



**Consolidated Financial Statements and
Report of Independent Certified Public Accountants**

Half the Sky Foundation and subsidiaries

December 31, 2010 and 2009

Contents

	Page
Report of Independent Certified Public Accountants	3
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities and Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Consolidated Statements of Functional Expenses	7
Notes to Consolidated Financial Statements	8

Report of Independent Certified Public Accountants

**To the Board of Directors of
Half the Sky Foundation and Subsidiaries**

Audit - Tax - Advisory

Grant Thornton LLP
One California Street, Suite 2300
San Francisco, CA 94111-5424

T 415.986.3900
F 415.986.3916
www.GrantThornton.com

We have audited the accompanying consolidated statements of financial position of Half the Sky Foundation and subsidiaries (the "Foundation"), as of December 31, 2010 and 2009, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Half the Sky Foundation and subsidiaries as of December 31, 2010 and 2009, and the changes in their net assets, their cash flows and functional expenses for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

San Francisco, California
August 12, 2011

Half the Sky Foundation and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

	2010	2009
ASSETS		
Assets:		
Cash and cash equivalents	\$ 2,270,046	\$ 3,692,929
Pledges receivable, net	109,944	137,544
Other receivables	14,624	7,564
Investments	1,060,246	939,910
Prepaid program expenses	101,906	56,907
Inventory	67,027	85,108
Property and equipment, net	54,800	76,390
Deposits	62,094	40,003
Total assets	\$ 3,740,687	\$ 5,036,355
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 149,491	\$ 74,523
Accrued expenses	122,061	61,659
Deferred rent liability	13,337	-
Deferred income	359	-
Total liabilities	285,248	136,182
Commitments (Note 9)		
Net assets:		
Unrestricted	723,918	636,269
Designated by the Board for endowment	359,395	309,394
Total unrestricted net assets	1,083,313	945,663
Temporarily restricted	1,737,636	3,335,802
Permanently restricted	634,490	618,708
Total net assets	3,455,439	4,900,173
Total liabilities and net assets	\$ 3,740,687	\$ 5,036,355

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

Half the Sky Foundation and Subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31,

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Contributions	\$ 3,209,548	\$ 4,463,834	\$ 15,782	\$ 7,689,164	\$ 3,195,077	\$ 4,031,169	\$ 20,695	\$ 7,246,941
Contributed services and materials	504,945	-	-	504,945	704,655	-	-	704,655
Merchandise sales	25,696	-	-	25,696	33,005	-	-	33,005
Interest and dividend income on investments	31,402	-	-	31,402	27,555	-	-	27,555
Other income	47,760	-	-	47,760	30,797	-	-	30,797
Net realized and unrealized gain on investments	12,101	67,637	-	79,738	67,890	63,160	-	131,050
Net assets released from restrictions	6,129,637	(6,129,637)	-	-	3,873,934	(3,873,934)	-	-
Total revenues, gains and other support	9,961,089	(1,598,166)	15,782	8,378,705	7,932,913	220,395	20,695	8,174,003
Expenses:								
Program services	7,770,293	-	-	7,770,293	6,611,280	-	-	6,611,280
Fundraising								
Donated goods and services	417,906	-	-	417,906	407,057	-	-	407,057
Other fundraising	956,629	-	-	956,629	609,059	-	-	609,059
Total fundraising	1,374,535	-	-	1,374,535	1,016,116	-	-	1,016,116
Merchandise costs	17,462	-	-	17,462	10,357	-	-	10,357
Management and general	661,149	-	-	661,149	545,654	-	-	545,654
Total expenses	9,823,439	-	-	9,823,439	8,183,407	-	-	8,183,407
Change in net assets	137,650	(1,598,166)	15,782	(1,444,734)	(250,494)	220,395	20,695	(9,404)
Net assets, beginning of year	945,663	3,335,802	618,708	4,900,173	1,196,157	3,115,407	598,013	4,909,577
Net assets, end of year	\$ 1,083,313	\$ 1,737,636	\$ 634,490	\$ 3,455,439	\$ 945,663	\$ 3,335,802	\$ 618,708	\$ 4,900,173

