OneSky believes in the vast potential hidden in our world’s most vulnerable young children. We create and implement simple, replicable early learning programs that provide nurturing responsive care, transforming the lives of thousands of at-risk children every day, and ensuring that those most in need have a second chance at childhood.
Dear Friends,

I am very happy to present our 2016 Annual Report that gives us the opportunity to look back at what our team has accomplished for the children.

In China last year we continued to scale our orphanage model by training and empowering thousands of local women to provide high quality nurturing and early childhood education and we reached 46 villages with our model for China’s left-behind children, also designed to be scaled across the country.

Of course, we’re looking forward as well, because we know there are so many children still waiting for a loving adult in their daily lives. For that reason, I am excited that our first project outside China will reach hundreds of children when it launches in Da Nang, Vietnam in 2017. As you’ll read in this report, our new programs in Vietnam will be tailored to the needs of 1.2 million young children in desperate need of quality daycare while their parents work long hours in factories.

My heartfelt thanks to every one of OneSky’s individual, corporate and foundation supporters. None of what we have accomplished in 2016 and what we will continue to accomplish in the future would be possible without you.

All our thanks,

Guy Russo

Dear Friends,

Since I founded OneSky almost 20 years ago, I have seen thousands of wounded children make the transition to eager, joyful, curious learners after they receive the care they need during the early years when their brains are developing at warp speed.

That’s why OneSky has embraced the United Nations 2030 goal for every child in the world — that every child will be ready to tackle primary school after receiving the nurturing care and stimulating early education that gets them ready. We can reach that admittedly ambitious goal if we resolve not to ignore or pity at-risk children but instead invest in their futures.

When you read this report, you’ll see how OneSky’s small investments in early childhood nurturing and education are paying dividends for the children. They will also pay dividends for our troubled world because these incredibly resilient children will become productive adults who will help fix it!

Thank you for your support of all of our efforts to unleash the potential of the world’s once forgotten children.

Gratefully,

Jenny Bowen
OneSky creates affordable, scalable models for change that can be adapted for diverse situations wherever young children live in adversity, particularly in developing countries. To date, we have created three models designed to enable our local partners to develop and scale their own OneSky-inspired programs.

**MODELS FOR CHANGE**

- OneSky for all children
- MODEL FOR CHILDREN IN ORPHANAGES
- MODEL FOR CHILDREN IN VILLAGES
- MODEL FOR CHILDREN OF FACTORY WORKERS

None of our models require fancy buildings or expensive toys, but they do require human interaction, lots of it. We train adult caregivers — nannies, teachers, foster parents, parents, grandparents, daycare providers — to provide the kind of interaction that every child needs for healthy development.

These trained adults become a workforce for good, a workforce that is changing our world.
SINCE OUR WORK BEGAN IN 1998, WE’VE:

- Reached 29 of China’s 31 provinces.
- Improved the lives of 147,792 children.
- Trained 29,575 caregivers.

Educated the staff and administrators at 60% of China’s child welfare institutions in OneSky’s method for early childhood care through our National Training Plan.

Planned to reach children beyond China in 2017 with the launch of an Early Learning Center in Vietnam for children of factory workers.
An orphanage is a terrible place to raise a child. For every three months spent in institutional care, infants and toddlers lose about one month of linear growth. Without early intervention, individual attention or stimulation, children who survive the emotional isolation will almost certainly suffer developmental delays and be ill-equipped to function socially or to thrive in adulthood.

Our Model for Children in Orphanages is designed to help these at-risk children not only survive but thrive, by teaching a nation of child welfare workers how to provide consistent family-like nurturing care.

Anjing, Sunshine Girl

For the first seven months of her life, a baby named by orphanage staff Anjing (“quiet”) lived up to her name, lying quietly in a crib in an orphanage in southern China looking at the ceiling all day long. She was fed milk four times a day and she was bathed frequently, but she never felt a kiss, a hug, or even a simple loving touch. Born with a severe birth defect, her legs were horribly out of place, one on each side of her body, and her feet and hands were twisted as well. No one thought she could survive. No one thought she could learn. No one thought she could thrive.

