

Financial Statements and Report of
Independent Certified Public Accountants

The HALO Trust (USA), Inc.

March 31, 2018 *(with summarized comparative
information for March 31, 2017)*

The HALO Trust (USA), Inc.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Trustees
The HALO Trust (USA), Inc.

Report On the Financial Statements

We have audited the accompanying financial statements of The HALO Trust (USA), Inc. (HALO), which comprise the statements of financial position as of March 31, 2018, and the related statements of activities, cash flows and functional expenses 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 HALO'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 HALO'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 The HALO Trust (USA), Inc. as of March 31, 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated August 8, 2018, on our consideration of HALO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HALO's internal control over financial reporting and compliance.



Baltimore, Maryland
August 8, 2018

The HALO Trust (USA), Inc.

Statements of Financial Position

<i>March 31,</i>	2018	2017
Assets		
Cash	\$ 8,583,750	\$ 3,317,958
Contribution receivable	5,695,296	—
Grants receivables	1,416,076	1,378,945
Due from The HALO Trust (UK)	—	61,101
Other receivables	42,465	106,113
Deposits and prepaid expenses	13,138	9,773
Property and equipment	8,256	3,507
Other assets	14,463	66,560
Total Assets	\$ 15,773,444	\$ 4,943,957
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 998,060	\$ 865,606
Due to The HALO Trust (UK)	949,888	—
Total liabilities	1,947,948	865,606
Net Assets		
Unrestricted	13,529,406	2,456,493
Temporarily restricted	296,090	1,621,858
Total net assets	13,825,496	4,078,351
Total Liabilities and Net Assets	\$ 15,773,444	\$ 4,943,957

The accompanying notes are an integral part of these financial statements.

The HALO Trust (USA), Inc.

Statement of Activities

Year ended March 31, 2018 <i>(with summarized comparative information for March 31, 2017)</i>	Unrestricted	Temporarily Restricted	Totals	
			2018	2017
Revenues and Support:				
Government grants:				
Directly implemented	\$ —	\$ 2,398,200	\$ 2,398,200	\$ 14,042,458
Subgranted to The HALO Trust (UK)	—	13,832,441	13,832,441	16,291,048
Total government grants	—	16,230,641	16,230,641	30,333,506
Contributions	12,379,667	—	12,379,667	608,271
Federated campaigns	10,840	—	10,840	7,356
Grants and other	500	2,055,647	2,056,147	4,009,480
Investment income	8,358	—	8,358	1,239
	12,399,365	18,286,288	30,685,653	34,959,852
Net assets released from restriction for satisfaction of program activities	19,612,056	(19,612,056)	—	—
Total revenues and support	32,011,421	(1,325,768)	30,685,653	34,959,852
Expenses:				
Program activities - overseas relief:				
Directly implemented	2,939,889	—	2,939,889	14,959,440
Subgranted to The HALO Trust (UK)	16,592,681	—	16,592,681	17,806,622
Total program activities - overseas relief	19,532,570	—	19,532,570	32,766,062
Management and general	1,112,401	—	1,112,401	1,461,590
Fundraising	311,423	—	311,423	86,691
Total expenses	20,956,394	—	20,956,394	34,314,343
Change in net assets, before foreign exchange rate adjustment	11,055,027	(1,325,768)	9,729,259	645,509
Foreign currency translation adjustment	17,886	—	17,886	(31,673)
Changes in net assets	11,072,913	(1,325,768)	9,747,145	613,836
Net assets at beginning of year	2,456,493	1,621,858	4,078,351	3,464,515
Net assets at end of year	\$ 13,529,406	\$ 296,090	\$ 13,825,496	\$ 4,078,351

The accompanying notes are an integral part of these financial statements.

The HALO Trust (USA), Inc.

