



Half the Sky Foundation

Annual Report 2010

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 such a pleasure to introduce Half the Sky's 2010 Annual Report filled as it is with stories about the remarkable children enrolled in our programs and news about inroads Half the Sky and its government partners are making to upgrade care for children all over China.

Every year, it seems, Half the Sky's journey becomes more exciting because every year the goal of reaching every child gets closer.

Every year when I have the pleasure of visiting one of Half the Sky's Children's Centers and see children smiling and laughing with their loving nannies, teachers, and mentors, my passion to rally support for this wonderful organization grows.

Every year I also marvel at how loyal our long-time supporters continue to be and how wonderful it is to welcome new friends into the Half the Sky family. To our new supporters and our old friends, thank you for enabling Half the Sky to bring love and hope to so many children.

Guy Russo

Letter from the CEO & Founder

Dear Friends:

Even by Half the Sky standards, 2010 was a remarkable year, whose spring brought the promise of a new era when every child living in a Chinese orphanage will have a loving adult in her life and hope for a bright future.

In this not-too-distant future, Half the Sky-inspired programs will reach every orphanage in the country.

In this not-too-distant future, every child welfare worker in the country will be trained about the importance of nurturing care thanks to our wonderfully generous corporate partner JPMorgan Chase and our crucial partnership with the Chinese government.

I can't wait to write next year's letter when the promise of 2010 becomes the concrete Rainbow Program of 2011.

But instead of jumping forward, I'll instead look back with thanks for every one of you who is supporting us on this journey to a new era for China's children.

Jenny Bowen

Reaching Every Child

Since its founding in 1998, Half the Sky has transformed the lives of 60,000 children living in Chinese social welfare institutions.

Though we have celebrated the new light in each and every child's eye, we have done so always with the sobering knowledge that there are many more children we have not yet reached.

In 2010, Half the Sky learned that in the next six years we will be able to reach hundreds of thousands of children—every child living in a Chinese institution— sooner than even our most optimistic projections— because of a remarkable invitation from our government partners.

At year's end, our government partners asked us to work with them to revamp the entire welfare system based on our nurture-focused approach. Half the Sky, of course, accepted

this invitation with gratitude and resolve, as well as full awareness of the hard work ahead.

Even before that ground-breaking news, 2010 had already proven to be a wonderful year for the children.

In the spring, at the National Symposium for Orphanage Administrators in Nanjing, Ministry of Civil Affairs Director-General Wang ZhenYao announced the government's intention to revamp the welfare system using Half the Sky's work as its model: "Like Half the Sky programs, we must now begin from the interests of the children. We must raise the standards of care for all children."

Orphanages, said Wang ZhenYao, will become community centers offering Half the Sky-styled programs for every child who needs them—no longer will children grow up isolated from the world outside orphanage walls.

Because of these far-reaching reforms, Founder and CEO Jenny Bowen was able to make an announcement in Nanjing as well. Half the Sky, said Bowen, is instituting a process to turn the operation and funding of its centers over to those responsible for the children's care.

"It has always been our intention to train and mentor rather than establish and run programs. Now, increasing financial and organizational commitments from our government partners make it possible for us to start that orderly transition," said Bowen.

