 13,114,920	\$ 40,326,937	\$ 30,146,420

The accompanying notes are an integral part of this statement.

Hispanic Scholarship Fund

Consolidated Statement of Functional Expenses

Year Ended March 31, 2012 (with comparative totals for 2011)

	2012					2011
	Scholarship Programs	Education and Information	Administration	Fund Raising	Total	Total
Program Distributions:						
Scholarships awarded	\$ 33,661,839				\$ 33,661,839	\$ 29,847,918
Grants and other awards	12,143	\$ 5,415			17,558	17,795
Total program distributions	33,673,982	5,415			33,679,397	29,865,713
Personnel Expenses:						
Salaries	715,439	754,233	\$ 922,870	\$ 876,579	3,269,121	3,480,366
Payroll taxes	57,354	63,068	65,076	67,532	253,030	261,783
Employee benefits	163,107	117,763	284,962	161,477	727,309	722,257
Recruiting and temporary workers	5,358	1,210	27,180	36	33,784	447,221
Honorariums	117,465	1,070			118,535	122,761
Total personnel expenses	1,058,723	937,344	1,300,088	1,105,624	4,401,779	5,034,388
Other Expenses:						
Professional fees	26,603	378,380	939,401		1,344,384	2,107,706
Occupancy	157,639	197,004	447,940	783	803,366	808,350
Dues and subscriptions	1,010	28,323	26,195	9,593	65,121	17,171
Interest, fees and taxes	8,580	955	67,565	5,448	82,548	128,714
Newsletters, printing and postage	58,985	81,421	35,157	40,015	215,578	315,192
Office expense and supplies	28,357	14,773	98,609	26,575	168,314	210,354
Telephone	18,354	14,358	36,628	17,183	86,523	88,581
Insurance			14,622		14,622	41,667
Equipment rental and maintenance	6,226	1,005	22,366	472	30,069	61,092
Travel and conferences	98,459	39,402	66,331	170,410	374,602	478,182
Outreach events		364,701	192,954	131	557,786	454,549
Marketing	6,357	21,948	4,079	30,133	62,517	95,586
Bad debt				125,568	125,568	107,498
Legal			82,978		82,978	20,681
In-kind goods and services		43,000		165,812	208,812	86,235
Depreciation	10,091	5,237	9,331	7,793	32,452	74,256
Total other expenses	420,661	1,190,507	2,044,156	599,916	4,255,240	5,095,814
Overhead allocation	1,055,699	945,732	(1,070,372)	(931,059)	-	-
Total Expenses	\$ 36,209,065	\$ 3,078,998	\$ 2,273,872	\$ 774,481	\$ 42,336,416	\$ 39,995,915
Expense Allocation	86%	7%	5%	2%	100%	

The accompanying notes are an integral part of this statement.

Hispanic Scholarship Fund

Combined Statement of Cash Flows

Year Ended March 31, 2012 (with comparative totals for 2011)

	2012	2011
Operating Activities:		
Change in net assets	\$ 10,180,517	\$ 845,589
Adjustments to reconcile net loss to net cash (used) provided by operating activities:		
Depreciation	32,452	74,256
Realized and unrealized loss (gain) on investments	197,024	(1,224,031)
Uncollectible pledges	148,568	23,750
Changes in assets and liabilities:		
Contributions receivable	(4,462,425)	(367,245)
Prepaid expenses and other assets	(119,413)	74,492
Scholarships payable	1,533,060	
Accounts payable and accrued expenses	66,900	(231,069)
Net cash provided (used) by operating activities	7,576,683	(804,258)
Investing Activities:		
Purchases of investments	(28,989,082)	(13,976,349)
Proceeds from sale of investments	22,650,683	15,619,722
Purchases of equipment		(24,652)
Net cash (used) provided by investing activities	(6,338,399)	1,618,721
Financing Activities:		
Payments on capital lease	(10,985)	(37,770)
Net cash used by financing activities	(10,985)	(37,770)
Net Increase in Cash and Cash Equivalents	1,227,299	776,693
Cash and Cash Equivalents, beginning of year	1,446,093	669,400
Cash and Cash Equivalents, end of year	\$ 2,673,392	\$ 1,446,093

