



Consolidated Financial Statements and Report of  
Independent Certified Public Accountants

**Half the Sky Foundation and Subsidiaries**

December 31, 2009 and 2008

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**Report of Independent Certified Public Accountants**

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

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We have audited the accompanying consolidated statements of financial position of Half the Sky Foundation and Subsidiaries (the “Foundation”), as of December 31, 2009 and 2008, 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, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Grant Thornton LLP".

San Francisco, California  
August 4, 2010

**Half the Sky Foundation and Subsidiaries**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**December 31,**

	2009	2008
<b>ASSETS</b>		
Assets:		
Cash and cash equivalents	\$ 3,692,929	\$ 3,665,618
Pledges receivable, net	137,544	425,906
Other receivables	7,564	28,885
Investments	939,910	718,042
Prepaid program expenses	56,907	68,482
Inventory	85,108	89,545
Property and equipment, net	76,390	31,174
Deposits	40,003	29,762
 Total assets	 \$ 5,036,355	 \$ 5,057,414
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 74,523	\$ 87,392
Accrued expenses	61,659	60,445
 Total liabilities	 136,182	 147,837
Commitments (Note 9)		
Net assets:		
Unrestricted	636,269	936,763
Designated by the Board for endowment	309,394	259,394
 Total unrestricted net assets	 945,663	 1,196,157
Temporarily restricted	3,335,802	3,115,407
Permanently restricted	618,708	598,013
Total net assets	4,900,173	4,909,577
 Total liabilities and net assets	 \$ 5,036,355	 \$ 5,057,414

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

Half the Sky Foundation and Subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2009 and 2008

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Contributions	\$ 3,195,077	\$ 4,031,169	\$ 20,695	\$ 7,246,941	\$ 3,350,391	\$ 5,034,636	\$ 22,844	\$ 8,407,871
Contributed services and materials	704,655	-	-	704,655	471,093	-	-	471,093
Merchandise sales	33,005	-	-	33,005	40,418	-	-	40,418
Interest and dividend income on investments	27,555	-	-	27,555	41,902	-	-	41,902
Other income	30,797	-	-	30,797	42,697	-	-	42,697
Net realized and unrealized gain (loss) on investments	67,890	63,160	-	131,050	(240,262)	-	-	(240,262)
Net assets released from restrictions	3,873,934	(3,873,934)	-	-	3,425,199	(3,425,199)	-	-
Total revenues, gains and other support	7,932,913	220,395	20,695	8,174,003	7,131,438	1,609,437	22,844	8,763,719
Expenses:								
Program services	6,611,280	-	-	6,611,280	6,171,816	-	-	6,171,816
Fundraising								
Donated goods and services	407,057	-	-	407,057	471,093	-	-	471,093
Other fundraising	609,059	-	-	609,059	471,297	-	-	471,297
Total fundraising	1,016,116	-	-	1,016,116	942,390	-	-	942,390
Merchandise costs	10,357	-	-	10,357	11,456	-	-	11,456
Management and general	545,654	-	-	545,654	442,715	-	-	442,715
Bad debt loss	-	-	-	-	19,695	600,384	-	620,079
Total expenses	8,183,407	-	-	8,183,407	7,588,072	600,384	-	8,188,456
Change in net assets	(250,494)	220,395	20,695	(9,404)	(456,634)	1,009,053	22,844	575,263
Net assets, beginning of year	1,196,157	3,115,407	598,013	4,909,577	1,652,791	2,106,354	575,169	4,334,314
Net assets, end of year	\$ 945,663	\$ 3,335,802	\$ 618,708	\$ 4,900,173	\$ 1,196,157	\$ 3,115,407	\$ 598,013	\$ 4,909,577

