

DIPLOMATIC SECURITY FOUNDATION,
INCORPORATED

AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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.

Henjic & Company, P.L.C.

Vienna, Virginia
August 12, 2020

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash	\$ 464,824	\$ 565,134
Certificates of deposit	359,063	200,504
Prepaid expenses and other	<u>756</u>	<u>1,843</u>
TOTAL CURRENT ASSETS	824,643	767,481
EQUIPMENT		
Equipment	1,363	1,363
Accumulated depreciation	<u>(1,090)</u>	<u>(818)</u>
	<u>273</u>	<u>545</u>
TOTAL ASSETS	<u>\$ 824,916</u>	<u>\$ 768,026</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	<u>\$ 316</u>	<u>\$ 1,013</u>
TOTAL CURRENT LIABILITIES	316	1,013
NET ASSETS		
Without donor restrictions		
Undesignated	<u>824,600</u>	<u>767,013</u>
	<u>824,600</u>	<u>767,013</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 824,916</u>	<u>\$ 768,026</u>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
 STATEMENTS OF ACTIVITIES
 Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>		
	Total	Without donor	With donor	Total
	Without donor	restrictions	restrictions	Total
REVENUE AND SUPPORT				
Contributions	\$ 46,777	\$ 58,967	\$ -	\$ 58,967
Special events income	253,042	332,143	-	332,143
Special events - contributions in-kind	22,332	25,483	-	25,483
Less: Cost of direct benefits to donors	<u>(40,020)</u>	<u>(44,515)</u>	<u>-</u>	<u>(44,515)</u>
Total contributions	282,131	372,078	-	372,078
Interest income	<u>13,865</u>	<u>5,910</u>	<u>-</u>	<u>5,910</u>
TOTAL REVENUE AND SUPPORT	295,996	377,988	-	377,988
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of donation restrictions	<u>-</u>	<u>20,450</u>	<u>(20,450)</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT AND NET ASSETS RELEASED FROM RESTRICTIONS	295,996	398,438	(20,450)	377,988
EXPENSES				
Program services				
Hardship support	85,238	125,475	-	125,475
Scholarship program	<u>28,749</u>	<u>29,004</u>	<u>-</u>	<u>29,004</u>
Total program services	113,987	154,479	-	154,479
Support services				
General and administrative	21,949	19,963	-	19,963
Fundraising				
Special events	94,035	86,885	-	86,885
Other	<u>8,438</u>	<u>8,102</u>	<u>-</u>	<u>8,102</u>
Total support services	<u>124,422</u>	<u>114,950</u>	<u>-</u>	<u>114,950</u>
TOTAL EXPENSES	<u>238,409</u>	<u>269,429</u>	<u>-</u>	<u>269,429</u>
INCREASE (DECREASE) IN NET ASSETS	57,587	129,009	(20,450)	108,559
NET ASSETS AT BEGINNING OF YEAR	<u>767,013</u>	<u>638,004</u>	<u>20,450</u>	<u>658,454</u>
NET ASSETS AT END OF YEAR	<u>\$ 824,600</u>	<u>\$ 767,013</u>	<u>\$ -</u>	<u>\$ 767,013</u>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2019

	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	\$ 71,000	\$ 24,000	\$ 95,000	\$ -	\$ -	\$ -	\$ -	\$ 95,000
Management fee	14,218	4,739	18,957	5,687	7,583	5,687	18,957	37,914
Catering	-	-	-	-	30,717	-	30,717	30,717
Giveaways	-	-	-	-	4,626	-	4,626	4,626
Green fees	-	-	-	-	36,967	-	36,967	36,967
Raffle	-	-	-	-	22,637	-	22,637	22,637
Signage	-	-	-	-	11,257	-	11,257	11,257
Other golf expenses	-	-	-	-	14,554	-	14,554	14,554
Rent	-	-	-	1,062	-	-	1,062	1,062
Marketing	-	-	-	1,727	2,280	-	4,007	4,007
Supplies	-	-	-	293	-	-	293	293
Miscellaneous	20	10	30	13,180	3,434	2,751	19,365	19,395
Total expenses by function	85,238	28,749	113,987	21,949	134,055	8,438	164,442	278,429
Less expenses included with revenues on the statements of activities	-	-	-	-	(40,020)	-	(40,020)	(40,020)
	<u>\$ 85,238</u>	<u>\$ 28,749</u>	<u>\$ 113,987</u>	<u>\$ 21,949</u>	<u>\$ 94,035</u>	<u>\$ 8,438</u>	<u>\$ 124,422</u>	<u>\$ 238,409</u>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2018