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

Half the Sky Foundation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31,

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (1,444,734)	\$ (9,404)
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities:		
Depreciation	29,733	12,869
Net realized and unrealized gains on investments	(79,738)	(131,050)
Donated equipment	-	(48,552)
Change in assets and liabilities:		
Pledges receivable, net	27,600	288,362
Other receivables	(7,062)	21,321
Prepaid program expenses	(44,999)	11,575
Inventory	18,081	4,437
Deposits	(22,091)	(10,241)
Accounts payable	74,968	(12,869)
Accrued expenses	60,402	1,214
Deferred rent liability	13,337	-
Deferred income	359	-
Cash provided by (used in) operating activities	(1,374,144)	127,662
Cash flows from investing activities:		
Acquisition of property and equipment	(8,142)	(9,533)
Purchases of investments	(40,597)	(421,758)
Proceeds from sale of investments	-	330,940
Cash used in investing activities	(48,739)	(100,351)
Increase (decrease) in cash and cash equivalents	(1,422,883)	27,311
Cash and cash equivalents, beginning of year	3,692,929	3,665,618
Cash and cash equivalents, end of year	\$ 2,270,046	\$ 3,692,929

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

Half the Sky Foundation and Subsidiaries

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended December 31,

<u>Expenses</u>	2010					2009				
	<u>Program Service</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Merchandise Cost</u>	<u>Total</u>	<u>Program Service</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Merchandise Cost</u>	<u>Total</u>
Compensation and benefits for non-field staff	\$ 1,200,757	\$ 382,599	\$ 633,440	\$ -	\$ 2,216,796	\$ 1,040,199	\$ 329,538	\$ 327,406	\$ -	\$ 1,697,143
Consulting and professional services	99,665	96,262	-	-	195,927	81,149	100,803	90,507	-	272,459
Office expenses	45,844	34,968	93,097	-	173,909	48,536	30,474	68,332	-	147,342
Information technology	113,424	211	-	-	113,635	136,615	5,268	-	-	141,883
Occupancy	76,713	82,953	-	-	159,666	74,818	34,691	-	-	109,509
Travel	211,021	17,258	61,201	-	289,480	327,910	16,342	49,798	-	394,050
Conferences and meetings	185,830	-	-	-	185,830	54,202	-	-	-	54,202
Depreciation and amortization	-	29,732	-	-	29,732	-	12,869	-	-	12,869
Insurance	-	17,166	-	-	17,166	-	15,669	-	-	15,669
Compensation and benefits for field staff	2,884,115	-	-	-	2,884,115	2,717,819	-	-	-	2,717,819
Earthquake relief	47,857	-	-	-	47,857	136,495	-	-	-	136,495
Donated goods & services	12,300	-	417,906	-	430,206	211,809	-	407,057	-	618,866
Stipends and tuition	261,868	-	-	-	261,868	246,243	-	-	-	246,243
Orphanage center construction, equipment & furnishings	163,609	-	-	-	163,609	157,498	-	-	-	157,498
Surgery and nurturing care in connection with China Care program	1,364,611	-	-	-	1,364,611	1,037,497	-	-	-	1,037,497
Family Village	265,817	-	-	-	265,817	135,249	-	-	-	135,249
Critical Care Fund	444,275	-	-	-	444,275	-	-	-	-	-
Training programs and materials	202,490	-	-	-	202,490	107,710	-	27,773	-	135,483
Event expense	-	-	107,893	-	107,893	-	-	-	-	-
All other expense	190,097	-	60,998	17,462	268,557	97,531	-	45,243	10,357	153,131
Total Functional Expenses	\$ 7,770,293	\$ 661,149	\$ 1,374,535	\$ 17,462	\$ 9,823,439	\$ 6,611,280	\$ 545,654	\$ 1,016,116	\$ 10,357	\$ 8,183,407

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

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 1 – ORGANIZATION AND OPERATIONS

Half the Sky Foundation (the “Foundation” or “HTS”), a non-profit public benefit corporation, was incorporated in November 1998 with its corporate office located in Berkeley, California.

The Foundation formed a Beijing Representative Office in June 2008. Effective since January 1, 2008 the Foundation also qualifies in the Netherlands as a charitable fund (“ANBI”).