Supplemental Cash Flow Information:

Interest paid	\$ 2,975	\$ 4,468
In-kind contributions	\$ 208,812	\$ 86,235

The accompanying notes are an integral part of this statement.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 1 - Organization:

The Hispanic Scholarship Fund (The Fund) is the nation's leading Hispanic scholarship organization, providing the Hispanic community and other minorities more college scholarships and educational outreach support than any other organization in the country. Since its inception in 1975, the Fund has awarded close to \$368 million in scholarships to more than 55,000 students in need. Two-thirds of these students were the first in their families to attend college. For the 2011-2012 academic year, the Fund gave in excess of \$33.7 million in scholarship dollars to approximately 5,100 Latino students. The Funds' scholars are high achievers and they have or are attending close to 2,000 of the nation's diverse and academically rigorous colleges and universities in all 50 states, Puerto Rico, Guam and the U.S. Virgin Islands. The Fund is headquartered in San Francisco with a regional office in New York.

The primary services provided by the Fund are summarized below.

Scholarship Programs – The Fund administers scholarship programs funded by donations from corporations, non-profit organizations and individuals. The Fund also provides scholarships through the Gates Millennium Scholars (GMS) program in collaboration with the United Negro College Fund.

Education and Information - The Fund provides educational services to Hispanics, other minority parents and their children from K-12. A variety of brief evening to all day weekend workshops cover preparation for college, college selection, application process and applying for scholarships and financial aid. The Fund also offers programs to Hispanic students enrolled in college. These include student groups on campus to increase the students' connection with their college campus as well as academic support services for scholarship recipients and their parents.

The majority of the Fund's revenue comes from foundations, corporations, and individuals.

Note 2 - Summary of Significant Accounting Policies:

a. Principles of Consolidation

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

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

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 have expired. These assets are neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

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

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

c. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include the Fund's operating and checking accounts, exclusive of cash and cash equivalents held as part of the Fund's investments. In addition, the Fund maintains restricted cash balances of approximately \$1,594,000 as required by its grantor.

d. Contributions and Receivables

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

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

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

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

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 December 31, 2011, and adjusted for cash receipts, cash disbursements, and securities distributions through March 31, 2012.

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 alternative investments. Dividend and interest income are accrued when earned.

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

f. Fair Value Measurements

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

Level 1 - Inputs are 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 - Inputs are observable inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, 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 and software 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. Amortization of leasehold improvements is computed over the life of the related lease. The Fund capitalizes property and equipment with cost or donated fair value over \$1,000.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

h. Scholarships Payable

The Fund reports scholarship awards payable at the total value of the awards granted to the identified scholars. Some of the scholarship programs notify the scholar upon award that they may be invited to apply for a second year award subject to meeting certain conditions, including but not limited to, maintaining enrollment and specified grade point average (GPA) standards. The Fund records the value of the second installment at the time the conditions precedent is met.

i. Endowment Funds

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

Interpretation of relevant law

The Board of Directors of the Fund, 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 investments, (6) Other resources of the organization, (7) The investment policies of the Fund.

From time to time, the fair value of the assets associated with individual donor restricted 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.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

To satisfy its long-term return objective, the Fund relies on a total return strategy, in which investment returns are achieved through both capital appreciation of equity securities (realized and unrealized) and current yield (dividends and interest). The Fund uses a diversified asset allocation to support the long-term return objective within prudent risk parameters.

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

j. Functional Allocation of Expenses

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

k. Estimates

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

l. Donated Goods and Services

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

During the year ended March 31, 2012, the Fund recorded in-kind donations, consisting primarily of legal services and airline vouchers. These contributions are reflected in the financial statements as both in-kind donations and expenses.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

m. Comparative Information and Reclassifications

The consolidated financial statements include certain comparative information for which the prior year information is summarized in total but not by net asset class. Accordingly, such information should be read in conjunction with the Fund's consolidated financial statements for the year ended March 31, 2011, from which the summarized information is derived.

