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

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


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

In 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.

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

Half the Sky announced a transition plan to transfer funding and operations of its programs to the Chinese government 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.

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

2000

2005
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Orphanage directors gather to discuss how to start and operate Half the Sky-inspired programs on their own.

Milestones

*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

Half the Sky Foundation

Half the Sky Foundation
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.

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.

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.

The Children — Babies and Their Nannies

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!!

Right now in China there are one million orphans.

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When the baby was adopted, I was happy for her. And I miss her!!
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
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.

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
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 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

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

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.
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!”

The Volunteers

The Volunteers

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

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
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
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McDonald’s Corporation

PRG Chicago
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Ronald McDonald House Charities
Skoll Foundation
Target Corporation
TCT Foundation for the Children of China
Thomson Reuters
Time Warner
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 Officer, J.P. Morgan Asia Pacific
Individual Donor 35%
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.

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.
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.

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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 Shipping 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.

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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

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Lou DeMattei
Carolyn Pope Edwards, EdD
Robert Eisenberg
Karlin Evans
Linda Filardi
Ellen Hall, PhD
Kay Johnson, PhD
Scott Kronick
Emily Kwong
Melissa J. Ma

Half the Sky Board of Directors and Advisory Committee

Advisory Committee

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Senior Executive Consultant for Half the Sky

Advisors

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Board of Directors

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Melissa J. Ma
Consolidated Statements of Financial Position

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
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<tbody>
<tr>
<td>Assets:</td>
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<td>Total liabilities and net assets</td>
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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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
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<tr>
<td><strong>Revenues, gains and other support:</strong></td>
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<td>Contributed services and materials</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Merchandise sales</td>
<td>25,696</td>
<td>23,005</td>
</tr>
<tr>
<td>Interest and dividend income on investment</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other income</td>
<td>47,760</td>
<td>70,465</td>
</tr>
<tr>
<td>Net realized and unrealized gain</td>
<td>$12,101</td>
<td>67,637</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>$6,129,637</td>
<td>(6,129,637)</td>
</tr>
<tr>
<td>Total revenues, gains and other support</td>
<td>$9,961,089</td>
<td>(1,598,166)</td>
</tr>
</tbody>
</table>

| **Expenses:** |               |               |
| Program Services    | 7,770,293     | 6,611,280     |
| Fundraising          | -             | 70,465        |
| Donated goods and services | 417,906      | 407,057       |
| Other fundraising   | 956,629       | 609,059       |
| Total fundraising   | 1,374,335     | 1,016,116     |
| Merchandise costs   | 17,462        | 10,357        |
| Management and general | 661,149      | 454,654       |
| Total expenses      | 9,823,439     | 8,183,407     |

| **Change in net assets:** |               |               |
| 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: | 7,062         | 23,121        |
| 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 | 13,307        | -             |
| Deferred income         | 358           | -             |
| Net cash provided by operating activities | (1,374,145)   | 127,662       |

| **Cash flows from investing activities:** |               |               |
| Acquisition of property and equipment | (8,142)       | (9,533)       |
| Proceeds from sale of investments | 40,597        | (421,758)     |
| 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 | 3,665,618     | 3,665,618     |
| Cash and cash equivalents, end of year | 2,270,046      | 3,692,929     |

### Statements of Cash Flows

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>(1,444,734)</td>
<td>(9,404)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>29,733</td>
<td>12,869</td>
</tr>
<tr>
<td>Net realized and unrealized losses (gains) on investments</td>
<td>(79,738)</td>
<td>(131,050)</td>
</tr>
<tr>
<td>Donated equipment</td>
<td>-</td>
<td>(48,552)</td>
</tr>
<tr>
<td>Decrease (increase) in assets:</td>
<td>7,062</td>
<td>23,121</td>
</tr>
<tr>
<td>Prepaid program expenses</td>
<td>44,999</td>
<td>11,575</td>
</tr>
<tr>
<td>Inventory</td>
<td>18,081</td>
<td>4,437</td>
</tr>
<tr>
<td>Deposits</td>
<td>(22,091)</td>
<td>(10,241)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>74,968</td>
<td>(12,869)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>60,402</td>
<td>1,214</td>
</tr>
<tr>
<td>Deferred rent liability</td>
<td>13,307</td>
<td>-</td>
</tr>
<tr>
<td>Deferred income</td>
<td>358</td>
<td>-</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>(1,374,145)</td>
<td>127,662</td>
</tr>
</tbody>
</table>

| **Cash flows from investing activities:** |               |               |
| Acquisition of property and equipment | (8,142)       | (9,533)       |
| Proceeds from sale of investments | 40,597        | (421,758)     |
| 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 | 3,665,618     | 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