Half the Sky Foundation (Asia) Limited (“Asia Ltd.”), a supporting organization of the Foundation, was incorporated in Hong Kong in March 2006. Half the Sky Foundation United Kingdom Limited (“UK Ltd.”), another supporting organization of the Foundation, was incorporated in England and Wales in April 2008.

The consolidated financial statements include the accounts of the Foundation and all of the supporting organizations.

The Foundation was created in order to enrich the lives and enhance the prospects for orphaned children in China. The Foundation creates and operates infant nurture and early education programs, provides personalized learning for older children, and establishes loving permanent family care and guidance for children whose disabilities prevent them from finding adoptive families. It is the Foundation’s goal to ensure that every orphaned child has a caring adult in her life and a chance at a bright future. The Foundation works in 42 state-run welfare institutions in 19 provinces and municipalities in China and offers five primary programs:

The Infant Nurture Program - In this program, designed to give infants aged 0-2 years a healthy start in life, the Foundation employs “nannies”- retired or laid-off workers from the local community - to cuddle, love and provide orphaned infants (0-2 years) the physical and emotional stimulation essential to normal development. The Foundation renovates rooms in the welfare institutions and provides training, salaries, other program expenses and supervision of staff.

The Little Sisters Preschool Program - In this program, the Foundation-trained teachers use a unique and progressive curriculum that blends principles of the Reggio Emilia approach to early childhood education with contemporary Chinese teaching methods. The program is designed not only to prepare the children (2-7 years) to succeed in Chinese schools, but also to help develop the “whole child”, facilitating healthy emotional, physical and cognitive development. The Foundation renovates rooms in the welfare institution and provides training, salaries, other program expenses and supervision of staff.

The Youth Services Program - In this program, individualized learning opportunities are provided for older children (8-21 years) who remain in the institutions. The Foundation tailors each program to the specific child, offering such services as tutoring prior to entrance exams, tuition to vocational schools, funds for music, dance, computer or art classes, and tutors for learning a second language. The Foundation also provides school fees for a growing number of orphans to attend universities throughout China.

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 1 – ORGANIZATION AND OPERATIONS (continued)

The Family Village Program - In this program, children whose disabilities or special needs preclude adoption, live in permanent foster families in comfortable apartments in or nearby the welfare institutions. This program enables children who will never be adopted to grow up knowing the love of family while also receiving the support services that the welfare institution and the Foundation programs provide. The children attend the Foundation preschools and then go on to enjoy the enrichment opportunities of the Big Sisters Program. The Foundation partners with local governments to renovate apartments, provide furnishings, a small stipend for foster parents, ongoing training and miscellaneous fees.

The China Care Program - In this program, medically fragile orphaned infants and toddlers are provided with specialized medical treatment and nurturing after-care. Whether receiving 24-hour loving attention in the HTS China Care Home's Special Care Nursery or adjacent Medical Family Care Unit or in a nearby Beijing hospital, these tiny children not only receive life-saving medical treatment, they also learn that they are not alone in this world.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Foundation and its supporting organizations. Inter-organization transactions and balances have been eliminated upon consolidation.

Foreign Currency

Assets and liabilities denominated in foreign currencies are translated into United States of America dollars, the reporting currency, at exchange rates in effect on reporting dates, and revenue and expenses are translated at rates which approximate those in effect on transaction dates. A significant amount of the Foundation's expenses were paid for using the Chinese Renminbi for the years ended December 31, 2010 and 2009. Translation gains and losses were not material to the consolidated financial statements taken as a whole and are not reflected separately in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred.

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

The financial statement presentation follows the guidance of Financial Accounting Standards Board (the “FASB”) *Accounting Standards Codification*TM (“ASC”) 958 - 205, *Not-for-Profit Entities – Presentation of Financial Statements* (“ASC 958 – 205”). Under ASC 958 – 205, the Foundation is required to report information regarding its financial position and activities classified as permanently restricted, temporarily restricted, and unrestricted net assets with the change in each of these classes of net assets to be presented in the consolidated statements of activities and changes in net assets.

Unrestricted Net Assets - Unrestricted net assets have no donor-imposed restrictions and include those revenues and expenses associated with program and supporting services.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions that are limited in use by the Foundation in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Foundation according to the terms of the contribution. Upon satisfaction of such stipulations, net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Permanently Restricted Net Assets - Permanently restricted net assets are restricted by the donor for investment in perpetuity, such as endowments. The income from such invested assets is available to support the activities of the Foundation.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are carried at cost which approximates market value.