Then one day nanny Guo Yushao entered her life, the first of several OneSky-trained caregivers under whose care Anjing would blossom. Where others saw hopelessness, Guo saw potential. Yes, Anjing looked heartbreakingly helpless with her split legs frozen in a “v,” but Guo was also struck...
by Anjing’s fleeting smile, a smile she saw as a sign of Anjing’s resilience. Guo touched Anjing’s misplaced legs gently, returned Anjing’s smile with a huge one of her own, and whispered: “I will take care of you, my quiet, Sunshine Girl.”

Like enameled moms everywhere, Guo talked, hugged and smiled her way into Anjing’s heart. Anjing learned to raise her head when lying on her stomach and was quite proud of herself when she did. Then she learned to grab small toys from a shelf. Best of all “quiet” Anjing’s tentative smiles had turned into the broad, secure grins of a happy, well-loved baby. But Anjing still had to endure painful medical treatments in Beijing. The departures for Anjing’s two trips broke Guo’s heart even as she held on to the hope that surgery would enable her Sunshine Girl to walk one day.

When it was time for Anjing to move on to preschool, Guo was there to help. One her first day, Anjing watched the children dancing to music from her wheelchair. Though Anjing can’t walk yet, let alone dance, she took the bottle filled with beans that was handed to her, smiled and immediately started shaking the bottle rhythmically.

Soon after, Anjing joined her new foster family and her siblings helped with the transition. Anjing’s 12-year-old big brother Miaosheng would wipe away Anjing’s tears and pat her on the back. Her 10-year-old big sister Xiangdie would gently hold Anjing’s hands and tell her not to cry. And her 5-year-old big sister who is 22 months older than Anjing and not yet able to talk, would touch her little sister’s face and do her best to provide comfort by humming. All that doting over their big sister would end up with the four children laughing uproariously!

After two weeks Anjing had blended completely into the routines of her new family, including nightly massage of Anjing’s legs and feet. Though the massages are crucial for Anjing’s post-op recovery, no matter how gently they are done, they hurt, so Anjing’s mom Chen Yanqing distracts her by telling stories and by braiding her hair. When the braids are perfect, Chen urges Anjing to look in the mirror and says: “Aren’t you beautiful with braids?” “Beautiful! Braids!” Anjing repeats. One morning, for a special party at the orphanage, Anjing’s mom braided her hair, helped her put on a white dress, don bunny ears, and even some lipstick. As Anjing stared into the mirror transfixed, her mom asked, “Are you happy?” With a big smile, Anjing, now a Sunshine Girl with a mom of her own said, “Happy.”
In rural China today, **9 million children** of migrant workers—including 2.5 million under five years old—are left behind by both parents who must leave their impoverished rural villages in search of work. Millions more children endure the periodic and unpredictable loss of their moms and dads who seize the opportunity to work when they can. Most of the children see their parents only once a year during the New Year holiday. Left in the care of grandparents or relatives who are struggling to simply keep them fed, these are China’s “economic orphans.”

Our Model for Children in Villages is designed to heal these children and their communities. Now operating in **46 villages**, this model’s infant nurture, preschool, family skills and community engagement programs have been designed for replication in **680 Chinese government-designated poverty counties** nationwide.

Left in the care of grandparents or relatives who are struggling to simply keep them fed, these are China’s “economic orphans.”
A Children’s Paradise in the Woods

It’s not easy to find ways to heal rural villages disrupted when young parents leave home to seek work in distant cities, but OneSky’s community engagement team seizes every opportunity to do so.

One summer project that galvanized an entire village was building a makeshift playground in the woods. The shady spot is owned by a grandfather who was so excited about the project that he not only gave permission to use his land, but also got it ready by sweeping it with a broom.

As the sun rose on the day of the playground build, villagers started arriving, lugging sand, tires, timber, rags and a mattress. OneSky’s team joined the villagers as they built sandboxes, play structures and tunnels from woven rags and painted and arranged the tires for maximum amusement. The mattress, placed under the solid canopy of a big tree became a cozy reading spot for the children.

Though far less fancy than the rock climbing walls, trampolines and inflatable castles big city kids have access to, it has become a paradise for left-behind children as well as point of pride for the adult villagers who, despite extremely limited resources, made it happen. Says one grandmother, “The children are little, but somehow they know this place belongs to them and that we made it with our love.”