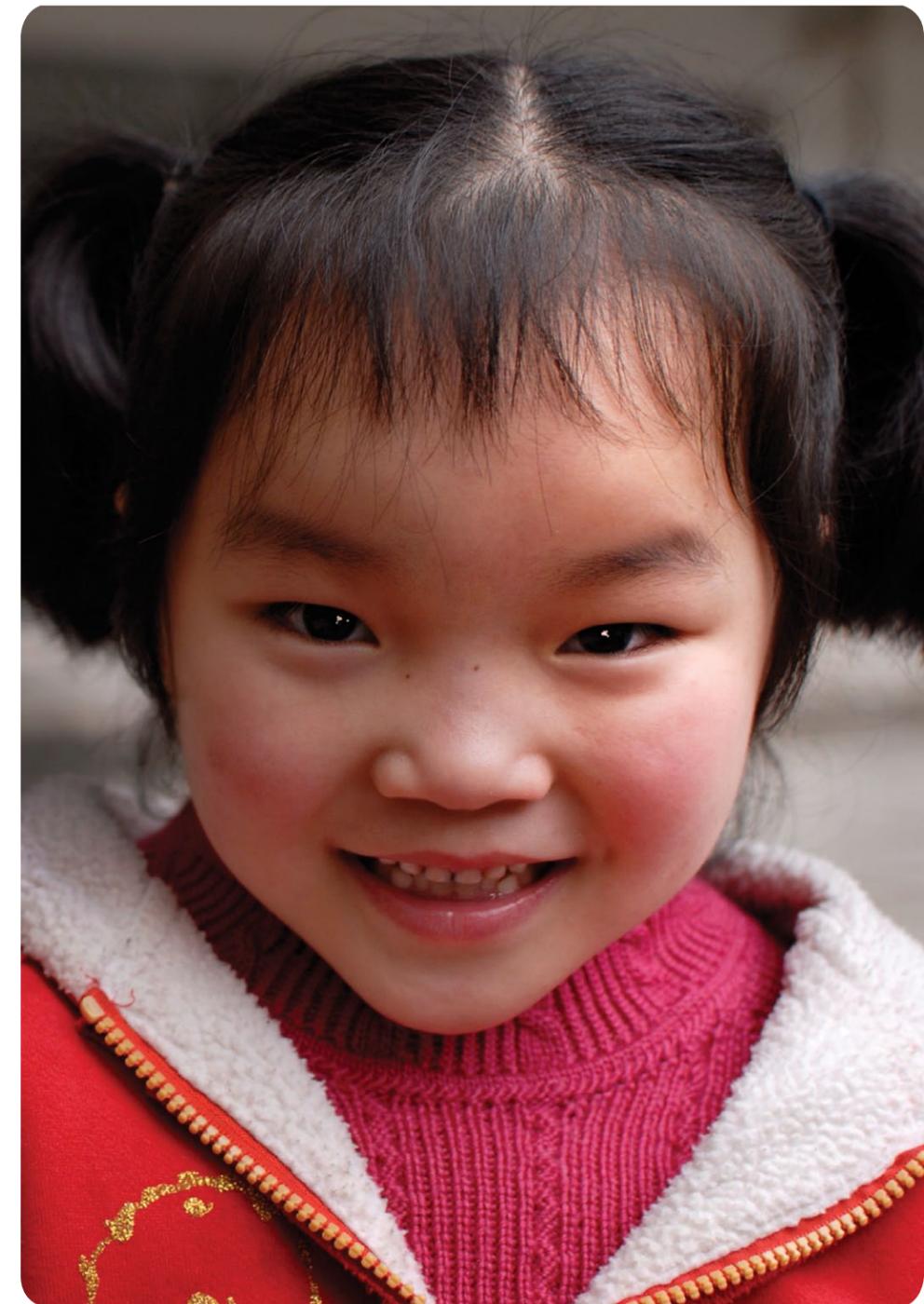
At a follow-up National Directors' Workshop in Chongqing, orphanage administrators discussed concrete ways to ready themselves to operate and fund Half the Sky programs at their institutions, knowing all the while that even after they shoulder responsibility, Half the Sky will be available to help.

"We will continue our work in China by providing training, mentoring and guidance for all those who care for the children," said Bowen.

A year full of promise for the children still waiting for the brighter future they deserve.

“Like Half the Sky programs, we must now begin from the interests of the children.
We must raise the standards of care for all children.

Ministry of Civil Affairs Director—General Wang ZhenYao”



Milestones

1998 Half the Sky founded to ensure that every institutionalized child receives the nurturing care that is crucial for healthy development.

2000 Half the Sky's Changzhou Children's Welfare Institution and Hefei Social Welfare Institution pilot projects established.

2005 The Chinese government declares that nurture and loving attention are as important and basic to the welfare of young children as food, shelter, and medical care.

2008 Half the Sky partners with the Ministry of Civil Affairs to create model training centers in every province to teach caregivers in 300 children's welfare institutions about the importance of nurturing care.

2010 The Chinese government announces a plan to radically improve care for orphaned children in every state-run institution and eventually for all disadvantaged children.

Half the Sky announces a transition plan to transfer funding and operations of its programs to the Chinese and become solely a teaching and mentoring organization.

Orphanage directors gather to discuss how to start and operate Half the Sky-inspired programs on their own.



*Blue Sky Model Centers are in blue

Anhui - Hefei, Chuzhou

Chongqing

Fujian - Xiamen

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

Guangxi - Beihai, Guilin, Nanning, Wuzhou

Guizhou - Guiyang

Hainan - Haikou, Sanya

Hebei - Shijiazhuang

Heilongjiang - Harbin

Henan - Luoyang, Xinyang, Zhengzhou

Hubei - Huangshi, Wuhan

Inner Mongolia - Hohhot, Baotou

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

Jiangsu - Changzhou, Gaoyou, Lianyungang, Nanjing

Jiangxi - Fuzhou, Jiujiang, Nanchang

Jilin - Changchun

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

The Children – Babies and Their Nannies

In 2010, Half the Sky established model Children's Centers in Shijiazhuang (Hebei Province), Xiamen (Fujian Province) and Changchun (Jilin Province), bringing the love of family to hundreds more children, including YinCan and JinWan, two babies in Shijiazhuang basking in the love of their nannies

YinCan

CanCan is one year and two weeks old. She has eight baby teeth and can eat biscuits by herself. She can build with blocks three or four stories high. She looks for me from time to time when she is playing, and if she does not see me, she cries out loud. When I come to her, she stretches out her arms for me to hold her. She can say "give" when she hands me a toy. She dances whenever there is music. She can blow a trumpet and she really likes the sound it makes. She can wave goodbye when I leave.

by Half the Sky Nanny Ma Li

Right now in China
there are
one million
orphans



YinCan and her HTS Nanny, Ma Li



JinWan

my baby XiaoWan is more at ease now. She will not grab onto my clothes so tightly when I carry her up or down the stairs. She can sit on the mat well. She likes to play with balls or other round toys. She can pick the toys she prefers from the toy basket. She likes to touch my hair. She will drink milk fast when she feels hungry and will push away the milk bottle or shake her head when she is full. She loves to play pat-a-cake with me. When we play it, she laughs happily and I feel so happy too.

by Half the Sky Nanny Wang Wenlan

JinWan

My baby XiaoWan is more at ease now. She will not grab onto my clothes so tightly when I carry her up or down the stairs. She can sit on the mat well. She likes to play with balls or other round toys. She can pick the toys she prefers from the toy basket. She likes to touch my hair. She will drink milk fast when she feels hungry and will push away the

We asked our Infant Nurture staff what their work means to them. Half the Sky Nanny Fu Cha responded with a poem, "The Baby."