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

n. Income Taxes

The Fund and Institute are a tax-exempt organization 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, 2012, 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. With few exceptions, the Fund is no longer subject to income tax examinations by federal or state authorities for years before March 31, 2008 and 2007, respectively.

o. Recent Accounting Pronouncements

In May 2011, the FASB issued amendments to existing guidance for fair value measurements. The amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. These additional disclosures are required for the year ended December 31, 2012.

p. Subsequent Events

The Fund evaluated subsequent events through August 20, 2012, the date the financial statements were available to be issued. With the exception of those matters discussed in Note 15, there were no material subsequent event that required recognition.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 3 - Investments and Fair Value Measurements:

Investments:

Investments are summarized below as of March 31, 2012:

	Cost	Fair Value	Unrealized Gain (loss)
Money market accounts	\$ 10,804,365	\$ 10,804,365	
Corporate bonds	2,962,715	2,960,876	\$ (1,839)
US government agency bonds	3,713,902	3,709,386	(4,516)
Domestic equities	3,348,769	4,084,342	735,573
International equities	514,434	474,308	(40,126)
Mutual funds	7,757,476	7,193,866	(563,610)
Alternative investments	1,081,043	1,176,097	95,054
	\$ 30,182,704	\$ 30,403,240	\$ 220,536

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

Interest and dividends	\$ 460,447
Realized gain	631,385
Unrealized loss	(828,409)
Less: investment fees	(83,934)
	\$ 179,489

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Fair Value Measurements:

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

	Total	Level 1	Level 2	Level 3
Money market accounts	\$ 10,804,365	\$ 10,804,365		
Corporate bonds	2,960,876		\$ 2,960,876	
US government agency bonds	3,709,386		3,709,386	
Domestic equities:				
Energy	434,716	434,716		
Material/industrials	628,499	628,499		
Consumer	606,729	606,729		
Health care	477,203	477,203		
Financials	966,660	966,660		
Information technology/ communications	954,863	954,863		
Utilities	15,670	15,670		
International equities:				
Energy	105,177	105,177		
Material/industrials	151,481	151,481		
Consumer	75,279	75,279		
Health care	24,175	24,175		
Financials	38,940	38,940		
Information technology/ communications	52,166	52,166		
Utilities	27,091	27,091		
Mutual funds:				
International equity	1,964,070	1,964,070		
US equity	2,361,839	2,361,839		
Fixed income	2,575,185	2,575,185		
Commodities	292,773	292,773		
Alternative investments:				
SelectInvest ARV Ltd.	312,666			\$ 312,666
ACL Alternative Fund	863,431		863,431	
Total	\$ 30,403,240	\$ 22,556,881	\$ 7,533,693	\$ 312,666

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

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

Balance March 31, 2011	\$ 443,586
Redemptions	(124,302)
Realized gain	34,796
Unrealized loss	(41,414)
Balance March 31, 2012	\$ 312,666

Net Asset Value:

SelectInvest ARV, Ltd. is a fund of hedge funds that allocates capital to a select group of investment managers and currently consists of 21 managers. These funds specialize on event driven arbitrage and relative value strategies. SelectInvest ARV is in the process of liquidating and the redemption is expected to be complete in 2013.

Note 4 - Contributions Receivable:

Contributions receivable consisted primarily of commitments made by corporations and foundations. Contribution receivables are due as follows:

Receivable in less than one year	\$ 4,342,305
Receivable in one to five years	5,264,492
Less discounts to net present value	(520,785)
Allowance for doubtful accounts	(235,792)
	\$ 8,850,220

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

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 5 - Property and Equipment:

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

Capital lease equipment	\$ 534,554
Equipment and furniture	317,843
Software	99,274
<u>Leasehold improvements</u>	<u>175,389</u>
	1,127,060
<u>Less: accumulated depreciation</u>	<u>(1,089,575)</u>
	<u>\$ 37,485</u>

Included in property and equipment are assets leased under capital leases with cost and accumulated depreciation totaling \$534,554 and \$512,587, respectively.

Depreciation expense was \$32,452 for the year ended March 31, 2012.

Note 6 - Temporarily Restricted Net Assets:

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

Gates Millennium Scholars	\$ 795,233
HSF Scholarships	19,270,425
<u>Other programs</u>	<u>7,983,306</u>
	<u>\$ 28,048,964</u>

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

Gates Millennium Scholars	\$ 24,265,169
HSF Scholarships	8,142,362
<u>Other programs</u>	<u>6,991,768</u>
	<u>\$ 39,399,299</u>

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 7 - Permanently Restricted Net Assets:

Permanently restricted net assets of \$13,114,920 are restricted to investment in perpetuity, the income from which supports scholarships of the Fund.

