

HALF THE SKY FOUNDATION

TABLE OF CONTENTS

DECEMBER 31, 2002

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6 - 8

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Half the Sky Foundation
Berkeley, California

We have audited the accompanying statements of financial position of **HALF THE SKY FOUNDATION** (a non-profit organization) as of December 31, 2002 and the related statements of activities and cash flow for year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Half the Sky Foundation as of December 31, 2002, and the results of its operations and cash flows for the year then ended.

Coté & Company, APC

Oakland, California
February 20, 2003

HALF THE SKY FOUNDATION
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2002

(With Comparative Totals for December 31, 2001)

	<u>ASSETS</u>		Total	
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2002	(Summarized) 2001
CURRENT ASSETS				
Cash	\$ 448,452	\$ 29,171	\$ 477,623	\$ 356,711
Grants and contributions receivable	93,248	-	93,248	133,775
Prepaid program expenses	76,320	-	76,320	32,778
Total current assets	<u>618,020</u>	<u>29,171</u>	<u>647,191</u>	<u>523,264</u>
FIXED ASSETS				
Equipment	12,718	-	12,718	2,079
Furniture & fixtures	4,746	-	4,746	4,746
Less accumulated depreciation	<u>(4,985)</u>	<u>-</u>	<u>(4,985)</u>	<u>(512)</u>
Total Fixed Assets	<u>12,479</u>	<u>-</u>	<u>12,479</u>	<u>6,313</u>
INVESTMENTS, at fair value	<u>439</u>	<u>-</u>	<u>439</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 630,938</u>	<u>\$ 29,171</u>	<u>\$ 660,109</u>	<u>\$ 529,577</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES				
Accounts payable	\$ 4,819	\$ -	\$ 4,819	\$ 1,331
Accrued expenses	14,046	-	14,046	-
Total Liabilities	<u>18,865</u>	<u>-</u>	<u>18,865</u>	<u>1,331</u>
NET ASSETS				
Unrestricted	612,073	-	612,073	383,146
Temporarily restricted	-	29,171	29,171	145,100
Total Net Assets	<u>612,073</u>	<u>29,171</u>	<u>641,244</u>	<u>528,246</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 630,938</u>	<u>\$ 29,171</u>	<u>\$ 660,109</u>	<u>\$ 529,577</u>

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

HALF THE SKY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2002
(With Comparative Totals for December 31, 2001)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>2002</u>	Total <u>(Summarized)</u> <u>2001</u>
SUPPORT AND REVENUES				
Contributions	\$ 868,909	\$ 68,621	\$ 937,530	\$ 649,188
Matching gifts	5,783	-	5,783	6,654
Merchandise sales - net of \$34,371 and \$26,696 in costs of sales in 2002 and 2001, respectively	15,261	-	15,261	18,185
Interest	4,028	-	4,028	4,853
Investment income (losses)	(582)	-	(582)	-
Miscellaneous income	2,217	-	2,217	-
Net assets released from restrictions	<u>184,550</u>	<u>(184,550)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,080,166</u>	<u>(115,929)</u>	<u>964,237</u>	<u>678,880</u>
EXPENSES				
Program Services				
Little sister program	630,124	-	630,124	211,907
Management and general	89,579	-	89,579	20,836
Fundraising	<u>131,536</u>	<u>-</u>	<u>131,536</u>	<u>36,623</u>
Total expenses	<u>851,239</u>	<u>-</u>	<u>851,239</u>	<u>269,366</u>
INCREASE (DECREASE) IN NET ASSET	228,927	(115,929)	112,998	409,514
NET ASSETS				
Beginning of the year	<u>383,146</u>	<u>145,100</u>	<u>528,246</u>	<u>118,732</u>
End of the year	<u>\$ 612,073</u>	<u>\$ 29,171</u>	<u>\$ 641,244</u>	<u>\$ 528,246</u>

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

HALF THE SKY FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 112,998	\$ 409,514
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Depreciation	4,474	512
Donated Securities	(26,077)	-
Realized and unrealized (gain) loss on investments	167	-
(Increase) decrease in:		
Grants and other receivables	40,527	(128,775)
Prepaid expenses	(43,542)	(32,778)
Increase (decrease) in:		
Accounts payable	3,488	(1,237)
Accrued expenses	14,046	-
	<u>106,081</u>	<u>247,236</u>
 Net cash provided by operating activities		
	<u>-</u>	<u>-</u>
CASH FLOW FROM FINANCING ACTIVITIES		
	<u>-</u>	<u>-</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Asset acquisitions	(10,639)	(6,825)
Proceeds from sales of investments	25,470	-
	<u>14,831</u>	<u>(6,825)</u>
Net cash used in investing activities		
	<u>120,912</u>	<u>240,411</u>
NET INCREASE IN CASH		
	<u>120,912</u>	<u>240,411</u>
CASH		
Beginning of year	<u>356,711</u>	<u>116,300</u>
End of year	<u>\$ 477,623</u>	<u>\$ 356,711</u>