Grandma’s Beads of Love

Whenever Chuchen feels lonely, she fingers the beads of the bracelets her grandmother makes for her. The beads are special because they come from dresses Chuchen’s mom used to wear. So every time Chuchen’s grandmother adds a bead she tells her: “These are beads of love that will remind you that your mother loves you, and so do I.”

Chuchen has lived with her grandparents since she was two years old when her parents left the village to find work in a faraway big city. When her mom left that first year, Chuchen missed her so much she got sick. Now that she’s a preschooler, Chuchen doesn’t cry as much, but her grandma is learning through OneSky-provided family skills training that letting Chuchen express her sadness is healthy.

So instead of periodically reassuring Chuchen that her mother cares for her, her grandmother encourages Chuchen to open up about her lonely feelings. Chuchen is also learning to express those feelings in school where she draws pictures of her family with her mom and dad back home, practices her numbers by counting the beads of her bracelet, and builds fairytale castles with blocks.

Chuchen has already learned the grownup lesson that life isn’t like the fairytales she loves. When her grandmother got sick, she took on the role of protector, staying home from school to care for her and reassuring her mother on the phone: “Don’t worry. Grandma is feeling better now. Everyone is okay.” Okay, but still, Chuchen fingers her bracelet beads, counting the long days until her mom and dad come home for a visit so at least for a time her family can match the drawings she does in school.
There are 1.2 million children of factory workers laboring in more than 30 economic zones in Vietnam. For children under three years old, there is no public childcare. For older children, state-run preschools are out of reach because most workers lack residency status to qualify or can’t afford the fees. Over 4,000 cases of child abuse, neglect, and in some cases death, are reported each year coming from unlicensed home-based childcare centers near industrial parks.

Our new Model for Children of Factory Workers, developed by adapting all we have learned in China, features a comprehensive Early Learning program that provides a stimulating and nurturing early learning environment for children 6 months-6 years, Parenting Classes, and Daycare Provider Training that will eventually impact thousands of children.

This year, Vietnamese government offices and OneSky celebrated a landmark agreement to establish our first Early Learning Center (ELC) in Da Nang. A model demonstration and training center designed to be replicated across the country, the ELC, Located in Hoa Khanh Industrial Park, will provide a safe place to play and learn for 250 small children when it opens in 2017.
We would like to extend a heartfelt thanks to all of our corporate, foundation and small business supporters for providing very significant financial and in-kind contributions. This support is crucial for our work transforming the lives of vulnerable children so they can have a second chance at childhood. For more information, visit www.onesky.com/partners.

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Asia Alternatives Mgmt. LLC
Bank Julius Baer
Baring Private Equity Asia
Box of Hope
Capital Group Companies Charitable Foundation
Capital World Hong Kong
The Chen Wai Wai Vivien Foundation Limited
Chow Tai Fook Charity Foundation
Deutsche Bank
DZ Trading

Qualcomm Foundation
Radio Flyer
Skoll Foundation
Summitview Capital Management
Swire Trust
The Tan Family Education Foundation
Target Foundation
TwoPresents
Weber Shandwick

Celebrating the OneSky-Wah Kwong Partnership

The children at the Changzhou institution are especially dear to Chow’s heart because her family’s roots are there. Indeed, the day after the naming ceremony, a contingent of Wah Kwong’s executive leaders and colleagues—armed with gifts for the children, nannies and caregivers—traveled with Jenny and OneSky’s senior team to Changzhou for a day of volunteering.

It was all hands-on deck when more than 20 staffers from the Wah Kwong Maritime Transport Holdings welcomed Jenny Bowen, founder and CEO of OneSky, to Wuxi, an ancient city in the southern Chinese province of Jiangsu, to christen Pilatus Venture, the latest addition to their fleet.

At the ceremony, Wah Kwong Chairman Sabrina Chao presented Jenny with a bouquet of flowers for Pilatus Venture just prior to the ship’s maiden voyage to Canada. Chao said Jenny was chosen to be the ship’s godmother because “she has devoted herself to helping millions of China’s orphans… Jenny represents love and kindness and will give the ship a blessing for her whole journey.”

Jenny said it was an incredible honor to be part of the ship’s naming ceremony and spoke with pride about Hong Kong-based Wah Kwong’s critical support for OneSky’s programs for orphaned children at the Changzhou institution in Jiangsu province: “The OneSky-Wah Kwong partnership has brought great and lasting gifts to the children.”