Note 8 - Endowments:

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

	Temporary Restricted	Permanently Restricted	Total
Endowment Net Assets, beginning of year	\$ 3,000,873	\$ 11,930,400	\$ 14,931,273
Investment return:			
Income	409,340		409,340
Expenses	(75,805)		(75,805)
Realized and unrealized loss on investments	(231,014)		(231,014)
Total investment return	102,521		102,521
Contributions		1,186,520	1,186,520
Transfer to release donor endowment		(2,000)	(2,000)
Appropriation of endowment for expenditure	(632,111)		(632,111)
Change in endowment net assets	(529,590)	1,184,520	654,930
Endowment Net Assets, end of year	\$ 2,471,283	\$ 13,114,920	\$ 15,586,203

Note 9 - Retirement Plans:

The employees of the Fund participate in a simplified Employee Pension Plan established under the Section 401(k) of the Internal Revenue Code. The contributions made by the Fund are a minimum of 3% of the annual salary of eligible employees up to a maximum salary of \$245,000. For the year ended March 31, 2012, the Fund's contribution to the plan totaled \$94,218.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

Note 10 - Commitments:

Office Agreements and Capital Leases

The Fund entered into several lease agreements for its headquarters and regional office; in addition the Fund also maintains capital lease agreements for copiers and office equipment. Future aggregate lease payments are as follows:

Fiscal Year Ending	Operating Leases	Capital Leases
2013	\$ 293,000	\$ 12,860
2014		11,762
2015		1,853
Total future minimum lease commitments	\$ 293,000	26,475
Less amount representing interest		2,677
Present value of net minimum lease payments		23,798
Less current portion of capital lease obligations		10,983
Capital lease obligations, excluding current portion		<u>\$ 12,815</u>

In addition to the Fund's operating and capital leases, certain equipment and facilities are leased on a month-to-month basis. The amount of lease expense during the year ended March 31, 2012 was approximately \$803,000.

Note 11 - Letter of Credit:

The Fund maintains a Letter of Credit agreement (the Agreement) of \$300,000 with Citibank, N.A. as security for an office lease. The Agreement automatically renews in August of every year. Interest rate at year end is at prime. A certificate of deposit of \$300,000 is collateral for the letter of credit. The Fund had no outstanding balance under the Agreement at year end.

Note 12 - Contingencies:

The Fund, through the Hispanic Scholarship Fund Institute, has, in the past, received and expended grants from the federal government which are subject to annual audit under OMB Circular A-133 and on a periodic basis by federal agencies. Management is of the opinion that no material liability will result from such audits.

Hispanic Scholarship Fund

Notes to Consolidated Financial Statements

From time to time, the Fund is subject to various claims and legal proceedings covering a range of matters that arise in the ordinary course of its business activities. In the opinion of management, the outcome of any legal proceedings cannot be predicted with certainty, the ultimate liability of the Fund in connection with its legal proceedings will not have a material adverse effect on the Fund's financial position and activities.

Note 13 - Concentrations of Risk:

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

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

One donor comprises approximately 49% of the contribution revenue for the year ended March 31, 2012. Four donors comprise approximately 56% of the contributions receivables for the year ended of March 31, 2012.

Note 14 - Related Parties:

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

In a prior fiscal year the Fund received a grant from W.K. Kellogg for the purpose of improving education among Hispanic youth through the establishment of the National Hispanic Education Alliance (the Alliance). This entity is not currently in operation.

The Fund entered into a ten year lease agreement with Toyota Motor Sales, the employer of a member of the Board of Directors. Over the term of the lease, monthly payments range between \$11,648 and \$18,170. The lease agreement is in relation to the relocation as disclosed in Note 15.

Note 15 - Subsequent Events

On March 23, 2012 the Fund's Board of Directors approved the relocation of the Fund's San Francisco, California headquarter offices to Los Angeles, California. The timing of the relocation coincides with the scheduled expiration of the Fund's current lease in October 2012. The Fund has budgeted in its fiscal 2013 operating plans the cost of severance for employees not retained and relocation and retention incentives for key employees.