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

HALF THE SKY FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2002
(With Comparative Totals for December 31, 2001)

	Program <u>Services</u>	Management & General	Fund <u>Raising</u>	Total <u>2002</u>	Total (Summarized) <u>2001</u>
Salaries	\$ 88,831	\$ 32,608	\$ 90,078	\$ 211,517	\$ -
Payroll taxes	6,630	2,434	6,723	15,787	-
Personnel - China	231,852	-	-	231,852	81,060
Education & documentation	42,677	-	-	42,677	25,145
Teacher training	24,863	-	-	24,863	7,174
Individual assistance	-	-	-	-	14,980
Professional fees	22,017	10,670	16,125	48,812	33,000
Bank and credit card fees	-	8,639	-	8,639	-
Conferences & meetings	3,507	9,346	-	12,853	3,295
Development expense	-	-	9,744	9,744	2,807
Design & printing	-	-	2,772	2,772	2,406
Equipment & construction materials	93,184	-	-	93,184	22,404
Insurance	-	11,935	-	11,935	461
Office expense	-	1,056	-	1,056	-
Occupancy	2,079	776	2,145	5,000	-
Postage & delivery	2,508	1,268	1,959	5,735	3,950
Special projects	4,162	-	-	4,162	-
Supplies	9,485	9,095	-	18,580	11,431
Telephone	84	31	85	200	-
Travel	94,058	-	-	94,058	55,480
Depreciation	1,879	690	1,905	4,474	512
Miscellaneous	2,308	1,031	-	3,339	5,261
Total	\$ 630,124	\$ 89,579	\$ 131,536	\$ 851,239	\$ 269,366

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

HALF THE SKY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Half the Sky Foundation ("the Organization") is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity.

Organization

The Organization was incorporated in November 1998, and the principal office for the transaction of its business is located in Berkeley, California.

The Organization's main objective is to enrich the lives and enhance the outcome for abandoned girls living in China's welfare institutions. In order to create on-site early childhood care and education for girls eighteen months to five years of age, programs are developed to provide essential financial support, materials and arrangement for certified childhood education teachers to train local teaching teams. Where needed, the Organization develops programs that employ local women to provide physical contact, nurture and stimulation for abandoned infants less than eighteen months of age.

Financial Statement Presentation

The financial statements have been prepared in accordance with Statement of Financial Accounting Standards No. 116 Accounting for Contributions Received and Contributions Made and No. 117 Financial Statements of Not-for-Profit Organizations. Under these provision, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - Funds that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted - A donor-imposed restriction that permits the Organization to use or expense the donated assets as specified and is satisfied either by the passage of time or by actions of the Organization.

Permanently restricted - A donor-imposed restriction that stipulates that certain resources be maintained permanently but permits the Organization to use or expend part or all of the income derived from the donated assets.

HALF THE SKY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Furnishings, Equipment and Depreciation

Furniture and equipment are recorded at cost. Depreciation is recorded using the straight-line method over estimated useful lives of three to ten years, with a half year of depreciation recognized in the year of acquisition and the year of disposal. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Functional Expense Allocations

The costs of providing program services of the Organization have been summarized on a functional basis. Certain costs, not directly attributable to a particular program, have been allocated among the program and support services based upon service statistics and estimates made by the Organization's management.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Statement of Cash Flows

For purposes of the statement of cash flows, demand deposits and money market funds with a maturity of three months or less are considered to be cash equivalent.

NOTE B - MAJOR CUSTOMER AND CREDIT RISK CONCENTRATION

In compliance with Statement of Financial Accounting (SFAS) No. 105 – Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk, the Organization has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist of cash deposits. Credit risk related to cash deposits exists whenever the Organization's cash deposits exceed the \$100,000 federally insured amount. Such credit risk amounted to \$200,460 and \$256,711 as of December 31, 2002 and 2001, respectively.

HALF THE SKY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(Continued)

December 31, 2002

NOTE B - MAJOR CUSTOMER AND CREDIT RISK CONCENTRATION (Continued)

During the fiscal year ended December 31, 2002 approximately 95% of the Organization's support was from individual and foundation donations.

NOTE C - INVESTMENTS

Investments at December 31, 2002 are as follows:

	<u>Fair Value</u>	<u>Cost</u>
Equity securities	\$ <u>439</u>	\$ <u>451</u>

The following schedule summarizes the investment return for the year ended December 31, 2002:

Realized losses on sales	\$ (570)
Unrealized depreciation	<u>(12)</u>
Total	\$ <u>(582)</u>

NOTE D - TAX EXEMPT STATUS

The Organization is exempt under Section 501(c)(3) of the Internal Revenue Code. In addition, it is exempt under Section 23701d of the California Revenue and Taxation Code.

NOTE E - RELATED PARTY TRANSACTIONS

The Organization leases its operating offices from its Executive Director on a month to month basis. Rent expense paid to the Executive Director amounted to \$5,000 in 2002.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are as follows:

Yangdong Orphanage Project	\$ <u>29,171</u>
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