

ONESKY FOUNDATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and Board of Directors
OneSky Foundation and Subsidiaries
Berkeley, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of OneSky Foundation and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, 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.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OneSky Foundation and Subsidiaries as of December 31, 2020 and 2019 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.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Sacramento, California
May 29, 2021

ONESKY FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 3,574,194 | \$ 2,957,100 |
| Pledges receivable, net (Note 3) | 182,762 | 485,735 |
| Other receivables | 3,056 | 4,150 |
| Prepaid program expenses | 131,684 | 95,652 |
| Inventory | 8,135 | 8,255 |
| Property and equipment, net (Note 4) | 2,318,163 | 1,713,786 |
| Deposits | <u>161,984</u> | <u>164,359</u> |
| Total assets | <u>\$ 6,379,978</u> | <u>\$ 5,429,037</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 364,207 | \$ 341,072 |
| Accrued expenses | <u>139,212</u> | <u>106,985</u> |
| Total liabilities | <u>503,419</u> | <u>448,057</u> |
| Commitments and contingencies (Note 7) | | |
| Net assets: | | |
| Without donor restrictions: | | |
| Undesignated | 3,088,351 | 1,583,880 |
| Board-designated | <u>-</u> | <u>9,928</u> |
| Total net assets without donor restrictions | 3,088,351 | 1,593,808 |
| With donor restrictions (Note 5) | <u>2,788,208</u> | <u>3,387,172</u> |
| Total net assets | <u>5,876,559</u> | <u>4,980,980</u> |
| Total liabilities and net assets | <u>\$ 6,379,978</u> | <u>\$ 5,429,037</u> |

See accompanying notes to consolidated financial statements.

ONESKY FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2020 and 2019

| | 2020 | | | 2019 | | |
|---|---|--|---------------------|---|--|---------------------|
| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
| Revenues, gains and other support: | | | | | | |
| Contributions (Notes 9, 10, and 11) | \$ 4,744,702 | \$ 4,431,358 | \$ 9,176,060 | \$ 3,890,768 | \$ 5,997,422 | \$ 9,888,190 |
| Contributed services and materials | 260,551 | - | 260,551 | 525,560 | - | 525,560 |
| Merchandise sales | 5,205 | - | 5,205 | 1,468 | - | 1,468 |
| Other income | 581,838 | - | 581,838 | 63,133 | - | 63,133 |
| Net assets released from restriction (Note 6) | <u>5,030,322</u> | <u>(5,030,322)</u> | <u>-</u> | <u>5,463,023</u> | <u>(5,463,023)</u> | <u>-</u> |
| Total revenues, gains and other support | <u>10,622,618</u> | <u>(598,964)</u> | <u>10,023,654</u> | <u>9,943,952</u> | <u>534,399</u> | <u>10,478,351</u> |
| Expenses: | | | | | | |
| Program services: | | | | | | |
| Donated goods and services | 77,733 | - | 77,733 | 28,867 | - | 28,867 |
| Other program services | <u>6,791,172</u> | <u>-</u> | <u>6,791,172</u> | <u>6,921,949</u> | <u>-</u> | <u>6,921,949</u> |
| Total program services | 6,868,905 | - | 6,868,905 | 6,950,816 | - | 6,950,816 |
| Fundraising: | | | | | | |
| Donated goods and services | 189 | - | 189 | 2,565 | - | 2,565 |
| Other fundraising | <u>1,115,346</u> | <u>-</u> | <u>1,115,346</u> | <u>1,754,350</u> | <u>-</u> | <u>1,754,350</u> |
| Total fundraising | 1,115,535 | - | 1,115,535 | 1,756,915 | - | 1,756,915 |
| Merchandise costs: | 731 | - | 731 | 975 | - | 975 |
| Management and general (Notes 7 and 8): | | | | | | |
| Donated goods and services | 150,415 | - | 150,415 | 311,987 | - | 311,987 |
| Other management | <u>992,489</u> | <u>-</u> | <u>992,489</u> | <u>816,832</u> | <u>-</u> | <u>816,832</u> |
| Total management and general | <u>1,142,904</u> | <u>-</u> | <u>1,142,904</u> | <u>1,128,819</u> | <u>-</u> | <u>1,128,819</u> |
| Total expenses | <u>9,128,075</u> | <u>-</u> | <u>9,128,075</u> | <u>9,837,525</u> | <u>-</u> | <u>9,837,525</u> |
| Change in net assets | 1,494,543 | (598,964) | 895,579 | 106,427 | 534,399 | 640,826 |
| Net assets, beginning of year | <u>1,593,808</u> | <u>3,387,172</u> | <u>4,980,980</u> | <u>1,487,381</u> | <u>2,852,773</u> | <u>4,340,154</u> |
| Net assets, end of year | <u>\$ 3,088,351</u> | <u>\$ 2,788,208</u> | <u>\$ 5,876,559</u> | <u>\$ 1,593,808</u> | <u>\$ 3,387,172</u> | <u>\$ 4,980,980</u> |