Hispanic Scholarship Fund

Consolidating Statement of Financial Position (See Independent Auditors' Report)

Schedule 1

March 31, 2012

	Hispanic Scholarship Fund			Hispanic Scholarship Fund Institute			Total			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	
Assets										
Cash and cash equivalents	\$ 1,035,516	\$ 1,594,498		\$ 22,378	\$ 21,000		\$ 1,057,894	\$ 1,615,498		\$ 2,673,392
Restricted cash	300,000						300,000			300,000
Investments	(238,499)	18,963,339	\$ 11,678,400				(238,499)	18,963,339	\$ 11,678,400	30,403,240
Contributions receivable	(33,803)	7,447,503	1,436,520				(33,803)	7,447,503	1,436,520	8,850,220
Property and equipment, net	37,485						37,485			37,485
Prepaid expenses and other assets	251,127	22,624				\$ (2,720)	248,407	22,624	-	271,031
Total assets	\$ 1,351,826	\$ 28,027,964	\$ 13,114,920	\$ 22,378	\$ 21,000	\$ (2,720)	\$ 1,371,484	\$ 28,048,964	\$ 13,114,920	\$ 42,535,368
Liabilities and Net Assets										
Liabilities:										
Accounts payable and accrued expenses	\$ 651,573			\$ 2,720		\$ (2,720)	\$ 651,573			\$ 651,573
Scholarships payable	1,533,060						1,533,060			1,533,060
Obligations under capital leases	23,798						23,798			23,798
Total Liabilities	2,208,431	-	-	-	-	-	2,208,431	-	-	2,208,431
Net Assets:	(856,605)	28,027,964	13,114,920	19,658	21,000		(836,947)	28,048,964	13,114,920	40,326,937
Total liabilities and net assets	\$ 1,351,826	\$ 28,027,964	\$ 13,114,920	\$ 19,658	\$ 21,000	\$ -	\$ 1,371,484	\$ 28,048,964	\$ 13,114,920	\$ 42,535,368

Hispanic Scholarship Fund

Consolidating Statement of Activities (See Independent Auditors' Report)

Schedule 2

Year Ended March 31, 2012

	Hispanic Scholarship Fund			Hispanic Scholarship Institute			Consolidated Totals			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Eliminations	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:										
Support:										
Grants and contributions	\$ 1,606,385	\$ 48,320,071	\$ 1,186,520				\$ 1,606,385	\$ 48,320,071	\$ 1,186,520	\$ 51,112,976
Special events (net of direct expenses of \$443,334 for 2012)	981,537						981,537			981,537
In-kind contributions	208,812						208,812			208,812
Investment income, net	24,526	154,907		\$ 56			24,582	154,907		179,489
Other revenue	34,119						34,119			34,119
Net assets released from restrictions	39,399,299	(39,397,299)	(2,000)				39,399,299	(39,397,299)	(2,000)	-
Total support and revenue	42,254,678	9,077,679	1,184,520	56			42,254,734	9,077,679	1,184,520	52,516,933
Expenses and Losses:										
Program services:										
Scholarship programs	36,209,065						36,209,065			36,209,065
Education and information	3,078,998						3,078,998			3,078,998
Total program services	39,288,063						39,288,063	-	-	39,288,063
Support services:										
Administration	2,273,872						2,273,872			2,273,872
Fund raising	774,481						774,481			774,481
Total support services	3,048,353						3,048,353	-	-	3,048,353
Total expenses and losses	42,336,416						42,336,416	-	-	42,336,416
Change in Net Assets	(81,738)	9,077,679	1,184,520	56			(81,682)	9,077,679	1,184,520	10,180,517
Net Assets, beginning of year	(774,867)	18,950,285	11,930,400	19,602	\$ 21,000		(755,265)	18,971,285	11,930,400	30,146,420
Net Assets, end of year	\$ (856,605)	\$ 28,027,964	\$ 13,114,920	\$ 19,658	\$ 21,000	\$ -	\$ (836,947)	\$ 28,048,964	\$ 13,114,920	\$ 40,326,937