Half the Sky was created in order to enrich the lives of orphaned children in China. We provide model programs and caregiver training designed to offer loving, family-like care to children of all ages and abilities. 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:

I am so happy to introduce this 2012 Annual Report because it has been another good news year for the children.

Thanks to a generous grant from the JPMorgan Chase Foundation, Rainbow trainings reached six more provinces in 2012, which means that more and more children are receiving the quality care they deserve.

That improved quality of care is a testament to the comprehensive curriculum and interactive training methods Half the Sky’s staff has pioneered as well as to our government partners who are working closely with us to transform the child welfare system from within.

You’ll read inspiring stories about the impact Rainbow trainings are making in children’s lives, changes that I have had the privilege of seeing first hand, changes that have strengthened my resolve to do all I can to support Half the Sky’s work.

I want to extend my thanks to everyone who supports Half the Sky’s work, everyone who has helped make this such a good news year for the children.

Guy Russo

Letter from the CEO & Founder

Dear Friends,

After 14 years of working to bring a loving adult into the life of every institutionalized child in China, it is so gratifying for me to witness the incredible inroads the Rainbow Program has made in the last two years. As you’ll read in this report, Rainbow Trainings have reached 12 provinces—we are well on our way to helping our government partners create a cadre of professional caregivers trained to provide best practice childcare for the children.

As you’ll also read in this report, our three-year partnership with China Care Foundation has yielded remarkable results. In the past, when institutionalized children needed specialized medical care, it pained me to have to say we had no way to help. Now thanks to our partnership, we have embraced the mission of providing care for orphaned children fighting for their lives. This year we also embraced China Care Foundation’s mission of youth empowerment by welcoming the China Care Clubs into Half the Sky’s family.

In addition to welcoming China Care Club students, I want to thank every member of Half the Sky’s growing family. Like the youth in our China Care Clubs, we have learned over and over that by joining together we have can change the world one child at a time.

Jenny Bowen
A Rainbow of Many, Many Colors

The ground-breaking Rainbow Program, a public/NGO/private national training initiative partially funded by a generous grant from JPMorgan Chase Foundation, is well on its way to fulfilling its promise to change the face of orphan care across China.

In year two of the five-year program, Rainbow Trainings conducted by Half the Sky and China Center for Child Welfare and Adoption reached four new provinces, Inner Mongolia, Shandong, Sichuan, Yunnan, and two municipalities, Chongqing and Beijing. In addition, there were follow-up trainings in Jiangsu, Henan, Shaanxi, Hubei, Hunan and Guangdong provinces.

Since the program began, 3,282 welfare workers who care for 13,128 children have received training about the importance of nurturing care and how to deliver it and it is clear that the trainings are impacting the daily lives of the children. Ye Hong from Sichuan Province, for example, not only learned how important it is to get down on the floor to interact with children but also made sure changes were made at her institution in the wake of Rainbow Training. "After the training, we immediately bought comfortable mats with soothing colors. They free the children from their tiny beds."

At first, Half the Sky’s interactive, discussion-oriented style of training, which will eventually reach every caregiver in the country, is foreign to participants used to lecture-style learning. But when the participants are split up into groups and encouraged to speak their minds, the discussions become lively and the participants enthusiastic. Says Fang Xiaoyun, a trainee from Shaanxi Province: "The interactive training was the most impressive to me because it motivates you to learn and explore by making learning interesting."

The trainees are also motivated by case studies presented by our Child Development Expert (CDE) trainers who, thanks to the support of the Peter Bennett Foundation, are stationed in each provincial Model Center as the Rainbow Program rolls out.

At one training, Hunan CDE Wang Yanhong told the story of 2-year-old FeiFei who arrived at our Little Sisters Preschool "pale," "weak," unable to sit up or speak, and with a diagnosis of "brain disease." Wang Yanhong flashed back and forth between photos of that sad child and joyous photos of running and smiling and skiing provided by her adoptive parents who wrote: "There is nothing wrong with this girl. She has a strong body and a very, very strong and clever mind."

While showing the dramatically different photos, Wang Yanhong talked about how FeiFei’s trained teacher helped her become the strong and clever child she was born to be. FeiFei’s teacher celebrated every small victory: FeiFei’s first smile, her first word, her growing curiosity, and the first time she stretched out her arms to accept rather than reject caregiver’s love. By the time FeiFei’s parents came to China to adopt her, there was no sign of the developmentally delayed child with “brain disease” who had arrived at our program. In fact, there was, just as her parents wrote, nothing wrong with FeiFei that patient love and nurturing was not able to cure.