Statements of Cash Flows

<i>Years ended March 31,</i>	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ 9,747,145	\$ 613,836
Adjustments necessary to reconcile net income to net cash provided by operating activities:		
Realized and unrealized foreign exchange transaction adjustment	(17,886)	31,673
Depreciation	3,726	2,715
Changes in operating assets and liabilities:		
Contribution receivable	(5,695,296)	—
Grants receivables	(37,131)	862,088
Other receivables	63,648	93,627
Deposits and prepaid expenses	(3,365)	24,328
Accounts payable	132,454	28,386
Due to The HALO Trust (UK)	949,888	(266,536)
Due from The HALO Trust (UK)	61,101	(61,101)
Other assets	52,097	(66,560)
Net Cash Provided by Operating Activities	5,256,381	1,262,456
Cash Flow Used in Investing Activity:		
Purchase of property and equipment	(8,475)	(3,427)
Net Cash Used in Investing Activity	(8,475)	(3,427)
Effect of foreign exchange rate changes on cash	17,886	(31,673)
Net Increase in Cash	5,265,792	1,227,356
Cash at Beginning of Year	3,317,958	2,090,602
Cash at End of Year	\$ 8,583,750	\$ 3,317,958

The accompanying notes are an integral part of these financial statements.

The HALO Trust (USA), Inc.

Statement of Functional Expenses

<i>Year ended March 31, 2018 (with summarized comparative information for March 31, 2017)</i>	Program Activities			Management and Fundraising			Totals	
	Overseas Relief	General	Fundraising	2018	2017			
Salaries and benefits	\$ 1,823,070	\$ 343,620	\$ 232,169	\$ 2,398,859	\$ 9,788,826			
Operating costs	839,201	74,832	66,361	980,394	4,132,024			
Equipment	167,725	—	—	167,725	544,905			
Accommodation	64,321	55,430	443	120,194	540,675			
Insurance	13,423	12,684	—	26,107	230,944			
Professional fees	—	543,755	110	543,865	279,586			
Travel	32,149	78,354	12,340	122,843	388,046			
Depreciation	—	3,726	—	3,726	2,715			
Subgrants to The HALO Trust (UK)	16,592,681	—	—	16,592,681	17,806,622			
Support costs paid to The HALO Trust (UK)	—	—	—	—	600,000			
Total Expenses	\$ 19,532,570	\$ 1,112,401	\$ 311,423	\$ 20,956,394	\$ 34,314,343			

The accompanying notes are an integral part of these financial statements.

The HALO Trust (USA), Inc.

Notes to Financial Statements

March 31, 2018 (with summarized comparative information for March 31, 2017)

NOTE 1—DESCRIPTION OF ORGANIZATION

The HALO Trust (USA), Inc. (HALO) is a not-for-profit corporation organized for the purpose of removal of the debris of war in various areas of the world. HALO is supported primarily from grants by the United States Department of State and other agencies. HALO also receives support from foundations, individuals and other organized charities.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash

Cash includes deposit accounts domiciled in the United States of America (U.S.) and foreign countries. Cash equivalents include highly liquid debt instruments, such as commercial paper, purchased with original maturities of three months or less. There were no cash equivalents at March 31, 2018 and 2017. Cash held at individual U.S. institutions exceeded the federally insured limits by \$7,763,691 and \$1,449,033 at March 31, 2018 and 2017, respectively. HALO believes that its exposure to this credit risk is limited. HALO has cash in foreign accounts totaling \$473,250 and \$1,550,348 as of March 31, 2018 and 2017, respectively.

Net Asset Classification

All financial transactions have been recorded and reported as either unrestricted or temporarily restricted net assets:

- Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of HALO and are not subject to any donor-imposed stipulations.
- Temporarily restricted net assets represent those amounts which are donor restricted for a specific purpose or stipulated time restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as released from restrictions.

The HALO Trust (USA), Inc.

Notes to Financial Statements—Continued

March 31, 2018 (with summarized comparative information for March 31, 2017)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Property and Equipment

HALO follows the practice of capitalizing all expenditures for furniture and equipment having a cost in excess of \$1,500. Donated property and equipment are similarly capitalized, but at fair market value at the time of donation. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the related assets.

Any property and equipment for use in overseas projects is expensed in the year acquired. HALO maintains records of the property and equipment. Upon completion of the project, some of these assets are transferred to other projects, donated to local charities, or may be reclaimed by the donor.

Tax Status

HALO follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

HALO is exempt from federal income tax under Internal Revenue Code (the Code) Section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. HALO has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The tax years ended March 31, 2018, 2017, 2016 and 2015 are still open to audit for both federal and state purposes. HALO has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

The HALO Trust (USA), Inc.