The Foundation was unable to maintain a Chinese bank account under its name before the Beijing Representative Office registered. Accordingly, it set up two accounts maintained by the managing director of programs. The balance in these accounts was \$5,277 and \$49,245 at December 31, 2010 and 2009, respectively. Overseas program operations, such as employee salaries, are funded through wire transfers from the Foundation’s Berkeley office.

Credit Risk

The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. Cash balances may exceed the Federal Deposit Insurance Corporation (“FDIC”) limits from time to time. The Foundation’s investments have been placed with high quality financial institutions. The Foundation monitors these investments and has not experienced significant credit losses. The credit risk in pledges receivable is addressed as the Foundation evaluates the collectability of pledges based on knowledge and available information about the donors. Additionally, any pledges that are expected to be collected after one year have been discounted and are reflected in the consolidated financial statements at their net present value.

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pledges Receivable

The Foundation evaluates the collectability of its pledges receivable on an ongoing basis and records a reserve for potential uncollectible pledges receivable.

Other Receivables

Other receivables include interest and stock sale settlements.

Investments

The Foundation invests in marketable securities and money market funds. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the Foundation's fiscal year. Investment transactions are recorded on trade date. Contributions of public stock are recorded at quoted market prices at the date of donation. The Foundation sells donated securities received as soon as reasonably possible. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are calculated on an adjusted cost basis. Adjusted cost is the estimated fair value of the security at the beginning of the year, or the cost if purchased during the year. Dividend and interest income are accrued when earned.

Property and Equipment, Net

Acquisitions of property and equipment in excess of \$500 are capitalized. Purchased property and equipment are stated at cost. Significant donated property and equipment are recorded at their estimated fair value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to ten years.

Inventory

Inventory consists principally of merchandise sold in the Foundation's on-line store and is stated at the lower of weighted average cost or market value.

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally promised as prescribed by ASC 958 – 605, *Not-for-Profit Entities – Revenue Recognition* ("ASC 958 – 605").

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulation expires, that is, when a stipulated time restriction ends or the purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Conditional promises to give are not recorded as contributions until the conditions on which they depend are substantially met.

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

Donor-restricted contributions whose restrictions are met in the same reporting period as the contribution is recorded are reported as temporarily restricted contributions and net assets released from restrictions as donor restrictions are met.

The Foundation recognizes revenues from on-line store sales upon the sale of merchandise.

Contributed Services and Materials

Contributed services and materials are recognized in accordance with ASC 958 – 605. The Foundation received and recorded contributed pro-bono legal services for the years ended December 31, 2010 and 2009, with estimated fair market values of \$107,894 and \$191,109, respectively. The Foundation received contributed services for a director of development in Hong Kong at an estimated fair market value of \$100,000 for each of the years ended December 31, 2010 and 2009.

Contributed goods are recorded at estimated fair value at the date of receipt and amounted to \$297,051 and \$413,546 for the years ended December 31, 2010 and 2009, respectively.

Income Tax Status

The Foundation has been recognized as an organization exempt from tax pursuant to Internal Revenue Code Section 501(c)(3) and classified by the Internal Revenue Service as other than a private foundation, and has been recognized by the California Franchise Tax Board as exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d). Asia Ltd. has been granted tax exempt status by the Hong Kong Inland Revenue Department. UK Ltd. has been granted tax exempt status by UK HM Revenue & Customs. The Foundation is also qualified as a charitable fund (“ANBI”) in the Netherlands for tax purposes. Canada Ltd. has been granted tax exempt status by the Canada Revenue Agency. Australia Ltd. has been granted tax exempt status by the Australian Taxation Office.

Pursuant to the statute of limitations, the Foundation is open to audit by the Internal Revenue Service (“IRS”) for its 2006 - 2010 tax years and various state taxing authorities for 2005 - 2010 tax years. The Foundation currently does not have any examinations in progress with the IRS or states. The Foundation does not anticipate that there will be any material changes in its unrecognized tax positions over the next 12 months.