<table>
<thead>
<tr>
<th>Program</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$1,216,796</td>
<td>$1,049,199</td>
</tr>
<tr>
<td>Program Service Management &amp; General Fundraising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$1,216,796</td>
<td>$1,049,199</td>
</tr>
<tr>
<td>Program Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management &amp; General</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fundraising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Compensation and benefits for non-field staff:** $1,205,757 (2010) vs. $1,082,306 (2009)
- **Consulting and Professional Services:** $99,365 (2010) vs. $83,007 (2009)
- **Office expenses:** $55,465 (2010) vs. $45,854 (2009)
- **Information technology expenses:** $113,424 (2010) vs. $111,595 (2009)
- **Occupancy expenses:** $27,713 (2010) vs. $36,108 (2009)
- **Training and conferences expenses:** $10,521 (2010) vs. $10,208 (2009)
- **Depreciation and amortization expenses:** $5,211 (2010) vs. $7,207 (2009)
- **All other expenses:** $211,267 (2010) vs. $172,442 (2009)

### Program Expense Notes

- **Program Expense** for the Family Village Program includes $265,817 for costs related to training programs and materials.
- **Program Expense** for the Critical Care Fund includes $444,275 in connection with China Care.
- **Program Expense** for the Equipment & Furnishings includes $49,080 for Orphanage Center Construction.
- **Program Expense** for the Total Functional Expenses includes a total of $7,770,293.

### Other Financial Notes

- **Total Functional Expenses**: $7,770,293 (2010) vs. $6,611,280 (2009)
- **Program Service**: $661,149 (2010) vs. $545,654 (2009)
- **Management & General**: $1,374,535 (2010) vs. $545,654 (2009)
- **Fundraising**: $17,462 (2010) vs. $1,016,116 (2009)
- **Cost Total**: $9,823,439 (2010) vs. $8,183,407 (2009)

### Program Expense Notes

- **Program Expense** for the Stipends and Tuition **Services** includes $99,665 in compensation and benefits for field staff.
- **Program Expense** for the Consulting and Professional Services **Services** includes $12,300 in consulting and professional services.
- **Program Expense** for the Depreciation and amortization **Services** includes $76,713 in depreciation and amortization.
- **Program Expense** for the Insurance **Services** includes $211,021 in insurance.
- **Program Expense** for the Travel **Services** includes $211,021 in travel.

### Program Expense Notes

- **Program Expense** for the Training programs and materials includes $265,817 in training and conferences expenses.
- **Program Expense** for the Consultation and Professional Services includes $12,300 in consulting and professional services.
- **Program Expense** for the Depreciation and amortization includes $76,713 in depreciation and amortization.
- **Program Expense** for the Insurance includes $211,021 in insurance.
- **Total Functional Expenses**: $9,823,439 (2010) vs. $8,183,407 (2009)

### Program Expense Notes

- **Program Expense** for the training, supervision of staff, and development includes $113,424 in information technology.
- **Program Expense** for the renovation of rooms includes $27,713 in occupancy expenses.
- **Program Expense** for the provision of specialized medical treatment includes $444,275 in compensation and benefits for non-field staff.
- **Program Expense** for the provision of specialized medical treatment includes $4,484,346 in office expenses.
- **Program Expense** for the provision of specialized medical treatment includes $113,424 in information technology.
- **Program Expense** for the renovation of rooms includes $27,713 in occupancy expenses.
- **Program Expense** for the provision of specialized medical treatment includes $10,750 in travel expenses.

### Program Expense Notes

- **Program Expense** for the training, supervision of staff, and development includes $113,424 in information technology.
- **Program Expense** for the renovation of rooms includes $27,713 in occupancy expenses.
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- **Program Expense** for the provision of specialized medical treatment includes $4,484,346 in office expenses.
- **Program Expense** for the provision of specialized medical treatment includes $113,424 in information technology.
- **Program Expense** for the renovation of rooms includes $27,713 in occupancy expenses.
- **Program Expense** for the provision of specialized medical treatment includes $10,750 in travel expenses.

### Program Expense Notes

- **Program Expense** for the training, supervision of staff, and development includes $113,424 in information technology.
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- **Program Expense** for the provision of specialized medical treatment includes $10,750 in travel expenses.
NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Foundation and its subsidiary. Revenues from external transactions and balances have been eliminated upon consolidation.