The Baby

When the baby learned to walk to me, I was proud of her.
When the baby was sick, I was concerned for her.
When the baby shared her food with me, I was thankful for her.
When the baby learned to dress herself, I was pleased for her.
When the baby was adopted, I was happy for her... and I miss her!



The Children – Preschoolers and Their Teachers

ShenShen's Magical Smiles

When ShenShen first joined our program, he sat alone quietly. Even when he tried to communicate, we could rarely understand anything he said because he is hearing impaired.

The breakthrough came at the playground when I saw ShenShen enviously watching his pals playing on the slides. I took his hand and asked him to play with me on the slide.

When we walked over the arch bridge to the rope bridge, ShenShen stopped, frowned and murmured, "I am afraid," but I kept encouraging him. I told him: "Don't worry. I will be by your side. I know you are the best and I believe in you."

Cautiously ShenShen took little steps until he made it all the way across the bridge to the pavilion. I gave him a thumbs up and said, "You are great!" His bright eyes were full of smiles as if he were saying, "Yes, Teacher Chang, I am great!"

Now ShenShen's big bright eyes are always full of smiles. When he plays on the slides all by himself he smiles. When he plays with other children, he smiles. We all think ShenShen's smiles are magical, because when he smiles, the people around him smile too.

*By Half the Sky Preschool Teacher
Chang Zheng*



ShenShen at Half the Sky's Preschool

Since Half the Sky was founded in 1998, **60,000 children** living in Chinese orphanages have benefited from our programs.

“I just read all of the progress reports you sent... I am humbled by the work that Half the Sky did for my daughter Jin BoYi in Maoming. As you can see in the early reports, she was considered unadoptable. It is fascinating to me that once she knew someone loved her and cared about what was happening to her, her abilities grew in leaps and bounds.

Right now, I am speechless... how can I thank HTS enough?

My best,
Maggie Weik

”

The Children – Youth and Their Mentors

Our Young Editors in Beijing

Thanks to an innovative corporate-NGO partnership between Half the Sky and Hewlett-Packard Company, 12 teenagers enrolled in our Youth Services Program traveled to Beijing from orphanages all over China for a week-long newsletter-production workshop.

It was our young editors' first opportunity to visit Beijing, their first opportunity to taste Peking Duck, and their first opportunity to learn writing, editing, photography and layout skills from professionals.



Half the Sky's Youth Editors

It was also our young editorial team's first opportunity to work with their own laptops. After a 24-hour-train ride from Chongqing, Nian received her HP laptop and spoke for the whole group: "They are so beautiful. We just don't want to take our hands off them."

The laptops were well used for notetaking and layout practice sessions during the workshops. DongMei, who is from Changzhou, said she learned life skills in the workshops, especially in renowned photographer Xu YoungMin's class, "What touched me most about Mr. Xu's words was when he said: 'When opportunity comes up, you should be able to grab it.' It helped me understand not only photography skills, but also what life is about."

When it was time to leave, our young editors were feeling elated by everything they had learned and a bit overwhelmed by the task ahead. But they had also become a tight-knit, more confident team and they knew they would not be doing the work alone. Nian said: "Though we are feeling the pressure now, we also have lots of positive momentum. Every one of us is excellent and there are so many people backing us, who will give us support when we need it."

Note: Our Youth editors (with help from their mentors) have produced two newsletters and are currently working on their third.

Unconditional Love

During my training, Half the Sky's Youth Services Director told me that mentors should give unconditional love to institutionalized children. In the year I have had the honor of being a mentor, I have kept that in mind on good days and on frustrating days.

I remember the day ShaoShao made mischief and I was so angry at him that I cried out hopelessly...the day XiaoJing after great effort got his kite to fly and I unwittingly pulled it

down and XiaoJing was so angry with me...the day I took the children to see the play *Little Red Riding Hood* and they were so excited that they couldn't stop talking about it..the day when we went to the Nanjing Observatory that overlooks the whole city and how beautiful it was.

All these moments with the children are deeply imprinted in my heart. It is through working with my children that I learn love, patience, tolerance. It is with them I feel a sense of happiness. *By Half the Sky Mentor Wang Ting*



The Families

Half the Sky creates loving, permanent families for children with special needs who otherwise would spend their lives in institutions.



Daddy's Girl

When DeXi arrived in our family, she didn't want to have anything to do with my husband Ma ChunXue. Every time her dad moved to carry her or give her an encouraging hug, she ran away.

Her dad kept trying. He bought her favorite food, pretty clothes, and also made sure to praise her. Gradually, DeXi started warming up to him. One day, she raised her head shyly and smiled at her dad for the first time.