	PROGRAM SERVICES			SUPPORT SERVICES				
	Hardship Support	Scholarship Program	Total Program Expenses	Management and General	Fundraising - Special Events	Fundraising - Other	Total Support Services	Total
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>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 57,587	\$ 108,559
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	272	273
Change in assets and liabilities:		
Increase in accrued interest	(8,559)	(504)
Decrease (increase) in prepaid expenses and other	1,087	(1,087)
Decrease in accounts payable and accrued expenses	<u>(697)</u>	<u>(1,324)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	49,690	105,917
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	<u>(150,000)</u>	<u>(200,000)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(150,000)</u>	<u>(200,000)</u>
 NET DECREASE IN CASH	(100,310)	(94,083)
 CASH AT BEGINNING OF YEAR	<u>565,134</u>	<u>659,217</u>
 CASH AT END OF YEAR	<u>\$ 464,824</u>	<u>\$ 565,134</u>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2019 and 2018

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. There were no net assets with donor restrictions at December 31, 2019 and 2018.

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 \$359,063 and \$200,504 as of December 31, 2019 and 2018, respectively. The certificates of deposit as of December 31, 2019 bear interest of 2.30% to 2.80% and maturity dates range from March 2020 through November 2021. 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 statements of functional expenses present expenses by function and natural classification. 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, 2019, the federal and state statute of limitations remains open for the 2016 through the 2019 tax years.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncement

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU intends to clarify and improve current accounting guidance to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. DSF adopted ASU 2018-08 on January 1, 2019 using the modified prospective approach. The adoption of the ASU did not have an impact on the financial statements.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 12, 2020, the date the financial statements were issued. See Note 8.

NOTE 3 - AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets at December 31, 2019 and 2018:

Financial assets at year end:	<u>2019</u>	<u>2018</u>
Cash	\$464,824	\$565,134
Certificates of deposit	<u>359,063</u>	<u>200,504</u>
Total financial assets available to meet general expenditures over the next twelve months	<u>\$823,887</u>	<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

Contributions totaling \$20,450 received in 2017 for Hurricane Harvey relief were spent and released from restriction in 2018.

NOTE 5 - 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.

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 FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - PROGRAM SERVICES (CONTINUED)

Diplomatic Security employees.

NOTE 6 - CONCENTRATION OF REVENUE

The annual golf tournament provided approximately 82% and 85% of total revenue for 2019 and 2018, respectively. One company provided a sponsorship and contributions that amounted to approximately 15% and 13% of total revenue for 2019 and 2018, respectively.

NOTE 7 - CONTRIBUTIONS IN-KIND

During 2019 and 2018, the Foundation received contributed services and other items for its special event. The fair value of the in-kind donations is as follows:

	<u>2019</u>	<u>2018</u>
Raffle prizes	\$22,332	\$16,483
Golf program	<u>-</u>	<u>9,000</u>
Total	<u>\$22,332</u>	<u>\$25,483</u>

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

NOTE 8 - SUBSEQUENT EVENT

The outbreak of COVID-19 (coronavirus) caused by a novel strain of the coronavirus has recently been recognized as a pandemic by the World Health Organization, and the outbreak has become increasingly widespread in the United States. The COVID-19 outbreak has had a notable impact on general economic conditions, including, but not limited to, the temporary closures of many businesses, “shelter in place” and other governmental regulations, “work from home” directives, and there are many unknowns.

The Organization continues to monitor the impact of the COVID-19 outbreak closely. The extent to which the COVID-19 outbreak will impact The Foundation’s results of operations, financial condition, and cash flows is uncertain.

The DSF annual golf tournament has been cancelled for 2020. The 2021 golf tournament is scheduled to take place on June 7, 2021.