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

**Half the Sky Foundation and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the years ended December 31,**

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (9,404)	\$ 575,263
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,869	10,059
Net realized and unrealized losses (gains) on investments	(131,050)	240,262
Donated equipment	(48,552)	-
Decrease (increase) in assets:		
Pledges receivable, net	288,362	1,146,525
Other receivables	21,321	224,168
Prepaid program expenses	11,575	(61,709)
Inventory	4,437	11,456
Deposits	(10,241)	(5,571)
Accounts payable	(12,869)	20,443
Accrued expenses	1,214	57,025
Net cash provided by operating activities	127,662	2,217,921
Cash flows from investing activities:		
Acquisition of property and equipment	(9,533)	(22,712)
Purchases of investments	(421,758)	(445,219)
Proceeds from sale of investments	330,940	302,000
Net cash used in investing activities	(100,351)	(165,931)
Increase in cash and cash equivalents	27,311	2,051,990
Cash and cash equivalents, beginning of year	3,665,618	1,613,628
Cash and cash equivalents, end of year	\$ 3,692,929	\$ 3,665,618

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

Half the Sky Foundation and Subsidiaries

STATEMENT OF FUNCTIONAL EXPENSES

Years ended December 31, 2009 and 2008

Expenses	2009					2008					
	Program Service	Management & General	Fundraising	Merchandise Cost	Total	Program Service	Management & General	Fundraising	Merchandise Cost	Bad Debt Loss	Total
Compensation and benefits for non-field staff	\$ 1,040,199	\$ 329,538	\$ 327,406	\$ -	\$ 1,697,143	\$ 1,003,004	\$ 253,319	\$ 262,872	\$ -	\$ -	\$ 1,519,195
Consulting and Professional Services	81,149	100,803	90,507	-	272,460	51,022	53,169	11,959	-	-	116,149
Office expenses	197,294	30,474	68,332	-	296,101	124,631	29,275	32,939	-	-	186,845
Information technology	129,784	5,268	-	-	135,052	175,896	15,175	-	-	-	191,071
Occupancy	74,818	34,691	-	-	109,510	40,681	35,053	-	-	-	75,735
Travel	339,316	16,342	49,798	-	405,457	242,539	34,082	26,025	-	-	302,646
Conferences and meetings	54,202	-	-	-	54,202	21,635	-	-	-	-	21,635
Depreciation and amortization	-	12,869	-	-	12,869	-	10,059	-	-	-	10,059
Insurance	-	15,669	-	-	15,669	-	12,583	-	-	-	12,583
Compensation and benefits for field staff	2,717,819	-	-	-	2,717,819	2,356,078	-	-	-	-	2,356,078
Earthquake relief	136,495	-	-	-	136,495	1,140,924	-	-	-	-	1,140,924
Donated Goods & Services	211,809	-	407,057	-	618,866	-	-	471,093	-	-	471,093
Stipends and Tuition	246,243	-	-	-	246,243	256,747	-	-	-	-	256,747
Orphanage Center Construction, Equipment & Furnishings	157,498	-	-	-	157,498	388,098	-	-	-	-	388,098
Surgery and nurturing care in connection with China Care program	1,037,497	-	-	-	1,037,497	-	-	-	-	-	-
All other expense	187,155	-	73,015	10,357	270,527	370,563	-	137,503	11,456	620,079	508,065
Total Functional Expenses	<u>\$ 6,611,280</u>	<u>\$ 545,654</u>	<u>\$ 1,016,116</u>	<u>\$ 10,357</u>	<u>\$ 8,183,407</u>	<u>\$ 6,171,816</u>	<u>\$ 442,715</u>	<u>\$ 942,390</u>	<u>\$ 11,456</u>	<u>\$ 620,079</u>	<u>\$ 8,188,456</u>

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

## Half the Sky Foundation and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

#### 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.

Half the Sky Foundation Australia Limited (“Australia Ltd”), an affiliate of the Foundation, was incorporated in Victoria, Australia in May 2009 but had no activities in 2009. Half the Sky Foundation Canada Limited (“Canada Ltd”), another affiliate of the Foundation was incorporated in Canada in June 2009 but had no activities in 2009.

