



Half the Sky Foundation

Annual Report 2009



Half the Sky Foundation (HTS) was created in order to enrich the lives and enhance the prospects for orphaned children in China. We establish and operate infant nurture and preschool programs, provide personalized learning for older children and offer loving permanent family care, medical care and guidance for children with disabilities. It is our goal to ensure that every orphaned child has a caring adult in her life and a chance at a bright future.

Letter from the President

Dear Friends:

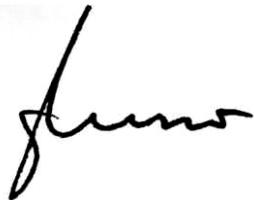
It is my great pleasure to introduce Half the Sky's 2009 Annual Report, which makes abundantly clear the remarkable achievements of the Foundation, not only in the year that has passed but since the very outset in its work.

A decade ago, no one could have predicted that Half the Sky and its government partners in China would be working hand in hand in such groundbreaking ways to bring enrichment programs to orphaned children all over China.

A few years ago, I couldn't have predicted how passionate I would become about Half the Sky's work. It wasn't until the first time I saw Half the Sky nannies at Shenzhen, coaxing smiles from children who had never had the benefit of a loving family before, that I realized the magic of the mission that defines Half the Sky.

I am ever grateful to all who have joined Half the Sky in its journey. As you'll read in this report, your support has saved and continues to save children's lives. Your kindness and generosity is what makes it possible for orphaned children to have the same dreams as every child.

I cannot thank you enough.



Guy Russo

Letter from the CEO & Founder

Dear Friends:

Like every year since Half the Sky was founded, 2009 was a year of growth and a year of hope for China's orphaned children.

As we have every year since our first, tiny pilot programs in 2000, we were able to offer hundreds more children loving, family-like attention through our four core programs. In 2009, we were, for the first time, able to give that same nurture and individual care to medically fragile orphaned infants from all over China in our new China Care Home in Beijing.

Behind the numbers are the stories that fuel our work-- thousands of stories of wounded, silent children who smile, then laugh, then open their hearts when they are given the care and love they deserve.

I know these stories, a few of which you'll read in this report, also fuel our wonderfully generous community of individual, corporate, and foundation supporters and our partners at China's Ministry of Civil Affairs,

Together we have made and will continue to make such a difference in the lives of children who once lived without hope.



Jenny Bowen

Small NGO Big Impact

Working in partnership with the Ministry of Civil Affairs and thanks to its generous supporters all over the world, Half the Sky has established 41 Children's Centers all over China that offer loving caregivers and a stimulating learning environment for children of all ages. The children enrolled in Half the Sky's programs develop deep emotional bonds with their caregivers, the bonds of love that neuroscientists tell us are essential for healthy development. Without that care, children living in institutions are at high risk of developing the problems so common in children who have been fed and clothed but not cherished. With that care, whatever path their lives take—adoption or education that prepares them for making their way in Chinese society, institutionalized children learn that they too are loved and they too can have a bright future.

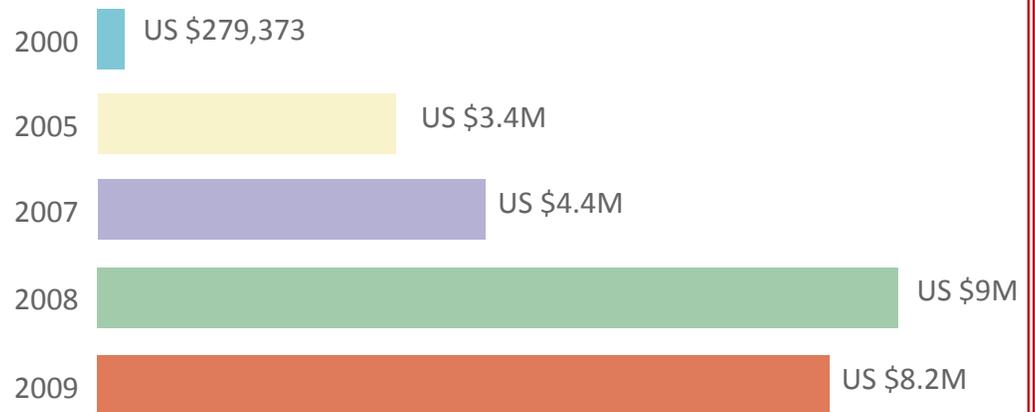


Since Half the Sky was founded in 1998, 35,000 children living in Chinese orphanages have benefited from its programs.