See accompanying notes to consolidated financial statements.

ONESKY FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 895,579 | \$ 640,826 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 374,240 | 22,595 |
| Net change in assets and liabilities: | | |
| Pledges receivable, net | 302,973 | (70,199) |
| Other receivables | 1,094 | 6,699 |
| Prepaid program expenses | (36,032) | (14,059) |
| Inventory | 120 | 30,374 |
| Deposits | 2,375 | (3,015) |
| Accounts payable | 23,135 | 67,945 |
| Accrued expenses | <u>32,227</u> | <u>(281)</u> |
| Net cash provided by operating activities | <u>1,595,711</u> | <u>680,885</u> |
| Cash flows used in investing activities | | |
| Acquisition of property and equipment | <u>(978,617)</u> | <u>(1,285,996)</u> |
| Increase (decrease) in cash and cash equivalents | 617,094 | (605,111) |
| Cash and cash equivalents, beginning of the year | <u>2,957,100</u> | <u>3,562,211</u> |
| Cash and cash equivalents, end of the year | <u>\$ 3,574,194</u> | <u>\$ 2,957,100</u> |
| Supplemental disclosures of cash flow information | | |
| Contributed services and materials | <u>\$ 260,551</u> | <u>\$ 525,560</u> |

See accompanying notes to consolidated financial statements.

ONESKY FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2020 and 2019

| | 2020 | | | | | 2019 | | | | |
|---|---------------------|---------------------|---------------------|------------------------------|---------------------|---------------------|---------------------|---------------------|------------------------------|--------------------|
| | Program Services | Fundraising | Merchandise Cost | Management and General | Total | Program Services | Fundraising | Merchandise Cost | Management and General | Total |
| Expenses (Note 8): | | | | | | | | | | |
| Compensation and benefits for non-field staff | \$ 2,116,064 | \$ 975,853 | \$ - | \$ 763,109 | \$ 3,855,026 | \$ 2,122,332 | \$ 1,381,111 | \$ - | \$ 551,392 | \$4,054,835 |
| Consulting and professional services | 125,441 | - | - | 94,650 | 220,091 | 63,211 | 4,000 | - | 95,155 | 162,366 |
| Office expenses | 48,320 | 43,217 | - | 13,218 | 104,755 | 104,708 | 70,021 | - | 22,321 | 197,050 |
| Information technology | 37,138 | 5,277 | - | - | 42,415 | 41,088 | 5,618 | - | - | 46,706 |
| Occupancy | 499,175 | 40,057 | - | 68,818 | 608,050 | 602,952 | 16,733 | - | 94,209 | 713,894 |
| Travel | 18,075 | 2,020 | - | 3,136 | 23,183 | 149,314 | 90,249 | - | 36,045 | 275,608 |
| Conferences and meetings | 4,014 | - | - | - | 4,014 | 24,864 | - | - | - | 24,864 |
| Depreciation | 339,398 | 1,133 | - | 33,709 | 374,240 | 18,727 | 2,295 | - | 1,573 | 22,595 |
| Insurance | 4,181 | - | - | 15,848 | 20,029 | - | - | - | 16,137 | 16,137 |
| Compensation and benefits for field staff | 1,772,958 | - | - | - | 1,772,958 | 2,114,440 | - | - | - | 2,114,440 |
| Donated goods and services | 77,733 | 189 | - | 150,415 | 228,337 | 28,867 | 2,565 | - | 311,987 | 343,419 |
| Subsidies, stipends and tuition | 1,612,710 | - | - | - | 1,612,710 | 1,457,056 | - | - | - | 1,457,056 |
| Center construction, equipment and furnishings | 77,636 | - | - | - | 77,636 | 39,291 | - | - | - | 39,291 |
| Training programs and materials | 132,575 | - | - | - | 132,575 | 183,246 | - | - | - | 183,246 |
| Event expense | - | 15,422 | - | - | 15,422 | - | 132,103 | - | - | 132,103 |
| All other expense | 3,535 | 32,367 | 731 | 1 | 36,634 | 720 | 52,220 | 975 | - | 53,915 |
| Total functional expenses | \$ 6,868,905 | \$ 1,115,535 | \$ 731 | \$ 1,142,904 | \$ 9,128,075 | \$ 6,950,816 | \$ 1,756,915 | \$ 975 | \$ 1,128,819 | \$9,837,525 |