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 Baby Sisters 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 Big Sisters 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, 2009 and 2008

#### 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, 2009 and 2008. 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 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, 2009 and 2008**

**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*<sup>™</sup> (“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 Beijing Rep Office registered. Accordingly, it set up two accounts maintained by the managing director of programs. The balance in these accounts was \$49,245 and \$17,102 at December 31, 2009 and 2008, 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, 2009 and 2008

#### 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, 2009 and 2008**

**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 online 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, 2009 and 2008, with estimated fair market values of \$191,109 and \$189,723, 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, 2009 and 2008.

Contributed goods are recorded at estimated fair value at the date of receipt and amounted to \$413,546 and \$181,370 for the years ended December 31, 2009 and 2008, 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 Canada Revenue Agency. Australia Ltd. has been granted tax exempt status by Australian Taxation Office.

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.

Fair Value of Financial Instruments

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.

## Half the Sky Foundation and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2009 and 2008

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Recent Accounting Pronouncements

###### *Accounting Standards Codification*

The FASB is the authoritative body for financial accounting and reporting in the United States. On July 31, 2009, the FASB Accounting Standards Codification (the “ASC”) became the authoritative source of accounting principles to be applied to the financial statements of nongovernmental entities prepared in accordance with GAAP. The ASC had no impact on the Foundations’s financial statements.

###### *Subsequent Events*

In May 2009, the FASB issued new guidance related to subsequent events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance was effective for annual periods ending after June 15, 2009 (December 31, 2009 for the Foundation). The Foundation adopted the guidance with no material impact on the financial statements. The Foundation has evaluated subsequent events through August 4, 2010, the date the financial statements were available to be issued.

###### *Accounting for Uncertainty in Income Taxes*

In July 2006, the FASB issued FASB ASC 740-10-05, formerly Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. The interpretation applies to all tax positions related to income taxes subject to FASB ASC 740-10-05, formerly FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation is effective for fiscal years beginning after December 15, 2007 unless an organization elected to defer adoption in which case the effective date is years beginning after December 15, 2008. The Foundation had elected to defer implementation until its year ended December 31, 2009. At January 1, 2009 the Foundation applied this new pronouncement to all tax positions for which the statute of limitations remained open and determined there were no material unrecognized tax benefits as of that date. In addition, there have been no material changes in unrecognized benefits since January 1, 2009. As a result, the adoption of this new pronouncement did not have a material effect on the Foundation’s consolidated financial statements. There have been no related tax penalties or interest, which would be classified as tax expense in the consolidated statements of activities.

#### NOTE 3 – PLEDGES RECEIVABLE, NET

Pledges receivable represent unconditional promises to give by donors and are recorded at net realizable value. Pledges that are expected to be collected after one year have been discounted at 5% in 2009 and 2008, and are reflected in the financial statements at their net present value. Pledges receivable are due as follows:

<u>Years Ending December 31,</u>	<u>2009</u>	<u>2008</u>
Less than one year	\$ 137,544	\$ 311,963
One to five years	-	125,900
	<u>137,544</u>	<u>437,863</u>
Less: discount on receivables due in more than one year	-	11,957
Total	<u>\$ 137,544</u>	<u>\$ 425,906</u>

**Half the Sky Foundation and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2009 and 2008**

**NOTE 3 – PLEDGES RECEIVABLE, NET (continued)**

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, 2009 and 2008. There were conditional promises to give of \$4,863,100 and \$2,822,860 as of the years ended December 31, 2009 and 2008, respectively.

**NOTE 4 – INVESTMENTS**

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

	2009	2008
Marketable equity securities – mutual funds	\$ 595,267	\$ 341,999
Certificates of deposit	-	25,319
United States bonds	-	18,579
Fixed income mutual funds	344,643	332,145
Total	\$ 939,910	\$ 718,042

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.