Notes to Financial Statements—Continued

March 31, 2018 (with summarized comparative information for March 31, 2017)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Contributions and Receivables

Contributions are reported as revenue in the year in which contributions are received or unconditional promises are received. Contributions of assets, other than cash, are recorded at their estimated fair value at the date of gift. Conditional contributions are recorded when conditions have been substantially met. In the absence of donor restrictions, all contributions are considered to be available for unrestricted use. All contributions are expected to be collected in the next year, therefore, no discount has been recorded.

Donated Services

Donations of services are recognized by HALO if the services received require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. HALO records as donated services the value of legal services received from a certain legal firm for the specialized skills provided during the year. Total donated services for the years ended March 31, 2018 and 2017 was \$340,380 and \$123,808 respectively and were included in contributions on the statement of activities for the year ended March 31, 2018 and 2017.

Governmental and Operating Grants

Government grants are considered to be contributions under the accounting principles generally accepted in the U.S. (U.S. GAAP) conditioned on HALO incurring qualifying reimbursable expenditures.

Grants Receivables

Grants receivables represent the amounts owed by the federal government for the expenditures incurred by HALO in accordance with the grant agreements. The specific method is used to determine whether an allowance for doubtful accounts should be established. For the years ended March 31, 2018 and 2017, it was determined that no allowance for doubtful accounts was necessary.

Allocation of Functional Expenses

The cost of programs and supporting activities is summarized by their functional classification in the statement of activities and by their natural classification in the statement of functional expenses. Accordingly, certain costs have been allocated among program activities and supporting services, as shown in the statement of functional expenses.

The HALO Trust (USA), Inc.

Notes to Financial Statements—Continued

March 31, 2018 (with summarized comparative information for March 31, 2017)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Use of Estimates

The preparation of financial statements in conformity with the U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Prior Year Summarized Financial Information

The financial statements include certain prior year summarized information. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with HALO's financial statements for the year ended March 31, 2017, from which the summarized information is derived.

Reclassification

Certain 2017 financial statement amounts have been reclassified to conform to the 2018 financial statement classification. Government grants revenue of \$30,333,506 was divided into government grants directly implemented, which totaled \$14,042,458 and government grants subgranted to The HALO Trust (UK), which totaled \$16,291,048. Program activities – overseas relief expense of \$32,766,062 was divided into program activities – overseas relief, directly implemented, which totaled \$14,959,440 and programs activities – overseas relief, subgranted to The HALO Trust (UK), which totaled \$17,806,622. This reclassification had no effect on total assets, liabilities, or net assets.

Risk of Operating Outside the United States

HALO is subject to the risks of doing business outside the United States, including, among other risks, foreign currency exchange rate risks, tax laws and political or labor disturbances.

The HALO Trust (USA), Inc.

Notes to Financial Statements—Continued

March 31, 2018 (with summarized comparative information for March 31, 2017)

NOTE 3—PROPERTY AND EQUIPMENT

At March 31, property and equipment are as follows:

	<u>2018</u>	<u>2017</u>
Furniture, fixtures and equipment	\$ 38,092	\$ 29,617
Accumulated depreciation	<u>(29,836)</u>	<u>(26,110)</u>
Net property and equipment	<u>\$ 8,256</u>	<u>\$ 3,507</u>

NOTE 4—UNRESTRICTED NET ASSETS

At March 31, unrestricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
General operating net assets	\$ 13,521,150	\$ 2,452,986
Designated for property and equipment	<u>8,256</u>	<u>3,507</u>
	<u>\$ 13,529,406</u>	<u>\$ 2,456,493</u>

At March 31, 2018, of the \$13,521,150 general operating net assets, \$1,797,932 is committed by grant agreement to The HALO Trust for the support and development of its activities.

The HALO Trust (USA), Inc.