See accompanying notes to consolidated financial statements.

ONESKY FOUNDATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND OPERATION

OneSky Foundation (the "Foundation" or "OneSky"), a non-profit public benefit corporation, was incorporated in November 1998 with its corporate office located in Berkeley, California. From inception and through April 2018, the legal name of the Foundation was "Half the Sky Foundation". Effective May 2018, the name of the legal entity was changed to OneSky Foundation and Subsidiaries.

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

OneSky Foundation (Asia) Limited ("Asia Ltd."), a supporting organization of the Foundation, was incorporated in Hong Kong in March 2006. OneSky Foundation UK Limited ("UK Ltd."), another supporting organization of the Foundation, was incorporated in England and Wales in April 2008. In connection with the legal name change for the consolidated entity, the legal names of these entities were formerly known as "Half the Sky" instead of "OneSky", until May 2018.

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

OneSky was created to help unlock the potential in the lives of vulnerable children. OneSky aims to ensure that young children at risk have a caring adult in their lives and a chance at a bright future by teaching communities and caregivers to provide nurturing responsive care and early education.

In support of its goal to enrich the lives of children, OneSky has developed the OneSky approach to quality early education and care, and serves the following communities in China, Vietnam, and Mongolia:

For orphaned children - OneSky-inspired orphanage program models are located in government-run welfare institutions throughout China and provide nurturing and educational opportunities for orphaned and abandoned children. OneSky-inspired Seed Centers provide short-term funding to independent organizations for up to three years, for the mentoring and training of individuals with limited resources. Such funding allows those organizations to establish programs of their own similar to those operated directly by OneSky. During the year ended December 31, 2020, OneSky supported various orphanage programs at a total of 52 sites.

For left-behind children - OneSky-inspired program models in China's rural villages are designed to teach communities and caregivers how to mitigate the damage done to young children left behind by migrant parents who have moved away to find work in faraway cities. Services offered include Family Skills, which teaches parenting skills and responsive care training to primary caregivers, Early Learning, and Community Engagement, which includes trainer-facilitated village gatherings, monthly community projects, and cooperative childcare. During the year ended December 31, 2020, OneSky supported programs in 24 villages within one province.

For migrant workers' children - OneSky's work in Vietnam includes the development and operation of a model Early Learning Center (ELC) located in the Hoa Khanh Industrial Park in Da Nang. The model center, which offers the OneSky Approach to benefit children, ages 6 months to 6 years, of factory workers who cannot afford or do not have access to other adequately trained early learning or daycare services, opened in September 2017. Training in the OneSky Approach is further offered to home-based care providers and parents in Da Nang and Quang Nam, so that quality care can be provided to young children at risk wherever they may spend their days.

(Continued)

NOTE 1 – ORGANIZATION AND OPERATION (continued)

For children failing to thrive - During the year ended December 31, 2019, a pilot program was launched in a state-run day nursery in Ulaanbaatar, Mongolia to introduce the OneSky Approach to benefit very young children of impoverished nomadic herders living in that city's ger districts. The nursery, which previously focused only on nutrition, had no programs to address children's social and emotional needs, or healthy development. Besides fitting out the rooms with age-appropriate developmental toys and furnishings, OneSky hired additional caregivers and trained them along with existing caregivers, in how to use the OneSky Approach to provide responsive and nurturing care and early education for vulnerable young children. A new Family Center in Ulaanbaatar that replicates a traditional Mongolian family dwelling was opened in September 2020.