In the evenings, DeXi's dad played with her brother and sister, but DeXi would at first sit in my lap. Soon though she realized how much fun they were having, so we joined them while I held on to her hand. Eventually, DeXi did not restrain herself at all. Now she too loves to climb all over her dad all the while smiling and giggling.

At the age of three, DeXi has already developed lots of

Right now in China there are **1,500**
Half the Sky-trained caregivers who are loving,
nurturing, and mentoring orphaned children.

hobbies, including singing, dancing, playing house, etc. She is also the first child to rush to the gate and fetch slippers for her dad when he comes home from work. She pounds on her dad's back to massage him when he is tired.

Who would have thought DeXi would become such a considerate child and such a Daddy's girl?

By Changchun Foster Mother Yang ShuYun



DeXi (in black-and-white dress) and her Dad

The China Care Home



Children born too small and weak to survive or with life-threatening birth defects that require specialized treatment 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.



QiuYan before surgery

Frail QiuYan Grows Strong

When QiuYan arrived at the China Care Home from Inner Mongolia, our staff wasn't sure she would make it. All frail, five-month old QiuYan could do was lie on her back, struggling to breathe. Because her oxygen concentration was only 45 percent (normal is 95 percent) she was very blue, especially her lips.

A week later, QiuYan underwent her first heart surgery, which saved her life. After she was released from the hospital, QiuYan's China Care foster mom, Wang YuZhi, took care of her around the clock. Wang YuZhi made sure QiuYan's doc-

tors' instructions that her fluid intake be restricted to no more than 600 ml every day (in order not to increase pressure on her heart) were followed to the letter and patiently coaxed her to eat. Gradually, QiuYan began to eat more and she learned to turn over, crawl and sit. After five months, QiuYan was strong enough to go back to her home institution.

Seven months later, QiuYan returned to Beijing for her second heart surgery. Again Wang YuZhi doted over QiuYan, getting up in the middle of the night to make sure she hadn't kicked off her quilt, encouraging her to play and dance with the other children, and teaching her how to put on her socks. Every morning when QiuYan woke, she called for her "mama" and became very excited when Wang YuZhi arrived to help her get dressed.

By the time 18-month-old QiuYan left the China Care Home for the second

time, she had become strong and happy. QiuYan loved music so much that the moment she heard the first note, she would grab the hands of a classmate so they could dance together. QiuYan's beloved foster mom was sad to see her go but says: "I wish for her a long, healthy life with lots of music and dancing and a family of her own."



QiuYan now

The Volunteers

Pennies and Pages for the Children

When Kim Beagle, Half the Sky volunteer and mom of three girls adopted from China, traveled to Changchun to help open our model center there, her friends thought she would come home ready to adopt a fourth child. Instead, Kim said, "All I can think about is how I can volunteer and be involved, and help spread the word about the wonderful things this organization is doing."

True to her word, Kim came up with a way to help orphaned children and improve the reading skills of her first-grade class in Florida. Kim promised her students that for every page they read at home at night, she would give them a penny to put into a jar "for the kids in China."



Then some of the children started bringing in extra nickels, dimes and even dollars from their piggy banks. Inspired by their generosity and their improved reading habits, parents, friends and others started giving as well.

By the end of the month-long Read-A-Thon, the class had read 11,846 pages and raised USD 1,000. In the process, they had also learned the valuable lesson of appreciating what they have. When Kim's class made lists of things to be thankful for at Thanksgiving, many of the children said: "I get to go to school." "I can assure you," says Kim, "That's the first time that's ever happened!"

There are few sweeter moments than holding the small hand of a child. A contract is made between you and the child. With the extension of her little hand, the child extends her trust in you. Once you feel the warmth of her little hand, you know that you will do everything to properly guide her and anything to protect her. — Changchun build volunteer Patricia Lee-Hoffman



2010 Volunteer build, Changchun

These precious little children deserve this kind of patient and loving attention. They deserve to have someone looking out for them. Like all children, they don't just need a bed, three meals and a safe environment. They need people to care about them, to engage them and encourage them, to help them explore their world and learn, to tell them they're special, to love them. Half the Sky does all this. --Changchun build volunteer Jeannette Levitt

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. These are crucial for our work to bring a loving adult into the daily life of every institutionalized child in China. 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>.

CORPORATE SUPPORTERS

Armstrong

Asia Alternatives Mgmt. LLC

Baring Private Equity Asia

BHP Billiton

Capital Group Companies Charitable Foundation

Capital World Hong Kong

CLSA Chairman's Trust

China Care Foundation

Coles Group Asia

Converse

Credit Suisse

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FoxConn

Grant Thornton, LLP

Hairy Crab Charities

Hewlett-Packard Company

HSBC

Indigo Services (UK) Ltd.

JPMorgan Chase Foundation

Kmart

Linklaters LLP

Lloyd George Asia Foundation

McDonald's Corporation

PRG Chicago

PricewaterhouseCoopers

Ronald McDonald House Charities

Skoll Foundation

Target Corporation

TCT Foundation for the Children of China

Thomson Reuters

TimeWarner

UTi Charitable Foundation

Western Union

World Childhood Foundation

IN KIND

APL

Bunnies By The Bay

Freshfields Bruckhaus Designer

Global Sources

Grant Thornton LLP

GMR Gymnastics Sales, Inc.