The OneSky-Wah Kwong partnership has brought great and lasting gifts to the children. The children and visiting loving, permanent foster families created by OneSky in their homes. The Wah Kwong volunteers were moved to learn that many of OneSky’s dedicated nannies have been working at Changzhou for more than 15 years.

We are extremely grateful for the generosity of Wah Kwong and its staff and wish Jenny’s godchild, Pilatus Venture, many years of safe voyages!
Guy Russo
Chairman, CEO, Wesfarmers Department Store Division (Target and Kmart, Australia); former Managing Director & CEO in Australia and President in Greater China of McDonald’s Corporation.

Jenny Bowen
A former screenwriter and film director who wrote screenplays for major Hollywood producers and was writer-director on several independent films.

Randy C. Belcher
Hong Kong-based executive Vice President — Asia Pacific for Fossil Inc. Serves on the boards of the Fossil Foundation (Chairman) and Helen Keller International.

Peter Bennett
After a successful career in the financial industry, established the Peter Bennett Foundation to support charitable and social impact development in Hong Kong, China, and Southeast Asia.

Deanne Bevan
CEO (Volunteer), Half the Sky Australia Ltd; former Senior Vice President, Employee Relations, Training & Development, McDonald’s Australia and advisor in the Asia region for McDonald’s Corporation USA. Has worked in a voluntary capacity for Half the Sky since 2006 including as Global Director of Development.

Stephen Chipman
CEO, Radius. Former CEO, Grant Thornton where he helped lead the development and growth of services in China. He sits on the boards of the Chicago Council on Global Affairs and World Business Chicago.

Matt Dalio
Founder, CEO and Chief of Product at Endless Mobile; president of the board of directors of the China Care Foundation, Inc. that he founded in 2000 at age 16; BA Harvard University; MBA, Stanford Graduate School of Business.

Tim Huley
CEO of Mandarin Shipping Ltd; served as Vice Chairman of the Hong Kong Shipowners Association and several others industry bodies and is a regular commentator on shipping issues in the press and on television.

Laura Hui
Head of Asia Pacific Investor Relations at CQS (retired), a UK-based hedge where she was responsible for acquiring new Asia Pacific private and institutional investors for CQS’s alternative funds.

Dana Johnson, MD, PhD
Professor of Pediatrics and Director of the Division of Neonatology, and Co-Founder of the International Adoption Medical Program at the University of Minnesota. Also serves as Medical Consultant on international adoptions to multiple agencies across the United States.

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Jal S. Shroff, J.P.
Former Director / Fossil Group, Inc. & Managing Director, Fossil (East) Ltd.; in Hong Kong, director, Vision 2047; Chairman, Executive Committee, English Schools Foundation and President, Kowloon Cricket Club.

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Crowe Horwath
To the Audit Committee and Board of Directors
Half the Sky Foundation and Subsidiaries
Berkeley, California

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Half the Sky Foundation and Subsidiaries (“Foundation”), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Half the Sky Foundation and Subsidiaries as of December 31, 2016 and 2015 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.

Sacramento, California
June 1, 2017

Independent Auditor’s Report

Half the Sky Financial Statements (DBA OneSky Foundation)

Consolidated Statements of Financial Position
Half the Sky and Subsidiaries, December 31, 2016 and 2015

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$3,254,456</td>
</tr>
<tr>
<td>Pledges receivable, net (Note 3)</td>
<td>842,956</td>
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<tr>
<td>Other receivables</td>
<td>61,203</td>
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<tr>
<td>Prepaid program expenses</td>
<td>105,806</td>
</tr>
<tr>
<td>Inventory</td>
<td>62,218</td>
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<tr>
<td>Property and equipment, net (Note 4)</td>
<td>30,412</td>
</tr>
<tr>
<td>Deposits</td>
<td>68,703</td>
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<tr>
<td>Total assets</td>
<td>$4,425,754</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
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<tr>
<td>Accounts payable</td>
<td>$80,293</td>
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<tr>
<td>Accrued expenses</td>
<td>102,914</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>183,207</td>
</tr>
<tr>
<td>Commitments and contingencies (Note 7)</td>
<td></td>
</tr>
<tr>
<td>Net assets:</td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>1,307,144</td>
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<tr>
<td>Designated by the Board</td>
<td>9,328</td>
</tr>
<tr>
<td>Total unrestricted net assets</td>
<td>1,316,472</td>
</tr>
<tr>
<td>Temporarily restricted (Note 5)</td>
<td>2,926,075</td>
</tr>
<tr>
<td>Total net assets</td>
<td>4,242,547</td>
</tr>
<tr>
<td>Total liabilities and net assets</td>
<td>$4,425,754</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
### Consolidated Statements of Activities and Changes in Net Assets

