

DIPLOMATIC SECURITY FOUNDATION,
INCORPORATED

AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

HOZIK & COMPANY, P.L.C.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Diplomatic Security Foundation, Incorporated (a nonprofit organization) which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Diplomatic Security Foundation, Incorporated as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change In Accounting Principle

As discussed in Note 2 to the financial statements, management has elected to adopt Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Hejlik & Company, P.L.C.

Vienna, Virginia
September 24, 2019

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash	\$ 565,134	\$ 659,217
Certificates of deposit	200,504	-
Prepaid expenses and other	<u>1,843</u>	<u>756</u>
TOTAL CURRENT ASSETS	767,481	659,973
EQUIPMENT		
Equipment	1,363	1,363
Accumulated depreciation	<u>(818)</u>	<u>(545)</u>
	<u>545</u>	<u>818</u>
TOTAL ASSETS	<u>\$ 768,026</u>	<u>\$ 660,791</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	<u>\$ 1,013</u>	<u>\$ 2,337</u>
TOTAL CURRENT LIABILITIES	1,013	2,337
NET ASSETS		
Without donor restrictions		
Undesignated	767,013	638,004
With donor restrictions		
Purpose restricted	<u>-</u>	<u>20,450</u>
	<u>767,013</u>	<u>658,454</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 768,026</u>	<u>\$ 660,791</u>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
 STATEMENTS OF ACTIVITIES
 Years ended December 31, 2018 and 2017

	2018			2017		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
REVENUE AND SUPPORT						
Contributions	\$ 58,967	\$ -	\$ 58,967	\$ 97,639	\$ 20,450	\$ 118,089
Special events income	332,143	-	332,143	268,940	-	268,940
Special events - contributions in-kind	25,483	-	25,483	28,888	-	28,888
Less: Cost of direct benefits to donors	(44,515)	-	(44,515)	(45,530)	-	(45,530)
Total contributions	372,078	-	372,078	349,937	20,450	370,387
Interest income	5,910	-	5,910	3,082	-	3,082
TOTAL REVENUE AND SUPPORT	377,988	-	377,988	353,019	20,450	373,469
NET ASSETS RELEASED FROM RESTRICTIONS						
Satisfaction of donation restrictions	20,450	(20,450)	-	-	-	-
TOTAL REVENUE AND SUPPORT AND NET ASSETS RELEASED FROM RESTRICTIONS	398,438	(20,450)	377,988	353,019	20,450	373,469
EXPENSES						
Program services						
Hardship support	125,475	-	125,475	94,669	-	94,669
Scholarship program	29,004	-	29,004	38,382	-	38,382
Total program services	154,479	-	154,479	133,051	-	133,051
Support services						
General and administrative	19,963	-	19,963	19,348	-	19,348
Fundraising						
Special events	86,885	-	86,885	76,018	-	76,018
Other	8,102	-	8,102	9,652	-	9,652
Total support services	114,950	-	114,950	105,018	-	105,018
TOTAL EXPENSES	269,429	-	269,429	238,069	-	238,069
INCREASE (DECREASE) IN NET ASSETS	129,009	(20,450)	108,559	114,950	20,450	135,400
NET ASSETS AT BEGINNING OF YEAR	638,004	20,450	658,454	523,054	-	523,054
NET ASSETS AT END OF YEAR	\$ 767,013	\$ -	\$ 767,013	\$ 638,004	\$ 20,450	\$ 658,454

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 108,559	\$ 135,400
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	273	273
Change in assets and liabilities:		
Increase in accrued interest	(504)	-
(Increase) decrease in prepaid expenses and other	(1,087)	11,175
(Decrease) increase in accounts payable and accrued expenses	<u>(1,324)</u>	<u>2,320</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	105,917	149,168
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	<u>(200,000)</u>	<u>-</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(200,000)</u>	<u>-</u>
 NET (DECREASE) INCREASE IN CASH	(94,083)	149,168
 CASH AT BEGINNING OF YEAR	<u>659,217</u>	<u>510,049</u>
 CASH AT END OF YEAR	<u>\$ 565,134</u>	<u>\$ 659,217</u>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2018 and 2017

NOTE 1 - NATURE OF ACTIVITIES

The Diplomatic Security Foundation (DSF) provides timely financial support and charitable contributions to members, and their immediate family, of the U.S. Department of State's Bureau of Diplomatic Security and colleagues in the law enforcement and U.S. foreign affairs community. Funding for these projects is provided by public contributions. The Foundation's major sources of revenue are the annual golf tournament and contributions. The Foundation was incorporated in the District of Columbia on December 22, 1994.

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 the *Not-For-Profit-Entities – Presentation of Financial Statements* sub topic of the FASB Accounting Standards Codification, the Foundation reports information regarding its financial position and activities according to the following net asset classifications.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors that will be satisfied by action of the Foundation or by the passage of time.

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 the *Not-For-Profit Entities - Revenue Recognition* Sub topic of the FASB Accounting Standards Codification. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions with donor restrictions that are received and released in the

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

same year are reported as contributions without donor restrictions in the statements of activities.

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

Cash

Cash consists of checking, money market and savings accounts at a federal credit union and a bank.

Certificates of Deposit

Certificates of deposit are recorded at cost plus any accrued interest.

The Foundation held certificates of deposit totaling \$200,504 as of December 31, 2018. The certificates of deposit as of December 31, 2018 bear interest of 2.55% to 2.70% and maturity dates range from November 2019 through November 2020.

Financial Risk

The Foundation maintains cash in several checking and savings accounts and holds certificates of deposit, 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 or certificates of deposit.