Jack Morton Worldwide

Little Partners Inc.

Radio Flyer

“ J.P. Morgan has enjoyed a strong relationship with Half the Sky since 2005. Our partnership commenced with The Blue Sky pilot which has subsequently evolved into The Rainbow Program, responding to the Government's 12th Five Year plan that includes the modernisation of the social welfare system for all marginalised children. The Rainbow Program will transform education and welfare benefits with professional leadership and development that will add to social and economic reform. We are proud to be the inaugural sponsor of The Rainbow Program. The integration of our financial resources, coupled with the enthusiasm of our employee volunteers will deliver positive solutions to pressing community needs across Asia. ”

Gaby Abdelnour, Chairman and Chief Executive Office, J.P. Morgan Asia Pacific



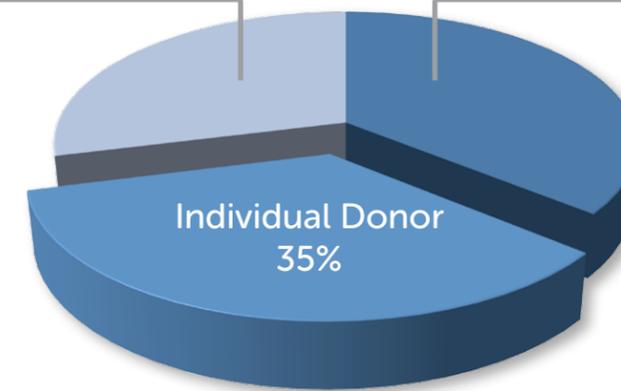
Big Tops in Sichuan



In May 2010 the last Half the Sky “Big Top” closed in Sichuan Province. Located inside government relocation camps, our giant Big Tops were safe havens for the youngest victims of the 2008 Wenchuan Earthquake while they waited for permanent housing. Inside our Big Tops children played, laughed, read, created artwork and received much-needed, long-term trauma counseling. Finally, after those seconds that shattered their lives, they could be children again.

Corporate Donor
29%

Private Foundation
36%



Half the Sky was founded by a small group of individuals who generously provided 100% of our revenues in the first years of our operation.

As Half the Sky’s work spread throughout China, its community of donors expanded as well. By 2010, 65% of Half the Sky’s revenues came from corporate and private foundations, who have become crucial for our work.

We appreciate every gift from our community of supporters and some we are able to commemorate with a plaque and poster hung at one of our Children’s Centers.

This “Room of Our Own” gift commemorated by a poster and plaque (see photo right) seems to be particularly appreciated by two of the youngest children in our programs.



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.

Jenny Bowen
Founder and CEO of Half the Sky Foundation

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

Matt Dalio

President of the board of directors of China Care Foundation, Inc., which he founded in 2000 at the age of 16; a graduate of Harvard University, he is currently an MBA

candidate at Stanford Business School.

Ellen Eliasoph

Partner in the Washington and Beijing offices of Covington and Burling, LLC; former managing director of Warner Brothers, China, has worked on many cutting-edge transactions in the media and entertainment industries, as well as with many leading companies and policymakers throughout the Asia-Pacific region.

Tim Huxley

CEO of Wah Kwong Maritime Transport Holdings Ltd., a leading independent ship owner based in Hong Kong; served as Vice Chairman of the Hong Kong Shipowners Association together with several other industry bodies and is a regular commentator on shipping issues in the press and on television.

Dana Johnson, MD, PhD

Professor of Pediatrics and Director of its Division of Neonatology; and Co-Founder of the International Adoption Medical Program at the University of Minnesota. Also serves as Medical Consultant on International Adoptions to multiple agencies across the United States.

Peter Lighte

Vice Chairman, Global Corporate Banking, JP Morgan Chase Bank; was the founding Chairman of JP Morgan Chase Bank (China) and has been associated with the bank in London, Hong Kong and Tokyo; Ph.D. from Princeton University in East Asian studies; Author of a lively memoir, *Pieces of China*.

Advisory Committee

Wang Zhenyao

Director of new Beijing Normal University's One Foundation Philanthropy Research Institute & China Institute for Social Policy

Zhang Zhirong

Senior Executive Consultant for Half the Sky

Advisors

Richard Bowen
Carlos A. Cordeiro
Lou DeMattei
Carolyn Pope Edwards, EdD
Robert Eisenberg
Karin Evans
Linda Filardi
Ellen Hall, PhD
Kay Johnson, PhD
Scott Kronick
Emily Kwong
Melissa J. Ma



Half the Sky Financial Statements

Letter from Independent Auditor

August 12, 2011

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

Grant Thornton LLP
One California Street, Suite 2300
San Francisco, CA 94111
T 415.9863900

We have audited the accompanying consolidated statements of financial position of Half the Sky Foundation and subsidiaries (the "Foundation"), as of December 31, 2010 and 2009, 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, 2010 and 2009, and the changes in their net assets, their cash flows and functional expenses for the years then ended in conformity with accounting principles generally accepted in the United States of America.



