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DIPLOMATIC SECURITY FOUNDATION, INCORPORATED

AUDITED FINANCIAL STATEMENTS

Year Ended December 31, 2009

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Diplomatic Security Foundation, Incorporated  
Dunn Loring, Virginia

We have audited the accompanying statement of financial position of Diplomatic Security Foundation, Incorporated (the Foundation) (a non-profit organization) as of December 31, 2009 and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 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 financial position of Diplomatic Security Foundation, Incorporated at December 31, 2009, and the 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.

McLean, Virginia  
July 19, 2010

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED  
STATEMENT OF FINANCIAL POSITION  
December 31, 2009

ASSETS

Cash and cash equivalents	\$ 118,593
Prepaid expenses	<u>10,629</u>
TOTAL CURRENT ASSETS	129,222

EQUIPMENT

Equipment	2,348
Accumulated depreciation	<u>(1,526)</u>
	<u>822</u>

TOTAL ASSETS \$ 130,044

CURRENT LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ <u>554</u>
TOTAL CURRENT LIABILITIES	554

NET ASSETS

Unrestricted	<u>129,490</u>
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TOTAL CURRENT LIABILITIES AND NET ASSETS \$ 130,044

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED  
 STATEMENT OF ACTIVITIES  
 Year ended December 31, 2009

UNRESTRICTED REVENUE AND NET REVENUE FROM SPECIAL EVENTS

Contributions		\$ 45,186
Contributions in-kind		18,689
Special events income	\$ 96,654	
Less: Costs of direct benefits to donors	<u>(70,523)</u>	26,131
Interest and other income		<u>1,101</u>

TOTAL UNRESTRICTED REVENUE AND NET REVENUE FROM SPECIAL EVENTS	91,107
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EXPENSES

Program services		
Hardship support		35,200
Bereavement support		933
Scholarship program		<u>5,000</u>
	Total program services	41,133
Support services		
General and administrative		37,965
Fundraising		<u>1,417</u>
	Total support services	<u>39,382</u>
	TOTAL EXPENSES	<u>80,515</u>

INCREASE IN UNRESTRICTED NET ASSETS	10,592
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NET ASSETS AT BEGINNING OF YEAR	<u>118,898</u>
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NET ASSETS AT END OF YEAR	<u>\$ 129,490</u>
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See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in unrestricted net assets	\$ 10,592
Adjustment to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	470
Change in assets and liabilities:	
Decrease prepaid expenses	3,371
Decrease in accounts payable and accrued expenses	<u>(13)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>14,420</u>
NET INCREASE IN CASH	14,420
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>104,173</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 118,593</u>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED  
NOTES TO FINANCIAL STATEMENTS  
Year ended December 31, 2009

NOTE 1 - NATURE OF ACTIVITIES

The Diplomatic Security Foundation, Incorporated (the Foundation) is a charitable, non-profit organization whose mission is to offer assistance to members of the U.S. Department of State's Bureau of Diplomatic Security and other colleagues in the law enforcement community in time of need. Funding for these projects is provided by public contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, revenues and expenses are recognized in the period to which they relate.

Basis of Presentation

In accordance with SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, the Foundation reports information regarding its financial position and activities according to three classes of assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Foundation does not have any temporarily or permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

Contributions are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. All contributions that have been received are unrestricted.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts at a federal credit union in Washington, D.C.

Financial Risk

The Foundation maintains cash in deposit accounts, at a federal credit union, which at times may exceed Federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Equipment and Related Depreciation

Equipment is capitalized at fair value of donated property. Equipment is depreciated using the straight-line method of five years. Donations or purchases of property and equipment of \$500 or more are capitalized.

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing various programs, general and administrative and fundraising activities have been summarized on a functional basis in Note 4. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Income Taxes

The Organization is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through ~~xxxxxxx~~, the date the financial statements were issued. None was noted.

NOTE 3 - PROGRAM SERVICES

Program services consist of the following:

Hardship support – This program offers assistance to U.S. Department of State's Bureau of Diplomatic Security and law enforcement individuals in times of financial hardship.

Bereavement support – Offers financial and non-financial support to families of fallen U.S. Department of State's Bureau of Diplomatic Security and law enforcement employees.

Scholarship Program – Offers scholarships to the children, step-children, or grandchildren of current or former U.S. Department of State's Bureau of Diplomatic Security employees.

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - FUNCTIONAL EXPENSES

	PROGRAM SERVICE			SUPPORT SERVICE			Total
	Hardship Support	Bereavement Support	Scholarship Program	Total Program Expenses	Management and General	Fundraising	
Financial assistance	\$ 35,200	\$ 933	\$ 5,000	\$ 41,133	\$ -	\$ -	\$ 41,133
Management fee	-	-	-	-	27,470	-	27,470
Depreciation	-	-	-	-	470	-	470
Licenses and fees	-	-	-	-	937	-	937
Audit	-	-	-	-	5,820	-	5,820
Postage	-	-	-	-	376	82	458
Scholarship	-	-	-	-	-	-	-
Supplies	-	-	-	-	1,137	32	1,169
Travel	-	-	-	-	81	163	244
Miscellaneous	-	-	-	-	1,674	1,140	2,814
	<u>\$ 35,200</u>	<u>\$ 933</u>	<u>\$ 5,000</u>	<u>\$ 41,133</u>	<u>\$ 37,965</u>	<u>\$ 1,417</u>	<u>\$ 39,382</u>
							<u>\$ 80,515</u>