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

	2009	2008
Unrealized gains (losses)	\$ 192,165	\$ (237,018)
Realized gains (losses)	(54,191)	2,706
	137,974	(234,312)
Investment related expenses	(6,924)	(5,950)
Net realized and unrealized gains (losses)	\$ 131,050	\$ (240,262)
Interest and dividend income on investment	\$ 27,555	\$ 41,902

As of December 31, 2009 and 2008, the Board has designated approximately \$309,000 and \$259,000, respectively, for re-investment in the endowment.

## Half the Sky Foundation and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2009 and 2008

#### NOTE 5 – VALUATION OF INVESTMENTS

The Foundation follows the hierarchy established under Generally Accepted Accounting Principles that is used to measure and report the fair value of assets and liabilities. This hierarchy of fair value is based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and requires that fair value measurements be classified and disclosed in one of the following three categories:

- Level I – Valuations based on quoted prices available in active markets for identical assets and liabilities as of the reporting date.
- Level II – 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 III – 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 Foundation's cash equivalents, marketable equity securities and fixed income mutual funds are valued using Level 1 inputs. The Foundation's certificates of deposit and United States bonds are valued using Level 2 inputs.

#### NOTE 6 – PROPERTY AND EQUIPMENT, NET

At December 31, property and equipment consisted of the following:

	<u>2009</u>	<u>2008</u>
Equipment	\$ 129,152	\$ 76,218
Furniture and fixtures	<u>24,487</u>	<u>19,336</u>
Total	153,639	95,554
Less: accumulated depreciation	<u>(77,249)</u>	<u>(64,380)</u>
Property and equipment, net	<u>\$ 76,390</u>	<u>\$ 31,174</u>

Depreciation expense for the years ended December 31, 2009 and 2008 amounted to \$12,869 and \$10,059, respectively.

**Half the Sky Foundation and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2009 and 2008**

**NOTE 7 – 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.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Management of Institutional Funds Act (“UMIFA”) 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 if that portion’s use by the Foundation is limited in accordance with temporary donor-imposed stipulations or as unrestricted net assets if there are no donor-imposed restrictions. 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	<u>31,583</u>	<u>-</u>	<u>-</u>	<u>31,583</u>
Total funds	<u>\$ 340,977</u>	<u>\$ 63,160</u>	<u>\$ 618,708</u>	<u>\$ 1,022,845</u>

Endowment net asset composition by type of fund as of December 31, 2008 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 598,013	\$ 598,013
Accumulated losses on donor-restricted endowment funds	(41,786)	-	-	(41,786)
Board-designated endowment funds	259,394	-	-	259,394
Accumulated losses on board-designated endowment funds	<u>(22,076)</u>	<u>-</u>	<u>-</u>	<u>(22,076)</u>
Total funds	<u>\$ 195,532</u>	<u>\$ -</u>	<u>\$ 598,013</u>	<u>\$ 793,545</u>



**Half the Sky Foundation and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2009 and 2008**

**NOTE 7 – ENDOWMENT (continued)**

Interpretation of Relevant Law (continued)

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>-</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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 340,977</u>	<u>\$ 63,160</u>	<u>\$ 618,708</u>	<u>\$ 1,022,845</u>

Changes in endowment net assets for the fiscal year ended December 31, 2008 was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 209,394	\$ -	\$ 575,169	\$ 784,563
Investment return:				
Investment income	-	-	-	-
Net depreciation (realized and unrealized)	<u>(63,862)</u>	<u>-</u>	<u>-</u>	<u>(63,862)</u>
Total investment return	(63,862)	-	-	(63,862)
Contributions	50,000	-	22,844	72,844
Appropriation of endowment assets for expenditure	-	-	-	-
Other changes:				
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 195,532</u>	<u>\$ -</u>	<u>\$ 598,013</u>	<u>\$ 793,545</u>

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

	<u>2009</u>	<u>2008</u>
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently by donor stipulation or law	<u>\$ 618,708</u>	<u>\$ 598,013</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 618,708</u>	<u>\$ 598,013</u>

## Half the Sky Foundation and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2009 and 2008

#### NOTE 7 – 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 UMIFA 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, 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 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% 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, 2009 and 2008**