San Francisco, California

Consolidated Statements of Financial Position

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2009 and 2010

Assets:

Cash and cash equivalents
Pledges receivable, net
Other receivables
Investments
Prepaid program expenses
Inventory
Property and equipment, net
Deposits

Total assets

Liabilities:

Accounts payable
Accrued expenses
Deferred rent liability
Deferred income

Total liabilities

Commitments (Note 9)

Net assets:

Unrestricted
Designated by the Board for endowment

Temporarily restricted
Permanently restricted

Total unrestricted net assets

Total net assets

Total liabilities and net assets

2010 2009

\$2,270,046	\$3,692,929
109,944	137,544
14,624	7,564
1,060,246	939,910
101,906	56,907
67,027	85,108
54,800	76,390
62,094	40,003
\$3,740,687	\$5,036,355

\$149,491	\$74,523
122,061	61,659
13,337	-
359	-
285,248	136,182

723,918	636,269
359,395	309,394
1,083,313	945,663
1,737,636	3,335,802
634,490	618,708
3,455,439	4,900,173
\$3,740,687	\$5,036,355

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

Consolidated Statements of Activities and Changes in Net Assets

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2009 and 2010

	2010				2009			
	Unrestricted	Temporarily Restricted	Permanently Restred	Total	Unrestricted	Temporarily Restricted	Permanently Restred	Total
Revenues, gains and other support:								
Contributions	\$3,209,548	\$4,463,834	\$15,782	\$7,689,164	\$3,195,077	\$4,031,169	\$20,695	\$7,246,941
Contributed services and materials	504,945	-	-	504,945	704,655	-	-	704,655
Merchandise sales	25,696	-	-	25,696	33,005	-	-	33,005
Interest and dividend income on investment	31,402	-	-	31,402	27,555	-	-	27,555
Other income	47,760	-	-	47,760	30,797	-	-	30,797
Net realized and unrealized gain	12,101	67,637	-	79,738	67,890	63,160	-	131,050
Net assets released from restrictions	6,129,637	(6,129,637)	-	-	3,873,934	(3,873,934)	-	-
Total revenues, gains and other support	9,961,089	(1,598,166)	15,782	8,378,705	7,932,913	220,395	20,695	8,174,003
Expenses:								
Program Services	7,770,293	-	-	7,770,293	6,611,280	-	-	6,611,280
Fundraising								
Donated goods and services	417,906	-	-	417,906	407,057	-	-	407,057
Other fundraising	956,629	-	-	956,629	609,059	-	-	609,059
Total fundraising	1,374,535	-	-	1,374,535	1,016,116	-	-	1,016,116
Merchandise costs	17,462	-	-	17,462	10,357	-	-	10,357
Management and general	661,149	-	-	661,149	545,654	-	-	545,654
Total expenses	9,823,439	-	-	9,823,439	8,183,407	-	-	8,183,407
Change in net assets	137,650	(1,598,166)	15,782	(1,444,734)	(250,494)	220,395	20,695	(9,404)
Net assets, beginning of year	945,663	3,335,802	618,708	4,900,173	1,196,157	3,115,407	598,013	4,909,577
Net assets, end of year	\$1,083,313	\$1,737,636	\$634,490	\$3,455,439	\$945,663	\$3,335,802	\$618,708	\$4,900,173

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

Statements of Cash Flows

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2009 and 2010

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$(1,444,734)	\$(9,404)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	29,733	12,869
Net realized and unrealized losses (gains) on investments	(79,738)	(131,050)
Donated equipment	-	(48,552)
Decrease (increase) in assets:		
Pledges receivable, net	27,600	288,362
Other receivables	(7,062)	21,321
Prepaid program expenses	(44,999)	11,575
Inventory	18,081	4,437
Deposits	(22,091)	(10,241)
Accounts payable	74,968	(12,869)
Accrued expenses	60,402	1,214
Deferred rent liability	13,337	-
Deferred income	359	-
Net cash provided by operating activities	(1,374,144)	127,662
Cash flows from investing activities:		
Acquisition of property and equipment	(8,142)	(9,533)
Purchases of investments	(40,597)	(421,758)
Proceeds from sale of investments	-	330,940
Net cash used in investing activities	(48,739)	(100,351)
Increase in cash and cash equivalents	(1,422,883)	27,311
Cash and cash equivalents, beginning of year	3,692,929	3,665,618
Cash and cash equivalents, end of year	2,270,046	3,692,929