“While at University I never regarded myself as a disabled orphan. With the help of Half the Sky, I gained optimism, self confidence and courage. I gradually got rid of the self contempt and loneliness hidden in my heart. Thanks to Half the Sky, today I am a college graduate pursuing my passion for art in Beijing. In the past it was unheard of for a little disabled orphaned girl from Chengdu like me to have a chance at a bright future all the way to Beijing.”

-- Beijing artist and former Half the Sky Big Sister
Luo LiNa

Half the Sky Revenue: A Decade of Growth



MeiYing (right) and her friend in HTS Little Sisters Preschool

“We can't thank you enough for all you did for our daughter during her first six years in China. When Ava-MeiYing came home, her bond with us happened willingly and easily. She started school right away and has done fabulously. We truly believe she is a smart, strong, courageous, happy and loving child because of her experience through the Half the Sky program. Ava is our second daughter adopted from China and I can see the difference your program made since our first daughter from China didn't have the benefit of Half the Sky at her orphanage.”

-- Sarah, Derek, Eliza YiYi and Ava-MeiYing Ray

Partnerships for the Future

Half the Sky's Blue Sky Cooperative Agreement

Create a HTS Blue Sky Model Center & training hub in every province

Provide training for 300 (and eventually all) orphanages in every province

Create a national training center in Beijing

Hand over operation of all programs to local government and become solely a national training organization



Jenny with members of the Ministry of Civil Affairs



**Blue Sky Model Centers are in blue*

Anhui - Hefei, Chuzhou

Chongqing

Guangdong - Guangzhou, Maoming, Maonan, Qingyuan, Shenzhen, Shaoguan

Guangxi - Beihai, Guilin, Nanning, Wuzhou

Guizhou - Guiyang

Hainan - Haikou, Sanya

Heilongjiang - Harbin

Henan - Luoyang, Xinyang, Zhengzhou

Hubei - Huangshi, Wuhan

Inner Mongolia - Hohhot

Hunan - Chenzhou, Shaoyang, Yiyang (2 sites), Yueyang

Jiangsu - Changzhou, Gaoyou, Lianyungang, Nanjing

Jiangxi - Fuzhou, Jiujiang, Nanchang

Liaoning - Shenyang

Shaanxi - Xi'an

Shandong - Qingdao

Sichuan - Chengdu, Yibin

Tianjin

Xinjiang - Urumqi

The China Care Home in Beijing:
Serves medically fragile infants and toddlers

Infant Nurture Program

Young babies need more than shelter and food. In order to thrive and develop normally, they also need daily love, stimulation and interaction with a caring and consistent adult. HTS employs and trains mature women—retired or laid-off workers from the local community—to become full-time nannies at its Infant Nurture Centers, each providing 3-5 orphaned babies the stimulation, bonding and affection that are essential to a healthy start.

ShuTing entered HTS' Infant Nurture Program in Hefei when she was only a few weeks old. Just like a proud new mom, Half the Sky nanny Yin KeMei doted on ShuTing, watching carefully how much milk she drank at meal times, nestling her in her arms, and talking constantly to her. Soon ShuTing was smiling at KeMei and making the happy noises of a baby who knows she is loved: "When I hold her in my arms and talk to her," wrote KeMei, she makes the sounds "ah, ah."

KeMei continued to cheer ShuTing's every developmental milestone until she became a very active child who



ShuTing playing with her HTS nanny, KeMei

could sit steadily, stand without support, walk a few steps while holding on to something, grasp cookies with her nimble fingers, and gracefully execute a "swallow" dance she created herself. When she was 15 months old, ShuTing left the orphanage in Hefei to be adopted. Though ShuTing was starting a new life with a mom and dad to call her own, she and her doting nanny "cried and cried" -- it is never easy to say goodbye to someone you have loved deeply.

"ZhaoCheng likes to put his hand into his mouth when lying on the mat with one of his feet up in the air and smile happily at me. When I talk to him, he looks at me attentively and smiles back when I smile at him. His smiles are the cutest thing I have ever seen in this world."