Foreign Currency

Assets and liabilities denominated in foreign currencies are translated into United States dollars, the reporting currency, at exchange rates in effect on reporting dates, and revenue and expenses are translated at rates in effect in the period in which the transactions occurred. Significant amounts 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 guidelines of Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification™ (“ASC”) 958 - 205, Not-for-Profit Entities – General. The Foundation recognizes unrestricted net assets at the lower of actual cost or estimated fair values of $100,000 for each of the years ended December 31, 2010 and 2009.

Contributed services and materials are recognized in accordance with ASC 958 – 605. The Foundation received and recorded contributed pro-bono legal services for a director of development in Hong Kong at an estimated fair market value of $107,894 and $191,109, respectively. The Foundation paid fees for settlement services for the years ended December 31, 2010 and 2009, with estimated fair market values of $107,894 and $191,109, respectively. The Foundation recorded fees for settlement services for the years ended December 31, 2010 and 2009.

Contributed Services and Materials

Contributed goods are recorded at estimated fair value at 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.

Pledges Receivable

The Foundation evaluates the collectability of its pledges receivable on an ongoing basis and records a reserve for potential uncollectible pledges receivable.

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 stipulates a restriction on the use of donated assets or on the end use of restricted assets, an amount equal to the estimated fair market value in excess of the restriction end 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.

Credit Risk

The Foundation maintains cash and cash equivalents with financial institutions. Cash and cash equivalents include overnight investments and money market funds. Cash balances may exceed the Federal Deposit Insurance Corporation (“FDIC”) limits from time to time.

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 sold 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 recognized at the adjusted cost basis. Adjusted cost is the estimated fair value of the security at the time of the transaction less any prior cash outflow or cash inflow during the year. Dividend and interest income are accrued when earned.

Property and Equipment

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 donation. 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 primarily of merchandise sold in the Foundation’s on-line store and is stated at the lower of weighted average cost or market value.

Income Tax Status

The Foundation has been recognized as an exempt organization by the IRS. The Foundation files a United States federal income tax return on a calendar year basis. Federal income tax returns and supporting schedules are filed with the Internal Revenue Service. The cumulative effect of changes in the accounting principles accounted for in prior years is reflected in the financial statements as of December 31, 2010 and 2009. The amounts recorded on the books of the Foundation which are subject to tax are $3,899,827 for December 31, 2010 and $1,940,966 for December 31, 2009. Income earned from investments of unrestricted assets in excess of $100,000 is sent to the IRS. The Foundation has not made any transfer of earnings from investment income to the organization’s permanent fund.
The Foundation defines fair value as the amount that would be received to sell a significant portion of a financial asset or paid to transfer a significant portion of a financial liability, in an orderly transaction between market participants to which the Foundation has access.

The Foundation follows accounting standards for the valuation of financial instruments. Investments are measured and reported at fair value. Accrued expenses are reasonable estimates of the fair values of these financial instruments. Instruments with readily available actively quoted prices, or for which fair value can be measured from actively quoted prices, or for which fair value can be estimated using quoted prices for similar financial instruments, are recorded at net realizable value. Pledges receivable of $109,944 and $88,935 as of 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 3 – PLEDGES RECEIVABLE, NET

Pledges receivable represent unconditional promises to give by donors and are recorded at net realizable value. Pledges receivable of $109,944 and $88,935 as of 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. The following pledge agreements are unconditional promises to give of $3,096,511 and $4,863,100 as of 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:

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity Securities</th>
<th>Fixed Income Investments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$683,435</td>
<td>$595,267</td>
<td>$1,278,702</td>
</tr>
<tr>
<td>2009</td>
<td>$753,512</td>
<td>$596,864</td>
<td>$1,349,376</td>
</tr>
</tbody>
</table>

Marketable equity securities consist of mutual funds valued using Level 1 inputs. Financial assets of the Foundation are held in custody by financial institutions. The Board of Directors of the Foundation has interpreted the Uniform Prudent Man Act ("UPMA") as requiring the presentation 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 permanent any endowment funds (a) that have 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 determined on a functional basis in the consolidated statements of activities and changes in net assets. 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-restricted restrictions. As a result of the interpretation, the Foundation classifies as permanent any endowment funds (a) that have 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.