Notes to Financial Statements—Continued

March 31, 2018 (with summarized comparative information for March 31, 2017)

NOTE 5—TEMPORARILY RESTRICTED NET ASSETS

At March 31, temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Global	\$ 157,643	\$ 587,763
West Bank	80,761	74,678
Cambodia	18,599	17,593
Laos	13,206	2,377
Kosovo	9,074	146,882
Colombia	5,743	5,743
Angola	3,240	965
Sri Lanka	2,753	2,753
Somaliland	2,069	2,069
Afghanistan	1,110	840
Zimbabwe	421	5,392
Georgia	151	151
Nagorno Karabakh	—	773,793
Various	<u>1,320</u>	<u>859</u>
	<u>\$ 296,090</u>	<u>\$ 1,621,858</u>

NOTE 6—FOREIGN CURRENCY TRANSLATION

Assets and liabilities of HALO's operations are translated at a month-beginning exchange rate; revenue and expenses are translated at the monthly exchange rate during the year. Translation adjustments for such assets and liabilities are accumulated separately in unrestricted net assets. Translation adjustments for the years ended March 31, 2018 and 2017 were a loss of \$17,886 and a gain of \$31,673, respectively.

The HALO Trust (USA), Inc.

Notes to Financial Statements—Continued

March 31, 2018 (with summarized comparative information for March 31, 2017)

NOTE 7—COMMITMENTS AND CONTINGENCIES

Lease Commitments

HALO occupies office facilities in Washington, D.C., under a lease agreement which expires in March 2023. HALO is also responsible for its pro rata share of operating expenses and incremental adjustments including real estate taxes. Future rental commitments for 2019 will total \$85,780. Total rent expense for the years ended March 31, 2018 and 2017 was \$52,602 and \$44,139, respectively.

Grant Commitments

As of March 31, 2018, HALO has \$12,084,363 in grant commitments for future program expenditures from U.S. government and other related grants.

Contingencies

Costs charged to the federal government under cost-reimbursement grants and contracts are subject to government audit. Therefore, all such costs are subject to adjustment. Management believes that adjustments, if any, would not have a significant effect on the financial statements.

NOTE 8—CONCENTRATIONS OF CREDIT RISK AND REVENUE

Financial instruments, which potentially subject HALO to concentrations of credit risk, consist principally of cash and accounts receivable. HALO maintains its cash balances at various financial institutions in amounts which at times exceed the federally insured amounts. HALO also maintains bank and cash balances in various foreign site locations in institutions that may not carry insured limits. HALO has not had any losses related to any deposits.

For the years ended March 31, 2018 and 2017, HALO received approximately 53% and 87%, respectively, of its revenue from the U.S. Department of State and other federal agencies. Grants receivable due at March 31, 2018 and 2017 were \$1,416,076 and \$1,378,945, respectively, and are expected to be collectible. HALO's continued support from these agencies is expected.

The HALO Trust (USA), Inc.

Notes to Financial Statements—Continued

March 31, 2018 (with summarized comparative information for March 31, 2017)

NOTE 9—RELATED PARTY TRANSACTIONS

HALO is allied with The HALO Trust (UK) (a UK registered not-for-profit entity) due to common management between the organizations. HALO and The HALO Trust (UK) have separate Boards of Trustees with no common majority voting interest. The HALO Trust (UK) provides management support, personnel and general support. Such expenses were recharged to HALO for the years ended March 31, 2018 and 2017, in the amount of \$2,054,572 and \$3,096,907, respectively.

HALO entered into various Subgranting Agreements with The HALO Trust (UK) for the latter to perform the services described in the Statement of Objectives included in the U.S. Department of State Federal Assistance Award. For the year ended March 31, 2018 and 2017, HALO subgranted \$16,164,121 and \$17,806,622 respectively, to The HALO Trust (UK). Of the amounts subgranted to The HALO Trust (UK), \$13,945,874 and \$16,291,048 was federally funded and \$2,218,247 and \$1,515,574 was privately funded.

As a result of the Subgranting Agreements, The HALO Trust (UK) assumed HALO's severance and redundancy liabilities in respect of projects delivered by HALO. On February 22, 2018, the Board of Directors approved the transfer of the assets and liabilities to The HALO Trust (UK), in order for future liabilities to be settled by the organization responsible for severing employment contracts. Accordingly, HALO reclassified the total amount of severance and redundancy liabilities of \$949,888 from Accounts Payable to Due to The HALO Trust (UK) within the statement of financial position.

NOTE 10—SUBSEQUENT EVENTS

Management has evaluated subsequent events and transactions occurring through August 8, 2018, the date the financial statements were issued, and there were no material subsequent events or transactions requiring disclosure or recognition.