The Hunan trainees were moved by FeiFei’s story and stunned by the profound impact a loving adult can make in the life of a child, even a child once thought to be beyond help. Trainee Tang Juxiang said the story inspired her to become a better caregiver: "I need to learn from FeiFei’s caregiver. Our children could be the next FeiFei if we look after them as carefully as FeiFei’s caregiver looked after her." Tang Juxiang is becoming the kind of caregiver the Rainbow Program is designed to create, the kind of caregiver who changes children’s lives.
“I never thought our simple work could change the life of a child.” Zhou Jijun, Hunan Province

"Rainbow trainings are like a pebble thrown into the lake. Each of the ripples creates a change that training brings to the institutions," Director Liu Fang, Zhuzhou Children’s Welfare Institute

Anhui - Hefei, Chuzhou
Beijing
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 - Changsha, Chenzhou, Shaoyang, Yiyang (2 sites), Yueyang
Jiangsu - Changzhou, Gaoyou, Lianyungang, Nanjing
Jiangxi - Fuzhou, Jiujiang, Nanchang
Jilin - Changchun
Liaoning - Shenyang
Shaanxi - Xi’an
Shandong - Jinan, Qingdao
Sichuan - Chengdu, Yibin
Tianjin
Xinjiang - Urumqi
Yunnan

Hebei - Shijiazhuang
Heilongjiang - Harbin
Henan - Luoyang, Xinyang, Zhengzhou
Hubei - Huangshi, Wuhan
Inner Mongolia - Hohhot, Baotou
Hunan - Changsha, Chenzhou, Shaoyang, Yiyang (2 sites), Yueyang
Jiangsu - Changzhou, Gaoyou, Lianyungang, Nanjing
Jiangxi - Fuzhou, Jiujiang, Nanchang
Jilin - Changchun
Liaoning - Shenyang
Shaanxi - Xi’an
Shandong - Jinan, Qingdao
Sichuan - Chengdu, Yibin
Tianjin
Xinjiang - Urumqi
Yunnan

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

*Model Centers are in blue ** Rainbow Program provincial trainings are in red

"Rainbow trainings are like a pebble thrown into the lake. Each of the ripples creates a change that training brings to the institutions,” Director Liu Fang, Zhuzhou Children’s Welfare Institute

“I never thought our simple work could change the life of a child.” Zhou Jijun, Hunan Province

"Rainbow trainings are like a pebble thrown into the lake. Each of the ripples creates a change that training brings to the institutions,” Director Liu Fang, Zhuzhou Children’s Welfare Institute
The Children - Babies and Their Nannies

Lucky Girl

When 2-year-old YeXiao arrived at the orphanage, she was only a few days old. Because she was wrapped so tightly in a blanket, at first I could only see her expressionless eyes. When I held her in my arms I was surprised by how light she was—she weighed only 1.75 kg.

At three months, YeXiao was enrolled in our Infant Nurture program. She was still so small that I carried her around with me throughout the day. Gradually, YeXiao and I became close. She would not let anyone else carry her around the activity room and became very good at making her desires known—though she was small, her cry was loud!

As she got older, YeXiao would stretch out her arms to ask me for a hug and a kiss, saying "Mama." Now YeXiao likes to look in the mirror and make faces, loves pretty new clothes, and spends a long time in front of the mirror admiring them.

YeXiao is lucky because although she was abandoned, she is now a healthy and lovely little girl who has a new big family and a loving "Mama."

By Half the Sky Nanny Zhuang GuiQin

Half the Sky trained nannies pay close attention to their small charges’ needs and interests, even during the most routine activities of the day—the daily human interaction that stimulates attachment, growth, curiosity and confidence.
I will never forget the day JiaLin entered our preschool classroom for the first time. I was just about to walk JiaLin over to the toys, when he burst into tears. As the tears poured down his face, I asked myself how I could help JiaLin overcome his fear and anxiety.

During the days that followed, I spent a lot of time with JiaLin, playing with him, kissing him and talking to him. One day JiaLin slipped when he was climbing the stairs and I quickly held his hand to save him from falling and comforted him. From then on, JiaLin did not refuse to take my hand.