The Foundation may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to its financial results. In the event the Foundation has such an assessment from a taxing authority, it is its accounting policy to recognize any interest and penalties as a component of income tax expense.

Functional Expense Allocations

The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Accordingly, certain expenses have been allocated among program services and supporting services based on estimates made by management.

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The Foundation defines fair value as the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Foundation follows accounting guidance that has a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. Instruments with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices in an orderly market, will generally have a higher degree of market price transparency and a lesser degree of judgment used in measuring fair value.

The three levels are defined as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuations based on other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuations based on inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The carrying amounts of cash and cash equivalents, pledges receivable, and accrued expenses are reasonable estimates of the fair values of these financial instruments. Investments are measured and reported at fair value.

Subsequent Events

Subsequent events have been evaluated through August 12, 2011, which is the date the financial statements were issued.

NOTE 3 – PLEDGES RECEIVABLE, NET

Pledges receivable represent unconditional promises to give by donors and are recorded at net realizable value. Pledges receivables of \$109,944 and \$137,544 at December 31, 2010 and 2009, respectively were expected to be collected within one year. There were no long-term pledge receivables at December 31, 2010 or 2009.

The Foundation has received notification of various conditional pledges. These pledges for which the conditions have not yet been substantially met are not included as revenues and are not included in total revenue on the accompanying consolidated statements of activities and changes in net assets for the years ended December 31, 2010 and 2009. There were conditional promises to give of \$3,096,511 and \$4,863,100 as of the years ended December 31, 2010 and 2009, respectively.

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 4 – INVESTMENTS

Investments are carried at fair value and consist of the following as of December 31,:

	<u>2010</u>	<u>2009</u>
Marketable equity securities – mutual funds	\$ 683,435	\$ 595,267
Fixed income mutual funds	<u>376,811</u>	<u>344,643</u>
Total	<u>\$ 1,060,246</u>	<u>\$ 939,910</u>

The investment goal of the Foundation is to maintain or grow its asset size and spending power in real (inflation adjusted) terms with risk at a level appropriate to the Foundation's program objectives. All financial assets of the Foundation are managed by external investment management firms selected by the Foundation. All financial assets of the Foundation are held in custody by a major commercial bank.

The majority of the Foundation's assets are invested in equity funds, which are listed on national exchanges, treasury bonds of the U.S. government, and funds of investment grade corporate bonds for which active trading markets exist. Net realized and unrealized gains and losses on investments are reflected in the consolidated statements of activities and changes in net assets.

The following schedule summarizes the investment returns for the years ended December 31,:

	<u>2010</u>	<u>2009</u>
Unrealized gains (losses)	\$ 88,935	\$ 192,165
Realized gains (losses)	<u>-</u>	<u>(54,191)</u>
	88,935	137,974
Investment related expenses	<u>(9,197)</u>	<u>(6,924)</u>
Net realized and unrealized gains (losses)	<u>\$ 79,738</u>	<u>\$ 131,050</u>
Interest and dividend income on investment	<u>\$ 31,402</u>	<u>\$ 27,555</u>

As of December 31, 2010 and 2009, the Board has designated approximately \$359,000 and \$309,000, respectively, for re-investment in the endowment.

The Foundation's cash equivalents, marketable equity securities and fixed income mutual funds are valued using Level 1 inputs.

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31,:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 136,497	\$ 129,152
Furniture and fixtures	<u>25,284</u>	<u>24,487</u>
Total	161,781	153,639
Less: accumulated depreciation	<u>(106,981)</u>	<u>(77,249)</u>
Property and equipment, net	<u>\$ 54,800</u>	<u>\$ 76,390</u>

Depreciation expense for the years ended December 31, 2010 and 2009 amounted to \$29,733 and \$12,869, respectively.

NOTE 6 – ENDOWMENT

The Foundation's endowment consists of a few individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 6 – ENDOWMENT (continued)

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until distributed in accordance with UPMIFA and Board policy.

