

DIPLOMATIC SECURITY FOUNDATION,
INCORPORATED

AUDITED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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, 2017 and 2016, 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, 2017 and 2016, 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.

Herzli & Company, P.L.C.

Vienna, Virginia
August 29, 2018

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash	\$ 659,217	\$ 510,049
Prepaid expenses and other	<u>756</u>	<u>11,931</u>
TOTAL CURRENT ASSETS	659,973	521,980
EQUIPMENT		
Equipment	1,363	4,846
Accumulated depreciation	<u>(545)</u>	<u>(3,755)</u>
	<u>818</u>	<u>1,091</u>
TOTAL ASSETS	<u>\$ 660,791</u>	<u>\$ 523,071</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	<u>\$ 2,337</u>	<u>\$ 17</u>
TOTAL CURRENT LIABILITIES	2,337	17
NET ASSETS		
Unrestricted	638,004	523,054
Temporarily restricted	<u>20,450</u>	<u>-</u>
	<u>658,454</u>	<u>523,054</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 660,791</u>	<u>\$ 523,071</u>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
STATEMENTS OF ACTIVITIES
Years ended December 31, 2017 and 2016

UNRESTRICTED REVENUE AND NET REVENUE FROM SPECIAL EVENTS	<u>2017</u>	<u>2016</u>
Contributions	\$ 97,639	\$ 69,496
Special events income	268,940	273,220
Special events - contributions in-kind	28,888	18,612
Less: Cost of direct benefits to donors	<u>(45,530)</u>	<u>(37,120)</u>
Total contributions and net revenue special events	349,937	324,208
Interest income	<u>3,082</u>	<u>1,630</u>
TOTAL UNRESTRICTED REVENUE AND NET REVENUE FROM SPECIAL EVENTS	353,019	325,838
 EXPENSES		
Program services		
Hardship support	94,669	77,704
Bereavement support	-	1,293
Scholarship program	<u>38,382</u>	<u>30,627</u>
Total program services	133,051	109,624
Support services		
General and administrative	19,348	19,113
Fundraising		
Special events	76,018	67,073
Other	<u>9,652</u>	<u>6,762</u>
Total support services	<u>105,018</u>	<u>92,948</u>
TOTAL EXPENSES	<u>238,069</u>	<u>202,572</u>
INCREASE IN UNRESTRICTED NET ASSETS	114,950	123,266
 CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	<u>20,450</u>	<u>-</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>20,450</u>	<u>-</u>
TOTAL INCREASE IN NET ASSETS	135,400	123,266
NET ASSETS AT BEGINNING OF YEAR	<u>523,054</u>	<u>399,788</u>
NET ASSETS AT END OF YEAR	<u>\$ 658,454</u>	<u>\$ 523,054</u>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
 STATEMENTS OF CASH FLOWS
 Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	\$ 135,400	\$ 123,266
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	273	329
Change in assets and liabilities:		
Decrease (increase) in prepaid expenses and other	11,175	(185)
Increase (decrease) in accounts payable and accrued expenses	<u>2,320</u>	<u>(218)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	149,168	123,192
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>-</u>	<u>(1,364)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>-</u>	<u>(1,364)</u>
 NET INCREASE IN CASH	149,168	121,828
 CASH AT BEGINNING OF YEAR	<u>510,049</u>	<u>388,221</u>
 CASH AT END OF YEAR	<u>\$ 659,217</u>	<u>\$ 510,049</u>

See accompanying notes to financial statements

DIPLOMATIC SECURITY FOUNDATION, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2017 and 2016

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 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 as of December 31, 2016, and no permanently restricted net assets as of December 31, 2017.

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 *Not-For-Profit Entities – Revenue Recognition* topic of the FASB Accounting Standards Codification. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. The Foundation's policy is to report all donor-restricted contributions as unrestricted if those restrictions are met in the same reporting period that the contributions are received.

Cash

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

Financial Risk

The Foundation maintains cash in deposit accounts, at a federal credit union and a bank, 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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Risk (Continued)

credit risk on cash.

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 costs of providing various programs, general and administrative and fundraising activities have been summarized on a functional basis in Note 6. 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. As of December 31, 2017, the federal and state statute of limitations remains open for the 2014 through the 2017 tax years.

Reclassifications

Certain balances at December 31, 2016 have been reclassified to conform to the December 31, 2017 presentation.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 29, 2018, the date the financial statements were issued. None were noted.

NOTE 3 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets totaling \$20,450 at December 31, 2017 consists of contributions received in 2017 for Hurricane Harvey relief that were not spent as of year-end.

NOTE 4 - 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 employees.

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

NOTE 4 - PROGRAM SERVICES (CONTINUED)

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.

NOTE 5 - CONCENTRATION OF REVENUE

The annual golf tournament provided approximately 71% and 80% of total revenue for 2017 and 2016, respectively. Two companies provided sponsorships and contributions that amounted to 13% and 13% of total revenue for 2017 and 14% and 12% for 2016, respectively.

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

NOTE 6 - FUNCTIONAL EXPENSES

The functional expenses for 2017 are as follows:

	PROGRAM SERVICES				SUPPORT SERVICES				Total
	Hardship Support	Bereavement 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
Special events	-	-	-	-	25	65,008	-	65,033	65,033
Depreciation	-	-	-	-	273	-	-	273	273
Postage	-	-	35	35	64	9	-	73	108
Supplies	-	-	-	-	-	-	-	-	-
Travel	-	-	-	-	-	197	-	197	197
PayPal fees	-	-	-	-	330	-	-	330	330
Miscellaneous	-	-	191	191	12,060	2,010	3,056	17,126	17,317
	<u>\$ 94,669</u>	<u>\$ -</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>

The functional expenses for 2016 are as follows:

	PROGRAM SERVICES				SUPPORT SERVICES				Total
	Hardship Support	Bereavement Support	Scholarship Program	Total Program Expenses	Management and General	Fundraising - Special Events	Fundraising - Other	Total Support Services	
Financial assistance	\$ 64,002	\$ 1,100	\$ 25,000	\$ 90,102	\$ -	\$ -	\$ -	\$ -	\$ 90,102
Management fee	13,702	193	5,403	19,298	5,790	7,719	5,789	19,298	38,596
Special events	-	-	-	-	-	56,315	-	56,315	56,315
Depreciation	-	-	-	-	329	-	-	329	329
Postage	-	-	20	20	212	33	5	250	270
Supplies	-	-	-	-	481	58	-	539	539
Travel	-	-	-	-	-	180	-	180	180
PayPal fees	-	-	-	-	330	-	-	330	330
Miscellaneous	-	-	204	204	11,971	2,768	968	15,707	15,911
	<u>\$ 77,704</u>	<u>\$ 1,293</u>	<u>\$ 30,627</u>	<u>\$ 109,624</u>	<u>\$ 19,113</u>	<u>\$ 67,073</u>	<u>\$ 6,762</u>	<u>\$ 92,948</u>	<u>\$ 202,572</u>