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 2010

Expenses	2010					2009				
	Program Service	Management & General	Fundraising	Merchandise Cost	Total	Program Service	Management & General	Fundraising	Merchandise Cost	Total
Compensation and benefits for non-field staff	\$1,200,757	\$382,599	\$633,440	\$-	\$2,216,796	\$1,040,199	\$329,538	\$327,406	\$-	\$1,697,143
Consulting and Professional Services	99,665	96,262	-	-	195,927	81,149	100,803	90,507	-	272,459
Office expenses	45,844	34,968	93,097	-	173,909	48,536	30,474	68,332	-	147,342
Information technology	113,424	211	-	-	113,635	136,615	5,268	-	-	141,883
Occupancy	76,713	82,953	-	-	159,666	74,818	34,691	-	-	109,509
Travel	211,021	17,258	61,201	-	289,480	327,910	16,342	49,798	-	394,050
Conferences and meetings	185,830	-	-	-	185,830	54,202	-	-	-	54,202
Depreciation and amortization	-	29,732	-	-	29,732	-	12,869	-	-	12,869
Insurance	-	17,166	-	-	17,166	-	15,669	-	-	15,669
Compensation and benefits for field staff	2,884,115	-	-	-	2,884,115	2,717,819	-	-	-	2,717,819
Earthquake relief	47,857	-	-	-	47,857	136,495	-	-	-	136,495
Donated Goods & Services	12,300	-	417,906	-	430,206	211,809	-	407,057	-	618,866
Stipends and Tuition	261,868	-	-	-	261,868	246,243	-	-	-	246,243
Orphanage Center Construction, Equipment & Furnishings	163,609	-	-	-	163,609	157,498	-	-	-	157,498
Surgery and nurturing care in connection with China Care Program	1,364,611	-	-	-	1,364,611	1,037,497	-	-	-	1,037,497
Family Village	265,817	-	-	-	265,817	135,249	-	-	-	135,249
Critical Care Fund	444,275	-	-	-	444,275	-	-	-	-	-
Training programs and materials	202,490	-	-	-	202,490	107,710	-	27,773	-	135,483
Event expense	-	-	107,893	-	107,893	-	-	-	-	-
All other expense	190,097	-	60,998	17,462	268,557	97,531	-	45,243	10,357	153,131
Total Functional Expenses	\$7,770,293	\$661,149	\$1,374,535	\$17,462	\$9,823,439	\$6,611,280	\$545,654	\$1,016,116	\$10,357	\$8,183,407

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

Notes to Consolidated Financial Statements

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2009 and 2010

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.

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 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 Youth Services 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, 2010 and 2009. 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 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 the Beijing Representative Office registered. Accordingly, it set up two accounts maintained by the managing director of programs. The balance in these accounts was \$5,277 and \$49,245 at December 31, 2010 and 2009, 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, 2010 and 2009, with estimated fair market values of \$107,894 and \$191,109, 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, 2010 and 2009.

Contributed goods are recorded at estimated fair value at the date of receipt and amounted to \$297,051 and \$413,546 for the years ended December 31, 2010 and 2009, respectively.

Income Tax Status

The Foundation has been recognized as an organization exempt from tax

Income Tax Status (continued)

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 the Canada Revenue Agency. Australia Ltd. has been granted tax exempt status by the Australian Taxation Office.

Pursuant to the statute of limitations, the Foundation is open to audit by the Internal Revenue Service (“IRS”) for its 2006-2010 tax years and various state taxing authorities for 2005-2010 tax years. The Foundation currently does not have any examinations in progress with the IRS or states. The Foundation does not anticipate that there will be any material changes in its unrecognized tax positions over the next 12 months.

The Foundation may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to its financial results. In the event the Foundation has such an assessment from a taxing authority, it is its accounting policy to recognize any interest and penalties as a component of income tax expense.

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 Foundation defines fair value as the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Foundation follows accounting guidance that has a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of

the measurement date. Instruments with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices in an orderly market, will generally have a higher degree of market price transparency and a lesser degree of judgment used in measuring fair value.

The three levels are defined as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities.

Level 2 – 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 3 – 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 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.

Subsequent Events

Subsequent events have been evaluated through July 8, 2011, which is the date the financial statements were 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 \$109,944 and \$137,544 at December 31, 2010 and 2009, respectively were expected to be collected within one year. There were no long-term pledge receivables at December 31, 2010 or 2009.

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, 2010 and 2009. There were conditional promises to give of \$3,096,511 and \$4,863,100 as of the years ended December 31, 2010 and 2009, respectively.

NOTE 4 – INVESTMENTS

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

	2010	2009
Marketable equity securities - mutual funds	\$ 683,435	\$ 595,267
Fixed income mutual funds	376,811	344,643
Total	<u>\$ 1,060,246</u>	<u>\$ 939,910</u>

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:

	2010	2009
Unrealized gains (losses)	\$88,935	\$ 192,165
Realized gains (losses)	-	(54,191)
Investment related expenses	(9,197)	(6,924)
Net realized and unrealized gains (losses)	<u>\$79,738</u>	<u>\$ 131,050</u>
Interest and dividend income on investment	<u>\$31,402</u>	<u>\$ 27,555</u>

As of December 31, 2010 and 2009, the Board has designated approximately \$359,000 and \$309,000, respectively, for re-investment in the endowment.

The Foundation’s cash equivalents, marketable equity securities and fixed income mutual funds are valued using Level 1 inputs.

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

	2010	2009
Equipment	\$136,497	\$ 129,152
Furniture and fixtures	25,284	24,487
Total	<u>161,781</u>	<u>153,639</u>
Less: accumulated depreciation	(106,981)	(77,249)
Property and equipment, net	<u>\$54,800</u>	<u>\$ 76,390</u>

Depreciation expense for the years ended December 31, 2010 and 2009 amounted to \$29,733 and \$12,869 respectively.