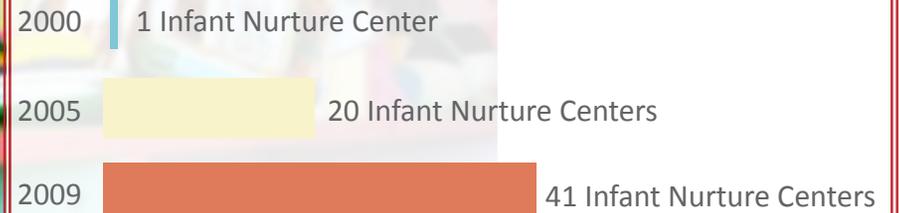
--Niu XiaoMin, nanny at Half the Sky's Children's Center in Urumqi.

“Xin Tian is becoming more dexterous with her left hand. I will always remember the first time she drew lines on a piece of paper holding her very own pencil. She looked at me and shouted triumphantly, ‘Mama.’”

-- Nanny Liu GuiHua at the Hefei Social Welfare Institution



Half the Sky Infant Nurture Program



Little Sisters Preschool Program

Experienced teachers from the local community are trained to provide an innovative preschool curriculum that combines the best of Chinese methods with the Reggio-Emilia approach to early education. The program is designed to give young children the self-confidence, basic skills, and love of learning that will help them move on to primary school and attain the positive sense of self so often missing in institutionalized children.

LiLan (“LanLan”) was brought to the Shenzhen Welfare Institution by the police, who found her at the subway station, alone at the age of three and a half. LanLan did not cry a lot when she first arrived, but she was very quiet and very

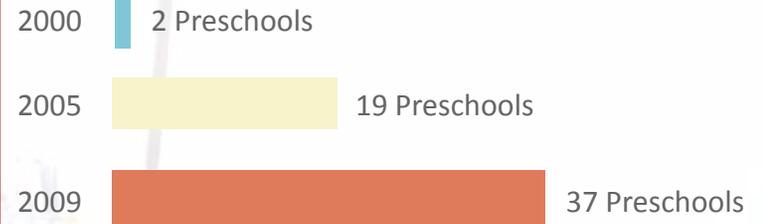
frightened. Adding to LanLan’s isolation was that she spoke the Uyghur language, not the Mandarin language spoken by her teachers and classmates.



Half the Sky preschool teacher Fu YuLan spent time with LanLan every day, teaching her simple words and phrases. “I often put her on my lap and spoke Mandarin with her. She is very smart, very curious, and has a good memory—the teachers seldom have to teach her things more than once—so she learned Chinese quickly.”

Now LanLan is fluent in Mandarin, enjoys all the preschool’s activities—finger painting, dress-up clothes for make-believe, books, etc. and has become a leader in the classroom. When LanLan sees that her friend cannot put on her shoes, she helps her; when a child is crying, she comforts her and gives her a hug, just like the teachers do. LaLan has become a happy, compassionate girl.

Half the Sky Little Sisters Program



Youth Services/Big Sisters Program

Older orphaned children, especially those who have spent their entire lives in welfare institutions often simply give up on themselves. But when encouraged by caring mentors and teachers, they have the same dreams as every child. This program provides young people with education and job opportunities according to their interests, talents, and aspirations, including art, sewing, computer science, English, vocational school and university. Mentors and teachers also provide emotional support that helps our Big Sisters and Brothers learn that it is never too late to learn how to make something of their lives.



SuoZhu is a 12-year-old boy who was once considered too disruptive to be enrolled in Half the Sky's Youth Services program in Harbin and too slow to become a good student. Half the Sky's Youth Services staff thought otherwise.

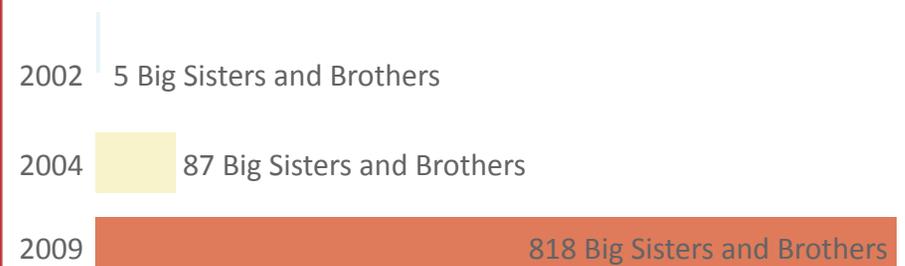
They worked with SuoZhu to improve his vocabulary and discovered that he is not slow--he remembered almost every new character his teacher dictated. Little by little, he accumulated quite a vocabulary, and he now enjoys writing words in his free time.