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2009</u>	<u>2008</u>
Guangzhou and Shenzhen	\$ -	\$ 25,783
Tianjin and Guangzhou center and 8 additional Foster Villages	368,101	532,015
Qingdao (previously Hangzhou)	222,938	224,778
Shaoguan	22,688	91,555
Maonan	40,396	58,417
Jia Fellowship	13,104	-
Blue Sky	50,574	307,799
Lianyungang	21,621	25,657
Fuzhou	49,153	29,777
Maoming	14,771	-
Wuhan	-	12,271
Chenzhou	-	16,023
Chongqing	18,000	-
Yiyang	-	3,693
Yueyang	-	13,365
Nanning	12,134	6,790
Luoyang	11,803	100,000
Qingyuan	12,987	55,280
Guilin	75,000	10,569
Haikou	284,247	240,277
Xinyang	35,000	34,090
LMEF	248,666	248,591
CEF	1,082,627	1,077,160
The China Care Project (TCCP)	305,787	-
Critical Care Fund	158,899	-
Shenzhen	140,000	-
Model Training Centers Support	70,228	-
Beihai	8,919	-
Toys for 2010 New Site	5,000	-
Earnings on Endowment Funds	63,160	-
Other	-	1,517
	<u>                    </u>	<u>                    </u>
Total temporarily restricted net assets	<u>\$ 3,335,802</u>	<u>\$ 3,115,407</u>

**Half the Sky Foundation and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2009 and 2008**

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS (continued)**

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, 2009:

The China Care Project (TCCP)	\$ 1,051,141
2 HTS center & 8 additional FV projects	563,914
Blue Sky	510,065
Qingdao (previously Hangzhou)	151,840
CEF	150,717
Maoming	135,229
Lianyungang	104,036
Wuhan	100,924
Luoyang	88,397
Nanning	88,164
Guiyang	77,630
Nanjing (All but FV program)	76,612
Big Sister Fund / University Fund	76,200
Wuzhou	72,000
Jia Fellowship	61,896
Haikou	56,030
Chenzhou	49,073
Changzhou	45,368
Qingyuan	42,293
Fuzhou	40,540
Maonan	39,464
Beihai	38,972
Xinyang	34,090
Huangshi	33,210
Gaoyou	30,882
Guangzhou	30,445
Guangzhou and Shenzhen	25,783
Shaoguan	23,076
Shaoyang	15,880
Chouzhou	13,898
Yueyang	13,765
Guilin	10,769
Model Training Centers Support	9,772
Yiyang	6,899
Hefei	835
Chengdu	770
Shenzhen	629
Nanchang	400
New Harmony	400
Others	<u>1,925</u>
Total net assets released from restrictions	<u>\$ 3,873,934</u>

## Half the Sky Foundation and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2009 and 2008

#### 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 \$107,000 and \$76,000 for the years ended December 31, 2009 and 2008, respectively.

##### Years ending December 31,

2010	\$ 133,538
2011	59,508
2012	60,698
2013	61,912
2014	57,896
Total	<u>\$ 373,552</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, 2009 and 2008 were \$12,922 and \$12,616, respectively.

#### NOTE 11 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2009 and 2008, 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 \$72,709 and \$124,267, respectively.

#### NOTE 12 – AFFILIATED PARTIES

Half the Sky Foundation Canada (Foundation HTS du Canada) is an independent charitable entity, registered with the Canadian government, which raises funds and makes unrestricted donations to the Foundation.

#### NOTE 13 – MAJOR CONTRIBUTIONS

For the year ended December 31, 2009, the Foundation had one donor with 10% or more of contributions. For the year ended December 31, 2008, the Foundation had no donors with 10% or more of contributions.

**Half the Sky Foundation and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**December 31, 2009 and 2008**

**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, 2009 and 2008, the Foundation received a designated grant of \$252,840 and \$632,805, respectively, to implement this program, which is recorded in contributions revenue on the accompanying consolidated statements of activities and changes in net assets.