#### Half the Sky Foundation and Subsidiaries, Years Ended December 31, 2016 and 2015

<table>
<thead>
<tr>
<th>Revenues, gains and other support:</th>
<th>2016</th>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions (Notes 9, 10 and 11)</td>
<td>$3,463,589</td>
<td>$5,234,991</td>
<td>$8,698,580</td>
</tr>
<tr>
<td>Temporarily Restricted</td>
<td>512,528</td>
<td>-</td>
<td>432,614</td>
</tr>
<tr>
<td>Total</td>
<td>3,976,117</td>
<td>$5,234,991</td>
<td>$9,131,194</td>
</tr>
<tr>
<td>Merchandise sales</td>
<td>7,247</td>
<td>-</td>
<td>3,828</td>
</tr>
<tr>
<td>Interest and dividend income on investments</td>
<td>-</td>
<td>309</td>
<td>-</td>
</tr>
<tr>
<td>Other income</td>
<td>55,143</td>
<td>-</td>
<td>70,939</td>
</tr>
<tr>
<td>Net assets released from restriction (Note 6)</td>
<td>4,537,500</td>
<td>(4,537,500)</td>
<td>-</td>
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<tr>
<td>Total revenues, gains and other support</td>
<td>8,576,007</td>
<td>697,491</td>
<td>9,273,498</td>
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</tbody>
</table>

#### Expenses:

<table>
<thead>
<tr>
<th>Program services:</th>
<th>2016</th>
<th>2015</th>
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</thead>
<tbody>
<tr>
<td>Donated goods and services</td>
<td>158,748</td>
<td>-</td>
<td>20,228</td>
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<tr>
<td>Other program services</td>
<td>6,518,587</td>
<td>-</td>
<td>7,634,901</td>
</tr>
<tr>
<td>Total program services</td>
<td>6,677,335</td>
<td>-</td>
<td>7,655,129</td>
</tr>
<tr>
<td>Fundraising:</td>
<td>13,791</td>
<td>-</td>
<td>11,373</td>
</tr>
<tr>
<td>Donated goods and services</td>
<td>1,120,332</td>
<td>-</td>
<td>1,098,437</td>
</tr>
<tr>
<td>Total fundraising</td>
<td>1,134,123</td>
<td>-</td>
<td>1,109,810</td>
</tr>
<tr>
<td>Merchandise costs</td>
<td>3,816</td>
<td>-</td>
<td>1,212</td>
</tr>
<tr>
<td>Management and general (Notes 7 and 8):</td>
<td>199,057</td>
<td>-</td>
<td>235,762</td>
</tr>
<tr>
<td>Donated goods and services</td>
<td>500,957</td>
<td>-</td>
<td>640,104</td>
</tr>
<tr>
<td>Total management and general</td>
<td>700,014</td>
<td>-</td>
<td>875,866</td>
</tr>
<tr>
<td>Total expenses</td>
<td>8,515,288</td>
<td>-</td>
<td>9,642,017</td>
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</table>

#### Change in net assets:

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$758,210</td>
<td>$(533,013)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by (used in) by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>11,360</td>
<td>9,333</td>
</tr>
<tr>
<td>Net change in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>$(424,956)</td>
<td>$(271,189)</td>
</tr>
<tr>
<td>Other receivables</td>
<td>$(53,191)</td>
<td>30,440</td>
</tr>
<tr>
<td>Prepaid program expenses</td>
<td>17,310</td>
<td>3,962</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>44,331</td>
<td>$(668,161)</td>
</tr>
<tr>
<td>Cash flows used in investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of property and equipment</td>
<td>$(24,654)</td>
<td>$(11,578)</td>
</tr>
<tr>
<td>Increase (decrease) in cash and cash equivalents</td>
<td>19,677</td>
<td>$(679,739)</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of the year</td>
<td>3,234,779</td>
<td>$3,234,779</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$3,254,456</td>
<td>$3,234,779</td>
</tr>
</tbody>
</table>