NOTE 6 – 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 Prudent Management of Institutional Funds Act (“UPMIFA”) 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 until distributed in accordance with UPMIFA and Board policy. Endowment net asset composition by type of fund as of December 31, 2010 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 634,490	\$ 634,490
Accumulated gains on donor-restricted endowment funds	-	130,796	-	130,796
Board-designated endowment funds	359,395	-	-	359,395
Accumulated gains on board-designated endowment funds	74,087	-	-	74,087
Total Funds	\$ 433,482	\$ 130,796	\$ 634,490	\$ 1,198,768

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

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	\$ 340,977	\$ 63,160	\$ 618,708	\$ 1,022,845
Investment return:				
Investment income	-	-	-	-
Net appreciation (realized and unrealized)	42,505	\$ 67,636	-	110,141
Total investment return	42,505	67,636	-	110,141
Contributions	50,000	-	15,782	65,782
Appropriation of endowment assets for expenditure	-	-	-	-
Other changes:				
Transfers	-	-	-	-
Endowment net assets, end of year	\$ 433,482	\$ 130,796	\$ 634,490	\$ 1,198,768

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

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

	2010	2009
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently by donor stipulation or law	\$ 634,490	\$ 618,708
Total endowment funds classified as permanently restricted net assets	\$ 634,490	\$ 618,708

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 UPMIFA 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, 2010 or 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 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purpose-restricted programs or locations at December 31, 2010:

	2010	2009
Beihai	\$ 28,285	\$ 8,919
Blue Sky	180,821	50,574
CEF	-	1,082,627
Changchun	129,726	-
Changsha	167,329	-
Chengdu	27,584	-
Chongqing	-	18,000
Critical Care Fund	-	158,899

Earnings on Endowment Funds	130,796	63,160
Fuzhou	31,878	49,153
Guangzhou	179,520	-
Guilin	90,071	75,000
Haikou	320,819	284,247
Hefei	1,441	-
Jia Fellowship	-	13,104
Lianyungang	10,024	21,621
LMEF	-	248,666
Luoyang	46,958	11,803
Maoming	35,474	14,771
Maonan	26,111	40,396
Model Training Centers Support	-	70,228
Nanjing	68,059	-
Nanning	-	12,134
Qingdao and Shijiazhuang	63,392	222,937
Qingyuan	6,807	12,987
Shaoguan	-	22,688
Shenzhen	156,123	140,000
The China Care Project (TCCP)	-	305,787
Tianjin and Guangzhou center and 8 additional Foster Villages	-	368,101
Toys for 2010 New Site	-	5,000
Wuzhou	5,811	-
Xiamen	19,470	-
Xinyang	-	35,000
Yiyang	3,384	-
YS Newsletter Project	7,753	-
Total temporarily restricted net assets	\$ 1,737,636	\$ 3,335,802

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purpose-restricted programs or locations at December 31, 2010:

The China Care Project (TCCP)	\$ 1,466,985
CEF	1,009,940
Blue Sky	702,337
Guangzhou	691,600
LMEF	249,666
Critical Care Fund	169,301
Guangzhou and Shenzhen	159,571
Maoming	131,152
Changchun	124,273
Lianyungang	112,432
Shenzhen	101,491
Hefei	94,838
Youth Service Program	92,322
Jia Fellowship	88,104
Xi'an	80,735
Model Training Centers Support	70,228
Wuzhou	67,111
Haikou	64,880
Guilin	62,279
Chongqing	59,921
Changzhou	53,532
Nanjing	52,539
Luoyang	41,745
Qingyuan	40,011
Fuzhou	36,354
Xinyang	36,070
Shaoguan	35,487
Maonan	34,585
Beihai	33,510
Xiamen	32,555
Datong	32,047
Chengdu	24,285
Gaoyou	15,825
Chenzhou	14,322
Nanning	12,262
Shaoyang	11,995

Nanchang	8,400
Toys for 2010 New Site	5,000
Yiyang	4,361
Other	5,586
Total net assets released from restrictions	\$ 6,129,637

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 \$158,000 and \$107,000 for the years ended December 31, 2010 and 2009, respectively.

Years ending December 31,

2011	\$ 112,914
2012	77,550
2013	61,706
2014	56,789
Total	<u>\$ 308,359</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, 2010 and 2009 were \$19,266 and \$12,922 respectively

NOTE 11 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2010 and 2009, 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 \$184,365 and \$72,709, respectively.

NOTE 12 – AFFILIATED PARTIES

Half the Sky Foundation Australia Limited ("Australia Ltd"), an affiliate of the Foundation, was incorporated in Victoria, Australia in May 2009. It has a joint development project with HTS in 2011. Half the Sky Foundation Canada Limited ("Canada Ltd"), another affiliate of the Foundation was incorporated in Canada in June 2009. It organized fundraising events in 2010 to collect funds for the programs of the Foundation. There were no donations made from Canada Ltd. to the Foundation in 2010. Half the Sky Foundation Canada (Foundation HTS du Canada) was an independent charitable entity, registered with the Canadian government, which used to raise funds and make unrestricted donations to the Foundation until August 2010, at which point it was closed.

NOTE 13 – MAJOR CONTRIBUTIONS

For the year ended December 31, 2010, the Foundation had one donor with more than 20% of total contributions. For the year ended December 31, 2009, the Foundation had two 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, 2010 and 2009, the Foundation received a designated grant of \$699,500 and \$252,840, 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.



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