With lots of patience and loving support, SuoZhu's behavior also improved. For the first time SuoZhu cried and apologized for being disruptive. The teacher who accepted his apology was shocked because she had never seen SuoZhu cry.

When SuoZhu's mentor arrived at the institution with a cold and sore throat, he insisted on going upstairs to get medicine and hot water for her: "I was so moved -- a child others considered 'bad' was doing all this for me!" says his mentor Liu FeiFei. She was also thrilled the day she realized that SuoZhu himself no longer accepts the label "bad." One day, after SuoZhu diligently finished his homework, he looked at her and said with pride, "I am a good kid."



Half the Sky Youth Services/Big Sisters Program



Family Village Program

This program provides permanent families for children with special needs who have no hope of being adopted. Efforts include fitting out apartments near the institution to house families made up of up to five children, and foster parents recruited from the local community, who commit to raising their children to adulthood. The children not only grow up knowing the love of a family, but also receive the support services that the welfare institution and HTS programs provide.



When AiJin joined her family in Maoming three years ago, she was sickly and quiet. Her mom carried her around on her back every day to coax her to sleep, taught her exercises to minimize the symptoms of her medical condition (rectocele) and cooked easily digested food just for her. Now an outgoing 4 year old, AiJin is thrilled to have a family to call her own:

AiJin loves her two sisters and her brother -- she knows how to comfort them and knows just how to make them laugh. She teaches her whole family what she learns in her

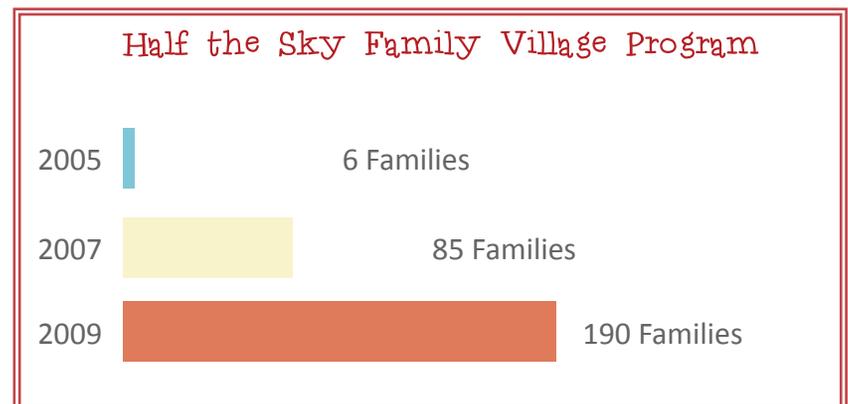


AiJin with foster Mom and baby sister

preschool, including the song called “Animals Walk.” Not only does she sing, she imitates the way lots of animals walk -- snakes, rabbits, dogs, etc. With her encouragement, AiJin’s siblings and parents join her performance.

When she first started at Half the Sky’s Little Sisters preschool, AiJin cried a lot because she missed her mom. Her teacher would hold her in her arms and say: “Mama is cooking at home. She will come to pick you up when class is over.” She would then calm down and even smile. After two weeks, AiJin became adjusted to school. In the morning, she happily says goodbye to her mom and greets her teachers warmly.

AiJin frets when her dad is a little late coming home from work and when he arrives says: “Dad, are you tired? Let me rub your back.” Then she crawls behind her dad and rubs his back. At her fourth birthday party with her family, AiJin got the frosting of her cake stuck on her lips. She made a face and said, “Dad, I have a mustache too!”



The China Care Program

Half the Sky's newest program provides professional and nurturing round-the-clock care for medically fragile children fighting for their lives. Children born too small and weak to survive or children with life-threatening birth defects that require specialized treatment that cannot be provided at any local hospital are moved from orphanages all over China to Beijing where they receive state-of-the-art medical care in-hospital and doting pre-and-post operative care at The China Care Home.



YuHong before surgery



Home last summer, no one would have given her that nickname--she was a very quiet, 17-day-old baby with multiple health problems, including anal atresia, a congenital absence of an opening at the bottom end of the intestinal tract, which can be life-threatening if not corrected right away; a hole in her heart; and a spinal condition that may require surgery to make sure it doesn't affect her ability to walk.