Endowment net asset composition by type of fund as of December 31, 2010 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 634,490	\$ 634,490
Accumulated gains on donor-restricted endowment funds	-	130,796	-	130,796
Board-designated endowment funds	359,395	-	-	359,395
Accumulated gains on board-designated endowment funds	74,087	-	-	74,087
Total funds	<u>\$ 433,482</u>	<u>\$ 130,796</u>	<u>\$ 634,490</u>	<u>\$ 1,198,768</u>

Endowment net asset composition by type of fund as of December 31, 2009 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 618,708	\$ 618,708
Accumulated gains on donor-restricted endowment funds	-	63,160	-	63,160
Board-designated endowment funds	309,394	-	-	309,394
Accumulated gains on board-designated endowment funds	31,583	-	-	31,583
Total funds	<u>\$ 340,977</u>	<u>\$ 63,160</u>	<u>\$ 618,708</u>	<u>\$ 1,022,845</u>

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 6 – ENDOWMENT (continued)

Interpretation of Relevant Law (continued)

Changes in endowment net assets for the fiscal year ended December 31, 2010 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 340,977	\$ 63,160	\$ 618,708	\$ 1,022,845
Investment return:				
Investment income	-	-	-	-
Net appreciation (realized and unrealized)	<u>42,505</u>	<u>67,636</u>	-	<u>110,141</u>
Total investment return	42,505	67,636	-	110,141
Contributions	50,000	-	15,782	65,782
Appropriation of endowment assets for expenditure	-	-	-	-
Other changes:				
Transfers	-	-	-	-
Endowment net assets, end of year	<u>\$ 433,482</u>	<u>\$ 130,796</u>	<u>\$ 634,490</u>	<u>\$ 1,198,768</u>

Changes in endowment net assets for the fiscal year ended December 31, 2009 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 195,532	\$ -	\$ 598,013	\$ 793,545
Investment return:				
Investment income	-	-	-	-
Net appreciation (realized and unrealized)	<u>95,445</u>	<u>63,160</u>	-	<u>158,605</u>
Total investment return	95,445	63,160	-	158,605
Contributions	50,000	-	20,695	70,695
Appropriation of endowment assets for expenditure	-	-	-	-
Other changes:				
Transfers	-	-	-	-
Endowment net assets, end of year	<u>\$ 340,977</u>	<u>\$ 63,160</u>	<u>\$ 618,708</u>	<u>\$ 1,022,845</u>

Description of amounts classified as permanently restricted net assets (endowment only) was as follows:

	<u>2010</u>	<u>2009</u>
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently by donor stipulation or law	<u>\$ 634,490</u>	<u>\$ 618,708</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 634,490</u>	<u>\$ 618,708</u>

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 6 – ENDOWMENT (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$41,786 at December 31, 2008. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies at December 31, 2010 or December 31, 2009.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that grow the fund until it reaches at least one million dollars before making any distributions of earnings. The Foundation expects its endowment funds, over time, to provide an average return of approximately 7 percent to 9 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year up to 5 percent of the endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow 4 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purpose-restricted programs or locations at December 31, 2010:

	<u>2010</u>	<u>2009</u>
Beihai	\$ 28,285	\$ 8,919
Blue Sky	180,821	50,574
CEF	-	1,082,627
Changchun	129,726	-
Changsha	167,329	-
Chengdu	27,584	-
Chongqing	-	18,000
Critical Care Fund	-	158,899
Earnings on Endowment Funds	130,796	63,160
Fuzhou	31,878	49,153
Guangzhou	179,520	-
Guilin	90,071	75,000
Haikou	320,819	284,247
Hefei	1,441	-
Jia Fellowship	-	13,104
Lianyungang	10,024	21,621
LMEF	-	248,666
Luoyang	46,958	11,803
Maoming	35,474	14,771
Maonan	26,111	40,396
Model Training Centers Support	-	70,228
Nanjing	68,059	-
Nanning	-	12,134
Qingdao and Shijiazhuang	63,392	222,937
Qingyuan	6,807	12,987
Shaoguan	-	22,688
Shenzhen	156,123	140,000
The China Care Project (TCCP)	-	305,787
Tianjin and Guangzhou center and 8 additional Foster Villages	-	368,101
Toys for 2010 New Site	-	5,000
Wuzhou	5,811	-
Xiamen	19,470	-
Xinyang	-	35,000
Yiyang	3,384	-
YS Newsletter Project	<u>7,753</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 1,737,636</u>	<u>\$ 3,335,802</u>

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 8 –NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expense satisfying the purpose of the restriction or by the passage of time during the year ended December 31, 2010:

The China Care Project (TCCP)	\$ 1,466,985
CEF	1,009,940
Blue Sky	702,337
Guangzhou	691,600
LMEF	249,666
Critical Care Fund	169,301
Guangzhou and Shenzhen	159,571
Maoming	131,152
Changchun	124,273
Lianyungang	112,432
Shenzhen	101,491
Hefei	94,838
Youth Service Program	92,322
Jia Fellowship	88,104
Xi'an	80,735
Model Training Centers Support	70,228
Wuzhou	67,111
Haikou	64,880
Guilin	62,279
Chongqing	59,921
Changzhou	53,532
Nanjing	52,539
Luoyang	41,745
Qingyuan	40,011
Fuzhou	36,354
Xinyang	36,070
Shaoguan	35,487
Maonan	34,585
Beihai	33,510
Xiamen	32,555
Datong	32,047
Chengdu	24,285
Gaoyou	15,825
Chenzhou	14,322
Nanning	12,262
Shaoyang	11,995
Nanchang	8,400
Toys for 2010 New Site	5,000
Yiyang	4,361
Other	<u>5,586</u>
Total net assets released from restrictions	<u>\$ 6,129,637</u>

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 9 – COMMITMENTS

The Foundation leases office facilities in the United States, an apartment unit and an office facility in Beijing, People's Republic of China, and an office facility in Hong Kong. The operating leases expire at various dates through December 2014. Rent paid under these leases was approximately \$158,000 and \$107,000 for the years ended December 31, 2010 and 2009, respectively.

Years ending December 31.

2011	\$	112,914
2012		77,550
2013		61,706
2014		56,789
Total	\$	<u>308,359</u>

NOTE 10 – EMPLOYEE BENEFIT PLANS

In 2008, the Foundation had a 403(b) retirement plan for its employees. In January 1, 2009, the Foundation transferred all assets to a 401(k) plan, covering all employees who have met certain eligibility requirements. Under the 401(k) plan, employees may elect to contribute a certain percent of their eligible compensation to the 401(k) plan, subject to IRS limitations. The Foundation may make matching contributions during the year equal to a discretionary percentage, as determined by the Foundation, of the participant's salary reductions. Employer contributions vest at the rate of 20% per year with full vesting after 6 years of service with the Foundation. Total contributions made to the retirement plans by the Foundation for the years ended December 31, 2010 and 2009 were \$19,266 and \$12,922 respectively.

NOTE 11 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2010 and 2009, recorded contribution revenue from members of the Board of Directors of Half the Sky Foundation or companies or individuals with which the Board of Directors are affiliated were \$184,365 and \$72,709, respectively.

NOTE 12 – AFFILIATED PARTIES

Half the Sky Foundation Australia Limited ("Australia Ltd"), an affiliate of the Foundation, was incorporated in Victoria, Australia in May 2009. It has a joint development project with HTS in 2011. Half the Sky Foundation Canada Limited ("Canada Ltd"), another affiliate of the Foundation was incorporated in Canada in June 2009. It organized fundraising events in 2010 to collect funds for the programs of the Foundation. There were no donations made from Canada Ltd to the Foundation in 2010.

Half the Sky Foundation Canada (Foundation HTS du Canada) was an independent charitable entity, registered with the Canadian government, which used to raise funds and make unrestricted donations to the Foundation until August 2010, at which point it was closed.

Half the Sky Foundation and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2010 and 2009

NOTE 13 – MAJOR CONTRIBUTIONS

For the year ended December 31, 2010, the Foundation had one donor with more than 20% of total contributions. For the year ended December 31, 2009, the Foundation had two donors with 10% or more of contributions.

NOTE 14 – COOPERATION AGREEMENT

In early 2008, the Foundation entered into a cooperation agreement with the Ministry of Civil Affairs of the PRC (“MCA”) known as the “Blue Sky Plan.” Under this agreement, the Foundation works with the MCA to establish cooperative model centers and to develop relevant care and education programs in each of the provinces in the PRC. During the years ended December 31, 2010 and 2009, the Foundation received a designated grant of \$699,500 and \$252,840, respectively, to implement this program, which is recorded in contributions revenue on the accompanying consolidated statements of activities and changes in net assets.