P. C. Lee OneSky Global Centre for Early Childhood Development: OneSky spent considerable effort in 2019 preparing for the 2020 opening of the P. C. Lee OneSky Global Centre for Early Childhood Development (the "Centre") in Sham Shui Po. The Centre was officially opened in May 2020 and features a Family Centre which serves as a community gathering place for children (0-6 years old), and their parents and caregivers, to play and learn together. The Family Centre also offers facilitated play sessions and parenting skills workshops as well as consultation and referral services for families. The Centre also serves as a training hub for teaching professional and paraprofessional caregivers in Hong Kong and beyond the OneSky approach to responsive caregiving and early education.

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, 2020 and 2019. Translation gains and losses were not material to the consolidated financial statements taken as a whole and are not reflected separately in the consolidated financial statements.

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

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

The financial statement presentation follows the guidance of Financial Accounting Standards Board (the "FASB") *Accounting Standards Codification*[™] ("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 with donor restrictions and without donor restrictions 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.

(Continued)

ONESKY FOUNDATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Asset Classification: The Foundation reports two primary classifications of net assets within the consolidated statements of net position:

Net Assets - without donor restrictions – Net assets without donor restrictions include those revenues and expenses associated with program and supporting services which do not have externally imposed restrictions on their use. However, the Foundation’s Board of Directors has designated certain net assets to be used for the purpose of a guardian program. There were no Board-designated assets as of December 31, 2020 and \$9,928 as of December 31, 2019.

Net Assets - with donor restrictions – Net assets with donor restrictions 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 with donor restrictions net assets and recognized as without donor restrictions 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.

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. At December 31, 2020 and 2019 the Foundation had bank deposits with carrying amounts and balances of \$3,412,550 and \$2,590,630 respectively, which included deposits with two financial institutions eligible for FDIC insurance coverage. Of the total bank balances, \$268,882 and \$276,992 were insured at December 31, 2020 and 2019, respectively. Amounts received but not deposited and therefore not insured by the FDIC, totaled \$161,644 and \$366,470 at December 31, 2020 and 2019, respectively. 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.

Pledges Receivable: The Foundation evaluates the collectability of its pledges receivable on an ongoing basis and records a reserve for potential uncollectible pledges receivable. No reserve for uncollectible amounts were considered necessary at December 31, 2020 and 2019.

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.

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 not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net 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 impairment is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset (fair value determined by discounted cash flows, market comparison, or replacement cost). Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No assets have been determined to be impaired as of December 31, 2020 and 2019.

(Continued)

ONESKY FOUNDATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 net realizable 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 includes gifts of cash and other assets as net assets with donor restrictions, if they are received with donor stipulations which 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, net assets with donor restrictions are reclassified to net assets without donor restrictions, and reported as net assets released from restrictions. Conditional promises to give are not recorded as contributions until the conditions on which they depend have been met.

Contributions with donor restrictions whose restrictions are met in the same reporting period as the period in which contribution is recorded, are reported as contributions with donor restrictions. Net assets associated with these contributions are released from restriction as donor restrictions are met.

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

Contributed Services and Materials: Contributed services and materials are recognized in accordance with the requirements of ASC 958-605. The Foundation received and recorded contributed pro-bono legal services for the years ended December 31, 2020 and 2019, with estimated fair values of \$228,148 and \$340,854, respectively.

Contributed goods are recorded at their estimated fair value at the date of receipt. Contributed goods totaled \$32,403 and \$184,706 for the years ended December 31, 2020 and 2019, 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.

Generally accepted accounting principles require that a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. 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 in the next 12 months. The Foundation recognizes interest and/or penalties related to income tax matters in income tax expense. The Foundation did not have any amounts accrued for interest and penalties at December 31, 2020 and 2019.

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 functional expenses. Certain categories of expenses are attributable to both program and supporting functions. Accordingly, these expenses have been allocated among program services and supporting services based on a consistently applied and reasonable basis. Expenses which may include allocations include depreciation, which is allocated on a square-footage basis, and salaries and benefits, which are allocated on the basis of estimates of time and effort, as applicable.

(Continued)

ONESKY FOUNDATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2020 and 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: The Foundation has evaluated subsequent events for recognition and disclosure through May 29, 2021, which is the date the consolidated financial statements were available to be issued.

NOTE 3 – PLEDGES RECEIVABLE, NET

Pledges receivable represent unconditional promises to give by donors and are recorded at net realizable value. Pledges receivables of \$182,762 and \$485,735 at December 31, 2020 and 2019, respectively, were expected to be collected within one year. There were no long-term pledge receivables at December 31, 2020 and 2019.