YuHong had surgery to correct anal atresia and crucial, painstaking after-care. Thanks to that care and YuHong's fighting spirit, during a recent checkup her doctors found that her surgical wounds have completely healed. They also found that the hole in her heart has closed so she is no longer facing heart surgery, though she does still need an MRI to check her spinal condition.

Despite all of YuHong's medical problems, her physical and emotional development has been excellent -- she is active and moves around the room nimbly.

When she sees any nanny not holding a child in her arms, she crawls over to that nanny very fast and nestles in her arms. When she sees strangers, she hides herself in her nanny's arms. When the nanny plays with her, she becomes extremely happy and giggles. And of course, when she is unhappy, our Little Hot Pepper makes that very clear too.



YuHong now

YuHong is a beautiful ten-month-old girl who has dark curly hair, sparkling eyes, sweet smiles, and a temper -- YuHong is very well-known at The China Care Home because when she cries she cries loudly and persistently -- it is very hard to figure out a way to calm her; in fact her distinctive cries have earned her the nickname "Little Hot Pepper" (Xiao La Jiao).

When YuHong arrived at The China Care

Half the Sky Volunteer Tribute

For Peter and Vivian Li, volunteering for Half the Sky started when their mom showed them Richard Bowen's book, *Mei Mei, Little Sister: Portraits from a Chinese Orphanage*. They poured over the haunting portraits of girls living in Chinese orphanages. "We were so touched by the moving photos," says Peter.

The siblings, who were 14 and 13-year-old middle schoolers at the time asked: "Mom, how can we help?" They kept going back to the Mei Mei book and asking, "What if they don't get adopted?"

Since then, Peter and Vivian, who are now in high school, have organized a series of

very successful fundraisers: a raffle, a luncheon, and the most recent, a cookbook called *Delightful Chinese Recipes*.

Peter and Vivian's incredible success as fundraisers is not surprising given the intensity of their commitment to help children in China. They realize they are lucky to have a loving family and a comfortable suburban San Francisco lifestyle. And as Chinese-Americans they realize that had they been born in different circumstances they might not have been so lucky. Says Vivian: "We are Chinese and we want to help."





2009 Volunteer build, Urumqi

Half the Sky is blessed with a creative and energetic volunteer force all over the world that is committed to bringing the love of family to children who have lost theirs.

Corporations, Foundations & Small Business Supporters

We would like to extend a heartfelt thanks to all of our corporate, foundation and small business supporters for providing very significant financial and in-kind contributions that are so crucial for our work to bring a loving adult in the daily life of every institutionalized child in China. To learn more about their crucial support and for more information about how to partner with Half the Sky to provide care for the children, please visit <http://halfthesky.org/help/becomeapartner.php>

ACE	Deutsche Bank	Jack Morton Worldwide	Skoll Foundation, Award for Social Entrepreneurship in the area of Economic and Social Equity
APL	FedEx Express	JP Morgan Chase Foundation	
Asia Alternatives Management LLC	Flawless Leaders	Kanuka Thuringer	State Street Corporation
BHP Billiton	Freshfields Bruckhaus Deringer	Kmart	
Bunnies By The Bay	Grant Thornton LLP	Linklaters LLP	Target Corporation
Capital Group Companies Charitable Foundation	Gilbert + Tobin, Australia	Little Partners, Inc.	
CLSA Chairman's Trust	Global Sources	Lloyd George	The TCT Foundation for the Children of China
China Care Foundation	GMR Gymnastics Sales, Inc.	McDonalds	
Coles Group Asia	Hairy Crabs Charities of Shanghai	PriceWaterhouseCoopers	Time Warner
Converse	Hewlett Packard	Radio Flyer	
Credit Suisse	Indigo	Ronald McDonald House Charities	UTi Charitable Foundation
			Walmart
			Wide Horizons for Children
			Western Union
			World Childhood Foundation



“Half the Sky has created innovative, proven solutions for tackling the huge challenge of transforming the lives of institutionalized Chinese orphans. Half the Sky's models for sustainable change have already yielded significant impact and will continue to yield more as their programs are spread all over China.”