Equipment and Related Depreciation

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

Functional Allocation of Expenses

The cost of providing program and other activities has been summarized on a functional basis in the statements of activities. Expenses directly attributable to a specific functional area of the Foundation are reported as expenses of those functional areas. Management fees have been allocated across program and other supporting services based on the estimated time and effort spent by the manager in each area.

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. As of December 31, 2018, the federal and state statute of limitations remains open for the 2015 through the 2018 tax years.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain balances at December 31, 2017 have been reclassified to conform to the December 31, 2018 presentation

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 24, 2019, the date the financial statements were issued. None were noted.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented with the exception of the presentation of the availability and liquidity disclosure presented in Note 3 which has been applied prospectively to 2018 as permitted by the ASU.

NOTE 3 - AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets at December 31, 2018:

Financial assets at year end:	<u>2018</u>
Cash	\$565,134
Certificates of deposit	<u>200,504</u>
Total financial assets available to meet general expenditures over the next twelve months	<u>\$765,638</u>

The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 4 - NET ASSETS WITH DONOR RESTRICTIONS AND NET ASSETS RELEASED
FROM RESTRICTIONS

Net assets with donor restrictions totaling \$20,450 at December 31, 2017 consisted of contributions received in 2017 for Hurricane Harvey relief that were not spent as of year-end. During 2018 these funds were released from restriction.

NOTE 5 - PROGRAM SERVICES

Program services consist of the following:

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

NOTE 5 - PROGRAM SERVICES (CONTINUED)

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.

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.

NOTE 6 - CONCENTRATION OF REVENUE

The annual golf tournament provided approximately 85% and 71% of total revenue for 2018 and 2017, respectively. One company provided a sponsorship and contributions that amounted to 13% of total revenue for 2018. Two companies provided sponsorships and contributions that amounted to 13% and 13% for 2017, respectively.

NOTE 7 - CONTRIBUTIONS IN-KIND

During 2018 and 2017, the Foundation received contributed services and other items for its special event. The fair value of the in-kind donations is as follows:

	<u>2018</u>	<u>2017</u>
Raffle prizes	\$16,483	\$19,888
Golf program	<u>9,000</u>	<u>9,000</u>
Total	<u>\$25,483</u>	<u>\$28,888</u>

The in-kind donations are recorded in raffle and other golf expenses as part of fundraising-special events in the statements of activities.

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

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSES

The functional expenses for 2018 are as follows:

	PROGRAM SERVICES			SUPPORT SERVICES				Total
	Hardship Support	Scholarship Program	Total Program Expenses	Management and General	Fundraising - Special Events	Fundraising - Other	Total Support Services	
Financial assistance	\$ 110,405	\$ 23,000	\$ 133,405	\$ -	\$ -	\$ -	\$ -	\$ 133,405
Management fee	15,070	5,861	20,931	6,279	8,372	6,279	20,930	41,861
Catering	-	-	-	-	29,371	-	29,371	29,371
Giveaways	-	-	-	-	5,572	-	5,572	5,572
Green fees	-	-	-	-	36,007	-	36,007	36,007
Raffle	-	-	-	-	16,716	-	16,716	16,716
Signage	-	-	-	-	13,672	-	13,672	13,672
Other golf expenses	-	-	-	-	16,788	-	16,788	16,788
Rent	-	-	-	885	-	-	885	885
Marketing	-	-	-	911	1,350	-	2,261	2,261
Supplies	-	-	-	631	-	-	631	631
Miscellaneous	-	143	143	11,257	3,552	1,823	16,632	16,775
Total expenses by function	125,475	29,004	154,479	19,963	131,400	8,102	159,465	313,944
Less expenses included with revenues on the statements of activities	-	-	-	-	(44,515)	-	(44,515)	(44,515)
	<u>\$ 125,475</u>	<u>\$ 29,004</u>	<u>\$ 154,479</u>	<u>\$ 19,963</u>	<u>\$ 86,885</u>	<u>\$ 8,102</u>	<u>\$ 114,950</u>	<u>\$ 269,429</u>

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

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSES (CONTINUED)

The functional expenses for 2017 are as follows:

	PROGRAM SERVICES			SUPPORT SERVICES				Total
	Hardship Support	Scholarship Program	Total Program Expenses	Management and General	Fundraising - Special Events	Fundraising - Other	Total Support Services	
Financial assistance	\$ 78,839	\$ 32,000	\$ 110,839	\$ -	\$ -	\$ -	\$ -	\$ 110,839
Management fee	15,830	6,156	21,986	6,596	8,794	6,596	21,986	43,972
Catering	-	-	-	-	26,303	-	26,303	26,303
Giveaways	-	-	-	-	4,380	-	4,380	4,380
Green fees	-	-	-	-	30,636	-	30,636	30,636
Raffle	-	-	-	-	20,004	-	20,004	20,004
Signage	-	-	-	-	9,644	-	9,644	9,644
Other golf expenses	-	-	-	-	21,787	-	21,787	21,787
Depreciation	-	-	-	273	-	-	273	273
Supplies	-	-	-	-	-	-	-	-
Miscellaneous	-	226	226	12,479	-	3,056	15,535	15,761
Total expenses by function	94,669	38,382	133,051	19,348	121,548	9,652	150,548	283,599
Less expenses included with revenues on the statements of activities	-	-	-	-	(45,530)	-	(45,530)	(45,530)
	<u>\$ 94,669</u>	<u>\$ 38,382</u>	<u>\$ 133,051</u>	<u>\$ 19,348</u>	<u>\$ 76,018</u>	<u>\$ 9,652</u>	<u>\$ 105,018</u>	<u>\$ 238,069</u>