The Foundation has received notification of various conditional pledges. These pledges for which the conditions have not yet been 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, 2020 and 2019. There were conditional promises to give of \$1,719,625 and \$2,697,756 as of December 31, 2020 and 2019, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

| | <u>2020</u> | <u>2019</u> |
|--------------------------------|---------------------|---------------------|
| Equipment | \$ 164,607 | \$ 134,906 |
| Furniture and fixtures | 302,149 | 148,219 |
| Assets under construction | - | 1,544,580 |
| Leasehold improvements | <u>2,332,963</u> | <u>-</u> |
| Total | 2,799,719 | 1,827,705 |
| Less: accumulated depreciation | <u>(481,556)</u> | <u>(113,919)</u> |
| Property and equipment, net | <u>\$ 2,318,163</u> | <u>\$ 1,713,786</u> |

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to \$374,240 and \$22,595, respectively. Assets under construction reflect costs incurred to date in the development of the P. C. Lee OneSky Global Centre for Early Childhood Development. The Centre was completed and put into use in May 2020 and costs reclassified as Leasehold Improvements which will be depreciated over the remaining period of the related property rental lease.

(Continued)

ONESKY FOUNDATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2020 and 2019.

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| China Orphanage | \$ 324,302 | \$ 765,715 |
| China Training | 9,055 | - |
| China Village | 973,444 | 641,718 |
| COVID fund | 10 | - |
| Global Training | 299,288 | - |
| Hong Kong Centre | 1,090,365 | 1,443,216 |
| Mongolia Program | 65,205 | - |
| CN Migrant | - | 322,610 |
| Vietnam Program | <u>26,539</u> | <u>213,913</u> |
| Total net assets with donor restrictions | <u>\$ 2,788,208</u> | <u>\$ 3,387,172</u> |

NOTE 6 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses aligned with the purpose of the restriction or by the passage of time as follows during the year ended December 31, 2020:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| China Care Program | \$ - | \$ 122,800 |
| China Orphanage | 748,396 | 760,618 |
| China Training | 51,058 | 509,088 |
| China Village | 869,717 | 840,604 |
| COVID Fund | 171,592 | - |
| Hong Kong Centre | 2,334,913 | 2,361,120 |
| Mongolia Program | 195,443 | 127,454 |
| General Management | - | 191,128 |
| Global Training | 89,645 | - |
| Vietnam Program | <u>569,558</u> | <u>550,211</u> |
| Total net assets released from donor restrictions | <u>\$ 5,030,322</u> | <u>\$ 5,463,023</u> |

(Continued)

ONESKY FOUNDATION AND SUBSIDIARIES
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NOTE 7 – COMMITMENTS AND CONTINGENCIES

Lease Obligation: The Foundation leases office facilities in the United States, an office facility in Beijing, Peoples Republic of China (PRC), and both an office facility and the P. C. Lee OneSky Global Centre for Early Childhood Development in Hong Kong. As of December 31, 2020, the operating leases are set to expire at various dates through October 2024. Rent paid under these leases was \$612,939 and \$669,591 for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020, the Foundation's future minimum lease payments are as follows:

| <u>Years Ending December 31,</u> | <u>Amount</u> |
|--------------------------------------|---------------------|
| 2021 | \$ 554,215 |
| 2022 | 527,947 |
| 2023 | 495,969 |
| 2024 | <u>385,604</u> |
| | <u>\$ 1,963,735</u> |

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 January 1, 2009, the Foundation created a 401(k) plan, covering all employees who meet 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 six years of service with the Foundation. Total contributions made to the retirement plans by the Foundation for the years ended December 31, 2020 and 2019 were \$51,868 and \$58,421, respectively.

NOTE 9 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2020 and 2019, contribution revenue from members of the Board of Directors of OneSky Foundation or companies or individuals with which the Board of Directors are affiliated totaled \$2,671,950 and \$3,492,591 respectively.

NOTE 10 – AFFILIATED ENTITIES

OneSky 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 OneSky since 2011. Australia Ltd contributed \$58,065 and \$405,404 to the Foundation in the years ended December 31, 2020 and 2019, respectively. On March 26, 2020, members determined the voluntary winding down of Australia Ltd. OneSky Foundation (Canada) Inc. ("Canada"), another affiliate of the Foundation was incorporated in Canada in June 2009. OneSky Foundation (Canada) Inc. contributed \$202,716 and \$392,919 to the Foundation in the years ended December 31, 2020 and 2019, respectively.