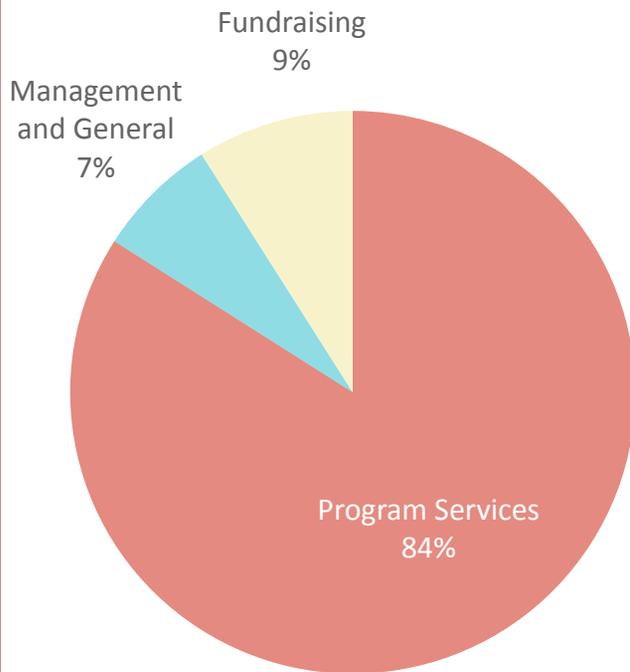
-- Sally Osberg, CEO Skoll Foundation



Despite limited resources, Half the Sky is gratified by how much we have been able to accomplish for China's orphaned children. We employ 1500 local workers around the country and provide care for thousands of children while striving to use all donations as efficiently as possible. In 2009, for the fourth consecutive year, we received a 4-star rating from Charity Navigator:

"We are proud to announce Half the Sky Foundation has earned our fourth consecutive 4-star rating for its ability to efficiently manage and grow its finances. Only 8% of the charities we rate have received at least 4 consecutive 4-star evaluations, indicating that Half the Sky Foundation consistently executes its mission in a fiscally responsible way, and outperforms most other charities in America. This "exceptional" designation from Charity Navigator differentiates Half the Sky Foundation from its peers and demonstrates to the public it is worthy of their trust."

Expenses By Type



HTS Family Village Program

Half the Sky Board of Directors and Advisory Committee

Board of Directors

Guy Russo, President

Managing Director of the Kmart retail chain owned by Wesfarmers Ltd in Australia and New Zealand; former Managing Director & CEO in Australia and President in Greater China of McDonald's Corporation.

Nancy L. Spelman, PhD, Secretary
Doctorate in developmental psychology from the University of Hong Kong.

Matt Dalio

President of the board of directors of China Care Foundation, Inc., which he founded in 2000 at the age of 16.

Ellen Eliasoph

Partner in the Washington and Beijing offices of Covington and Burling, LLC; former managing director of Warner Brothers, China.

Dana Johnson, MD, PhD

Professor of Pediatrics and Co-Founder of the International Adoption Medical Program at the University of Minnesota.

Peter Lighte

Vice Chairman of China, J.P. Morgan; Ph.D. from Princeton University in East Asian studies; Author of *Pieces of China*.

Melissa J. Ma

Co-Founder and Managing Partner of Asia Alternatives, a firm dedicated to helping institutional investors make investments in private equity funds across Asia.

Advisory Committee

Richard Bowen, Emeritus Director

A founding director of Half the Sky's board, feature filmmaker, motion picture cinematographer, director-cameraman for television commercials and author-photographer of *MEI MEI (Little Sister): Portraits from a Chinese Orphanage*; writer-director of the upcoming feature film, *Little Sister*.

Carlos A. Cordeiro, Emeritus Director

An Advisory Director of The Goldman Sachs Group Inc. and Vice Chairman of Goldman Sachs (Asia); board member, BHP Billiton Group.

Lou DeMattei, Emeritus Director

A tax attorney who counsels select private clients in matters related to tax and finance. Former HTS board president, Mr DeMattei serves on the audit committee.

Carolyn Pope Edwards, EdD

Emeritus Director

A founding board member of Half the Sky; Professor of Psychology and Family & Consumer Sciences at the University of Nebraska; co-editor of *The Hundred Languages of Children*,

Robert Eisenberg, Emeritus Director

Founder of NaviSite, a complex web hosting and technology services provider; Entrepreneur in Residence at Alta Communications Venture Partners.