#### Supplemental disclosures of cash flow information

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributed services and materials</td>
<td>$512,528</td>
<td>$432,614</td>
</tr>
</tbody>
</table>

---

See accompanying notes to consolidated financial statements.
### Consolidated Statements of Functional Expenses

Half the Sky Foundation and Subsidiaries, Years Ended December 31, 2016 and 2015

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Service</td>
<td>$5,099,532</td>
</tr>
<tr>
<td>Fundraising</td>
<td>2,086,865</td>
</tr>
<tr>
<td>Management and General</td>
<td>3,483,726</td>
</tr>
<tr>
<td>Total</td>
<td>3,483,726</td>
</tr>
</tbody>
</table>

| Program Service | $5,099,532   | $2,813,375   |
| Fundraising     | 2,086,865   | 1,099,562    |
| Management and General | 3,483,726   | 2,785,170    |
| Total          | 3,483,726   | 2,785,170    |

#### Expenses (Notes E):
- Compensation and benefits for non-field staff
- Consulting and professional services
- Information technology
- Occupancy
- Travel
- Conferences and meetings
- Depreciation and amortization
- Insurance
- Compensation and benefits for field staff
- Donations and services
- Subsidies, stipends and tuition
- Center construction, equipment & furnishings
- Surgery and nurturing care in China with China Care Program
- Training programs and materials
- Event expenses
- Total functional expenses

### Notes to Consolidated Financial Statements

#### Half the Sky Foundation and Subsidiaries, Years Ended December 31, 2016 and 2015

**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 was created in order to enrich the lives of China's most vulnerable children. The Foundation provides model programs and caregiver training designed to offer loving, family-like care to children of all ages and abilities. It is the welfare institute and the Foundation provide. The children attend the preschools, but also to help develop the "whole child", facilitating healthy emotional, physical and cognitive development. The Foundation renovates rooms in the welfare institutions and provides training, salaries, other program expenses and supervision of staff.

#### Youth Services (YS) in which the Foundation provides individualized learning opportunities for older children (8-21 years) who remain in the institutions. The Foundation tailors these opportunities to the specific child, offering such services as tutoring prior to entrance exams, tutoring 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.

#### Family Village (FV) in which children whose disabilities or special needs preclude adoption, live in permanent foster families in comfortable apartments in or nearby small Chinese cities. The welfare institute and the FV enables children who are unlikely to be adopted. In 2015, the Foundation was incorporated in Hong Kong in March 2006. Half the Sky Foundation (Asia) Limited ("Asia Ltd.") and all of the supporting organizations.

### Half the Sky Foundation (Asia Limited) ("Asia Ltd."), a supporting organization of the Foundation, was incorporated in Hong Kong in March 2006. The Foundation was incorporated in England and Wales in April 2008. Half the Sky Foundation (Asia Limited) ("Asia Ltd."), a supporting organization of the Foundation, was incorporated in England and Wales in April 2008. The Foundation tailors these opportunities to the specific child, offering such services as tutoring prior to entrance exams, tutoring 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.

#### Model Children's Centers Program includes:
- Infant Nurture (IN) designed to give infants aged 0-3 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 (0-3 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.

Preschools (PS) in which 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. PS are designed to prepare the children (4-7 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 institutions and provides training, salaries, other program expenses and supervision of staff. Half the Sky Foundation and Subsidiaries, Years Ended December 31, 2016 and 2015

<table>
<thead>
<tr>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Service</td>
<td>$5,099,532</td>
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</tr>
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<table>
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<td>3,483,726</td>
</tr>
<tr>
<td>Total</td>
<td>3,483,726</td>
</tr>
</tbody>
</table>


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-entity transactions and balances have been eliminated upon consolidation.

Foreign Currency: Assets and Liabilities denominated in foreign currencies are translated at exchange rates in effect on reporting dates, and revenue and expenses are translated at exchange rates in effect on transaction dates. A foreign exchange gain or loss from the translation of monetary assets and liabilities is included in net incomes and expenses when incurred.