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 fixed income mutual funds. The investment goal of the Foundation is to maintain or grow its asset size in real (inflation adjusted) terms with risk at a level consistent with the Foundation's purposes. 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-restricted restrictions.
Changes in endowment net assets for the fiscal year ended December 31, 2009 was as follows:

Endowment net asset composition by type of fund as of December 31, 2009 was as follows:

```
<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>unrestricted</td>
<td>$433,482</td>
<td>$340,977</td>
</tr>
<tr>
<td>temporarily restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>permanently restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Funds</td>
<td>$ 433,482</td>
<td>$ 340,977</td>
</tr>
</tbody>
</table>
```

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

```
<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>unrestricted</td>
<td>$195,532</td>
<td>$158,013</td>
</tr>
<tr>
<td>temporarily restricted</td>
<td></td>
<td>$793,545</td>
</tr>
<tr>
<td>permanently restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Funds</td>
<td>$ 195,532</td>
<td></td>
</tr>
</tbody>
</table>
```

Unrestricted net assets, beginning of year
Investment returns: Investment income
Net appreciation (realized and unrealized)
Total investment return
Contributions
Appropriation of endowment assets for expenditure
Other changes:
Transfers
Endowment net assets, end of year

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

```
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$634,490</td>
</tr>
<tr>
<td>2009</td>
<td>$618,708</td>
</tr>
</tbody>
</table>
```

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 UPJIA 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 $51,786 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.

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

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

```
<table>
<thead>
<tr>
<th>Location</th>
<th>CEF</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beihai</td>
<td></td>
<td>$28,285</td>
<td>$8,919</td>
</tr>
<tr>
<td>Blue Sky</td>
<td></td>
<td>180,821</td>
<td>50,574</td>
</tr>
<tr>
<td>Changshu</td>
<td>129,726</td>
<td>1,028,627</td>
<td></td>
</tr>
<tr>
<td>Changsha</td>
<td></td>
<td>167,329</td>
<td>18,000</td>
</tr>
<tr>
<td>Shanghai</td>
<td>27,584</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Critical Care Fund</td>
<td></td>
<td>158,899</td>
<td></td>
</tr>
</tbody>
</table>
```
NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

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

<table>
<thead>
<tr>
<th>City</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>The China Care Project (TCCP)</td>
<td>$1,466,985</td>
</tr>
<tr>
<td>CEF</td>
<td>$1,009,940</td>
</tr>
<tr>
<td>Blue Sky</td>
<td>702,337</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>691,600</td>
</tr>
<tr>
<td>LMFE</td>
<td>249,666</td>
</tr>
<tr>
<td>Critical Care Fund</td>
<td>169,301</td>
</tr>
<tr>
<td>Guangzhou and Shenzhen</td>
<td>159,571</td>
</tr>
<tr>
<td>Macau</td>
<td>131,152</td>
</tr>
<tr>
<td>Macau</td>
<td>123,771</td>
</tr>
<tr>
<td>Tianyuan</td>
<td>112,432</td>
</tr>
<tr>
<td>Shanxi</td>
<td>101,491</td>
</tr>
<tr>
<td>Hefei</td>
<td>94,838</td>
</tr>
<tr>
<td>Youth Service Program</td>
<td>92,322</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>88,104</td>
</tr>
<tr>
<td>Xian</td>
<td>80,735</td>
</tr>
<tr>
<td>Model Training Centers Support</td>
<td>70,228</td>
</tr>
<tr>
<td>WuZhou</td>
<td>67,111</td>
</tr>
<tr>
<td>Haikou</td>
<td>64,880</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>62,279</td>
</tr>
<tr>
<td>ChongQing</td>
<td>59,921</td>
</tr>
<tr>
<td>Guangxi</td>
<td>53,532</td>
</tr>
<tr>
<td>Hangzhou</td>
<td>52,539</td>
</tr>
<tr>
<td>Nanning</td>
<td>51,949</td>
</tr>
<tr>
<td>Guizhou</td>
<td>41,745</td>
</tr>
<tr>
<td>Lianyungang</td>
<td>39,510</td>
</tr>
<tr>
<td>Nanchang</td>
<td>38,457</td>
</tr>
<tr>
<td>Hangzhou</td>
<td>36,070</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>35,050</td>
</tr>
<tr>
<td>Xinyang</td>
<td>34,384</td>
</tr>
<tr>
<td>NSU Newsletter</td>
<td>2,753</td>
</tr>
<tr>
<td>Total</td>
<td>$1,737,636</td>
</tr>
</tbody>
</table>

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 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, respectively, for the years ended December 31, 2010 and 2009 were $19,266 and $12,922 respectively.

Nanchang

Toys for 2010 New Site $8,400

YEAR OTHER

For the years ended December 31, 2010 and 2009, recorded contribution $5,000

Other 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 $5,836.

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 venture development project with HTS in 2011. Half the Sky Canada Foundation 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 (the "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, 2010 and 2009, the Foundation received a designated grant of $699,500 and $252,840 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.