Karin Evans, Emeritus Director

Journalist and author of the bestselling book, *The Lost Daughters of China: Adopted Girls, Their Journey to America, and the Search for a Missing Past*.

Linda Filardi, Emeritus Director

Senior counsel for General Electric Global Sponsor Finance in New York City.

Ellen Hall, PhD, founder and executive director, Boulder Journey School and director of the Boulder Journey School Teacher Education Program; founding board member of the North American Reggio Emilia Alliance, Videatives and Hawkins Centers of Learning.

Kay Johnson, PhD, Emeritus Director

Professor of Asian Studies and Politics at Hampshire College in Amherst, Massachusetts

Scott Kronick, Emeritus Director
President of Ogilvy Public Relations Worldwide, China.

Emily Kwong, Emeritus Director
Certified Public Accountant, Certified Internal Auditor with the Public Company Accounting Oversight Board (PCAOB).



Half the Sky Financial Statements

Letter from Independent Auditor

August 4, 2010

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

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.

Grant Thornton LLP

Statements of Financial Position

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2009 and 2008

	2009	2008
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	<u>\$5,036,355</u>	<u>\$5,057,414</u>
Liabilities:		
Accounts payable	\$74,523	\$87,392
Accrued expenses	61,659	60,445
Total liabilities	<u>136,182</u>	<u>147,837</u>
Commitments (Note 9)		
Net assets:		
Unrestricted	634,752	936,763
Designated by the Board for endowment	309,394	259,394
Total unrestricted net assets	<u>944,146</u>	1,196,157
Temporarily restricted	3,337,319	3,115,407
Permanently restricted	618,708	598,013
Total net assets	<u>4,900,173</u>	<u>4,909,577</u>
Total liabilities and net assets	<u>\$5,036,355</u>	<u>\$5,057,414</u>

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

Statements of Activities and Changes in Net Assets

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2009 and 2008

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restred	Total	Unrestricted	Temporarily Restricted	Permanently Restred	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 investment	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.

Statements of Cash Flows

Half the Sky Foundation and Subsidiaries, Years ended December 31, 2009 and 2008

	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	<u>127,662</u>	<u>2,217,921</u>
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	<u>(100,351)</u>	<u>(165,931)</u>
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	<u>3,692,929</u>	<u>3,665,618</u>

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

Statement of Functional Expenses

Half the Sky Foundation and Subsidiaries, Year 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	\$6,611,280	\$545,654	\$1,016,116	\$10,357	\$8,183,407	\$6,171,816	\$442,715	\$942,390	\$11,456	\$620,079	\$8,188,456

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

Notes to Consolidated Financial Statements

Half the Sky Foundation and Subsidiaries, Years ended 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.

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. 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 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.

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. 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.

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:

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

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.

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:

	2009	2008
Unrealized gains (losses)	\$ 129,152	\$ 76,218
Realized gains (losses)	24,487	19,336
	153,639	95,554
Investment related expenses	(77,249)	(64,380)
Net realized and unrealized gains (losses)	\$ 76,390	\$ 31,174

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

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:

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

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

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

Interpretation of Relevant Law

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

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

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

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

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

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

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.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

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

	2009	2008
Guangzhou and Shenzhen	\$ -	\$ 25,783
Tianjin and Guangzhou center and 8 additional FV	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
Total temporarily restricted net assets	<u>\$ 3,335,802</u>	<u>\$ 3,115,407</u>

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	1,925
Total net assets released from restrictions	<u>\$3,873,934</u>