The financial statement presentation follows the guidance of Financial Accounting Standards Board (“the FASB”) Accounting Standards Codification (“ASC”) 958 – “Not-for-Profit Entities – Presentation of Financial Statements.” Under ASC 958 – 20, the Foundation is required to provide information regarding its financial position and activities classified as permanently restricted, temporarily restricted, and unrestricted, and to report in 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. The Board of Directors has designated certain unrestricted net assets to be used for certain purposes. As of December 31, 2016, and 2015, Board designated assets totaled $9,328 and $6,928, respectively.

Temporary Restricted Net Assets - Temporarily restricted net assets represent contributions that are limited in use by the Foundation in accordance with donor-imposed stipulations. Such 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 net assets restricted in use by the Foundation in accordance with the original terms of the contributions. The income from such invested assets is available to support the activities of the Foundation. As of December 31, 2016, and 2015, the Foundation held net permanently restricted net assets.

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 fair value.

Pledges Receivable: The Foundation evaluates the collectability of its pledges receivable on an ongoing basis and records for potential uncollectible pledges receivable.

Property and Equipment: Acquisitions of property and equipment in excess of $5000 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.

Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may be impaired. Cash flows, excluding interest, expected to be generated by the asset. If such assets are considered to be impaired, the impairment is recognized on an asset-by-asset basis. The carrying amount of the asset is reduced to its fair value (fair value being the estimated amount at which the asset could be sold, or in alternative cases, if the fair value cannot be checked, discounted cash flows, excluding interest, expected to be generated by the asset. If such assets are considered to be impaired, the impairment is recognized on an asset-by-asset basis. The carrying amount of the asset is reduced to its fair value (fair value being the estimated amount at which the asset could be sold).

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

Receivables: Accounts receivable are carried at amounts due to the Foundation. As of December 31, 2016, and 2015, Board designated assets totaled $9,328 and $6,928, respectively.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may be impaired. Long-lived assets to be disposed of at the lower of carrying amount or fair value less costs to sell. No assets have been determined to be impaired as of December 31, 2016 and 2015.

Pledge Receivables: The Foundation evaluates the collectability of its pledges receivable on an ongoing basis and records for potential uncollectible pledges receivable.

Inventories: Inventories consist principally of merchandise sold in the Foundation’s online store and are stated at the lower of cost or market value.
Contributed services and materials are recorded at estimated fair value at the date of receipt and amounted to $151,065 and $176,624 for the years ended December 31, 2016 and 2015, respectively.

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 – 40. The Foundation received and recorded contributed pro-bono legal services for the years ended December 31, 2016 and 2015, with estimated fair values of $660,363 and $255,990, respectively.

Contributed goods are recorded at estimated fair value at the date of receipt and amounted to $152,165 and $176,624 for the years ended December 31, 2016 and 2015, 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 has been recognized by the Internal Revenue Service as a charitable fund. The Foundation has received notification of various conditional pledges. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change within one year. There were no long-term pledge receivables at December 31, 2016 and 2015.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purpose:

- Reclassifications
- Property and equipment, net

Depreciation expense for the years ended December 31, 2016 and 2015 amounted to $56,130 and $59,333, respectively.

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

<table>
<thead>
<tr>
<th>Property and equipment</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 185,569</td>
<td>$ 172,839</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>40,153</td>
<td>28,229</td>
</tr>
<tr>
<td>Total</td>
<td>225,722</td>
<td>201,068</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>(195,261)</td>
<td>(183,920)</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>$ 30,461</td>
<td>$ 17,148</td>
</tr>
</tbody>
</table>

NOTE 3 – PLEDGES RECEIVABLE, NET

Pledges receivable represent unconditional promises to give by donors and are recorded at net realizable value. Pledges receivable as of December 31, 2016 and 2015, respectively, were expected to be collected within one year. There were no long-term pledge receivables at December 31, 2016 and 2015, respectively.

The Foundation has received notification of various conditional pledges.