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NOTE 11 – MAJOR CONTRIBUTORS

The Foundation had four donors whose combined contributions totaled more than 37% and 40% of total contributions for the years ended December 31, 2020 and 2019, respectively.

NOTE 12 – COOPERATION AGREEMENTS

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 entered into an agreement with the Vietnam Department of Education and Training (DOET). The agreement resulted in the construction of the Early Learning Center (ELC), which was developed as part of the Industrial Parks program. This first ELC is located near the Hoa Khanh Industrial Park in Da Nang, Vietnam and upon completion the ownership was fully retained by the DOET.

Under the agreement with DOET, OneSky contributed partial funding for the construction costs of the ELC, provides OneSky employees and services at the ELC, and training to DOET personnel for the purpose of ultimately handing off operational responsibility to the DOET at a future date.

A number of Memorandum of Understanding ("MOU") have been signed with Department of Education and Training (DOET) in Da Nang, Quang Nam and Hai Duong in Vietnam since March 2018. With these MOUs signed, the Foundation can provide home-based care training to caregivers in various districts in these provinces in Vietnam.

In June 2020, the Foundation entered into a non-binding Memorandum of Understanding (MOU) with the Government of Bayanzurkh District and The Ministry of Education, Culture, Science and Sports of Mongolia (MECSS). With this MOU, the Foundation launched the Ger Family Center in September 2020 to provide parenting-skills training and a safe play place for local families in the Bayanzurkh district.

NOTE 13 – COOPERATION WITH CHBAF

Beginning in September 2012, a Chinese fundraising organization called ChunHui Bo' Ai Children's Foundation (CHBAF) was established with objectives similar to those of the Foundation. During the years ended December 31, 2020 and 2019, the Foundation provided support and assistance to CHBAF for the operation of programs supporting disadvantaged children throughout China, to similar standards as programs operated by the Foundation.

(Continued)

ONESKY FOUNDATION AND SUBSIDIARIES
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NOTE 14 - LIQUIDITY AND AVAILABILITY

The Foundation's financial assets available for general expenditure within one year of the statement of financial position date, are as follows:

| | <u>2020</u> | <u>2019</u> |
|---------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 3,574,194 | \$ 2,957,100 |
| Pledges receivable, net | 182,762 | 485,735 |
| Other receivables | <u>3,056</u> | <u>4,150</u> |
| | <u>\$ 3,760,012</u> | <u>\$ 3,446,985</u> |

The Foundation has \$3,760,012 and \$3,446,985 of financial assets available within one year of the statement of financial position date, to meet cash needs for general expenditure. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. Pledges receivable are subject to implied time or purpose restrictions, but are expected to be collected and available for general expenditures within one year. The Foundation has a liquidity management policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 15 – PAYCHECK PROTECTION PROGRAM

In May 2020, OneSky received a Paycheck Protection Program (PPP) loan totaling \$428,200 as authorized by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under the terms of the Paycheck Protection Program, a PPP loan provides for conditional forgiveness if OneSky utilizes the proceeds on allowable expenses, including qualifying payroll, rent, and utility expenses. If the PPP loan is not approved for forgiveness, it will bear interest at a rate of 1% per annum and must be repaid in equal monthly payments over a period of 12 months, commencing one year after the origination of the loan. While formal forgiveness has not yet been obtained, OneSky evaluated the requirements of the United States' Small Business Administration (SBA) and determined that all applicable conditions for forgiveness have been met. Therefore, OneSky recognized revenue for the full proceeds of the loan as a conditional contribution, in accordance with Accounting Standard Codification (ASC) Subtopic 958-605, during the year ended December 31, 2020.

Although management believes the conditions for forgiveness have been met, ultimate forgiveness is conditioned upon the SBA concurring with OneSky's good-faith assessment that the current economic uncertainty made the loan request necessary to support ongoing operations, and that the loan proceeds were used for allowable expenses. If it is later determined by the SBA that provisions of the Payroll Protection Program were not met, OneSky may be required to repay the PPP loan in its entirety and/or be subject to penalties.

NOTE 16 – COVID-19 PANDEMIC

In December 2019, a novel strain of coronavirus surfaced and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Foundation could be adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.