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

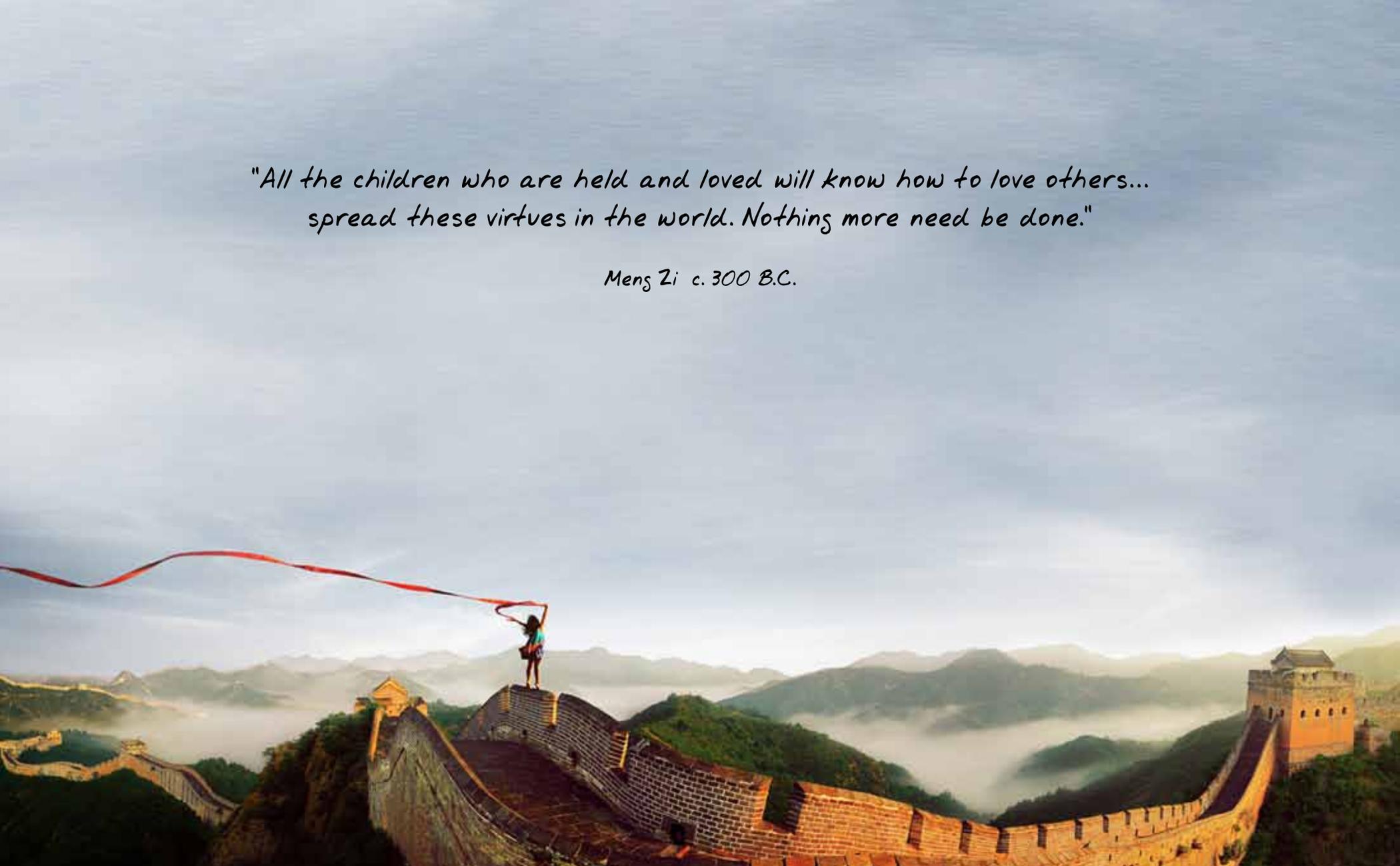
Half the Sky Foundation Canada (Foundation HTS du Canada) is an independent charitable entity, registered with the Canadian government, which raises funds and makes unrestricted donations to the Foundation.

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.

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.



*"All the children who are held and loved will know how to love others...
spread these virtues in the world. Nothing more need be done."*

Meng Zi c. 300 B.C.

United States of America
Half the Sky Foundation
715 Hearst Avenue
Suite 200
Berkeley, CA 94710

Mainland China
Half the Sky Foundation
Unit 4-2-142 Jianguomenwai
Diplomatic Compound
Chaoyang District, Beijing 100600

Hong Kong
Half the Sky Foundation (Asia)
Ltd
Room 2703, 27/F, Shun Feng
International Centre
182 Queen's Road East, Wanchai

United Kingdom
Half the Sky Foundation (UK)
Limited
20-22 Bedford Row
London
WC1R 4JS

Canada
Half the Sky Foundation (Canada)
Ltd
PO 11347 PRO Collingwood
Vancouver, BC V5R 0A4
CANADA

Australia
Half The Sky Foundation
Australia Ltd
PO Box 8850
Armadale, Vic, 3143