The Foundation has received grants from various organizations and has been recognized by the California Franchise Tax Board as exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d). The Foundation has been recognized as a charitable fund ("ANBI") in the Netherlands for tax purposes. The Foundation is also qualified as a charitable fund ("ANBI") in the Netherlands for tax purposes.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

<table>
<thead>
<tr>
<th>Property and equipment</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$5,236,739</td>
<td>$5,210,160</td>
</tr>
</tbody>
</table>

Property and equipment, net amounted to $5,236,739 for the year ended December 31, 2015.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted 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, 2016:

- Changzhou program $ 11,708
- China Care Clubs $ 34,843
- China Orphanage program $ 30,606
- China Orphanage program $ 121,904
- China Orphanage program $ 40,015
- Guangzhou program $ 174,179
- Guangzhou program $ 98,968
- Guguy program $ 14,478
- Huashou program $ 49,327
- Hu‘an, Kunming & Rainbow Training programs $ 441,015
- Jianan program $ 11,772
- Jinan program $ 35,106
- Nanjing program $ 68,159
- Rainbow Training program $ 1,047,407
- Shenzhen program $ 125,015
- Ta‘ian Seed program $ 26,429
- Tianjin and Shenyang programs $ 124,179
- Vietnam program $ 243,594
- Vilaillage program $ 975,218
- Vilaillage program $ 423,000
- Unrestricted donation – time restricted $ 650,000

Total net assets released from restrictions $ 4,537,500

Total net assets released from restrictions for program services totaled $5,216,739 for the year ended December 31, 2015.
NOTE 7 – COMMITMENTS AND CONTINGENCIES

Lease Obligation: The Foundation leases office facilities in the United States, an office facility in Shanghai, People’s Republic of China, an office facility in Vietnam, and an apartment unit and office facility in Hong Kong. The operating leases expire at various dates through June 2018. Rent paid under these leases was approximately $386,528, of which $144,006 was recorded in rent expenses and $242,522 as a benefit to two employees for the year ended December 31, 2016. Rent paid under these leases was approximately $375,963 of which $140,713 was recorded in rent expenses and $235,250 as a benefit to two employees for the year ended December 31, 2015.

As of December 31, 2016, the Foundation’s future minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Years Ending</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2017</td>
<td>$124,324</td>
</tr>
<tr>
<td>December 31, 2018</td>
<td>$11,538</td>
</tr>
<tr>
<td></td>
<td>$135,862</td>
</tr>
</tbody>
</table>

Contingencies: The Foundation is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Foundation.

NOTE 8 – 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, 2016 and 2015 were $56,669 and $50,566, respectively.

NOTE 9 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2016 and 2015, 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 $1,322,248 and $1,395,548, respectively.

NOTE 10 – 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 since 2011. Australia Ltd contributed $689,329 and $693,137 to the Foundation in the years ended December 31, 2016 and 2015, respectively. Half the Sky Foundation (“Canada”) Inc., another affiliate of the Foundation was incorporated in Canada in June 2009. Half the Sky Foundation (“Canada”) Inc. contributed $11,772 and $8,883 to the Foundation in the years ended December 31, 2016 and 2015, respectively.

NOTE 11 – MAJOR CONTRIBUTIONS

The Foundation had four donors and two donors whose combined contributions totaled more than 29% and 15% of total contributions for the years ended December 31, 2016 and 2015, respectively.

NOTE 12 – 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.

In July 2015, the Foundation entered into the “OneSky Ye-County Project” agreement with the Civil Affairs Bureau of Ye County and the Henan Social Welfare Association in order to fund the Village Program at the Ye-County (of the Henan Province). Under this agreement, the Foundation works with the Chinese partners to establish Family-Skills Program and Early Childhood Development Centers designed to mitigate the damage to children under 6 years old, who are left without nurturing, responsive care during their most critical early years.

In April 2016, the Foundation signed an agreement with the Vietnam Department of Education and Training (DOET) to collaborate on a groundbreaking project to implement the Factory Workers Model, with a primary objective to reach more than 200 children living near the Hoa Khanh Industrial Zones in Danang, Vietnam. The project’s first Early Learning Center is scheduled to open in 2017.

NOTE 13 – COOPERATION WITH CHBAF

In September 2012, a Chinese fund-raising organization called ChunHui Bo’Ai Children’s Foundation (CHBAF) was established with objectives similar to those of the Foundation. Currently, the Foundation provides support and assistance to CHBAF on an interim basis, to help CHBAF operate programs for disadvantaged children throughout China to similar standards as programs operated by the Foundation.
…a second chance at childhood