Then one day JiaLin stretched his hand out to hold mine even before I held my hand out. I was so happy to see his trust in me. To see him growing past his fear was the best present I ever received.

JiaLin has become more and more attached to me. When he responds to me, I feel very encouraged and confident. Thank you, JiaLin, for helping me understand my mission and the meaning and beauty of my job.

By Half the Sky Preschool Teacher Li Shuang
When QianRu was in junior high, she came very close to being adopted, but for many reasons, did not go. Instead, she stayed in the institution while, one after another, many of her good friends were adopted. For QianRu, it was the hardest time. She spent day after day crying in her room and was not interested in anything, even basketball, which she had loved. All of QianRu’s caregivers and friends stood by her. Gradually, time diluted her sorrow.

Then QianRu started taking Latin dance lessons through Youth Services. Most of the girls in the class had had studied dance before, which made beginner QianRu nervous and stiff. When the bell that ended the first class rang, she was the first to rush out.

But the dance teacher praised QianRu and said she had potential, which energized her. She made so much progress that she won the prize for new star of Latin dance.

QianRu also made good friends with several girls in the class and often invites them to the institution or goes to their homes. She is proud to have friends who are not from the institution. QianRu understands that there is much bitterness in life, but she has also become so much more confident that we believe she is ready to face the road ahead.

By Youth Services Mentor Huang Ju & Field Trainer Hu Qunhua

Half the Sky’s trained mentors are a constant presence in young people’s lives, providing guidance and hugs. With this support, young people growing up in institutions learn that it’s all right to have the same big dreams as other children... and to go after them.
Airplanes, Noodles & Loving Parents

One day, my husband asked our children if they wanted to learn how to make paper airplanes. “I promise it will be no less fun than playing outdoors!” All three children shouted “Yes!”

After dinner, the children took their showers quickly and didn’t even watch their usual cartoons. Instead, they gathered in the living room around their dad.

My son GuangSong asked many questions and learned quickly how to make airplanes, ships and rockets out of newspaper. My son LianJun also worked hard, though his plane looked shapeless. But when his dad told him: “Your airplane is better than the ones I could make when I was your age,” LianJun laughed happily.

My son ZongGuo on the other hand got so upset that he threw away the paper because no matter how hard he tried, he couldn’t make an airplane. I stopped taking photos and went to him and said, “Don’t give up! You are almost there. Why don’t we make an airplane together?” ZongGuo still refused to pick up the paper, but I was persistent: “If you don’t like airplanes, we can try something else. How about a bowl, a boat, or you can roll the paper like this into noodles. See?” ZongGuo finally started rolling the paper into balls.

In the end, all the children—including ZongGuo, who learned not to give up—happily played with and shared their creations and they all agreed that their family night at home was as much fun as playing outside.

By Family Village Mother Wei QuanXiang

The Families

Half the Sky-trained foster parents create loving, permanent families for 3-5 children with special needs who otherwise would likely spend their lives in institutions. Finally, these children have a mom and dad of their own.
When YueRu arrived at the China Care Home to recover from surgery to fix a congenital heart defect, she kept crying and wouldn’t allow anyone to touch or hug her. Then it came time for lunch. YueRu’s China Care foster mom came to her and asked her, “YueRu, shall we eat now? It’s so delicious.” YueRu looked at her mom and watched her intently as she used a spoon to get some food and put it near YueRu’s mouth. YueRu began to eat.

YueRu soon became very attached to her mom. When YueRu woke up in the morning, if she couldn’t see her mom, she would cry, but she would stop crying immediately after her mom arrived. YueRu also warmed up to other children. She loved to walk around the room socializing. When someone called her name, she would turn back to look at the person and smile, like an elf.

Now 16 months old, YueRu’s doctor says she has made a great recovery and can stop taking heart medications! We are all happy that YueRu can move on with her life, even though we know it means that it is time for us to say goodbye.

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 loving pre-and-post operative care at the China Care Home.
China Care - Half the Sky

A Remarkable, Unstoppable Force for the Children

Three years ago, Half the Sky entered into a partnership with China Care Foundation, a partnership that has in the words of Half the Sky’s CEO Jenny Bowen proven to be “a remarkable, unstoppable force for the children.”

Thanks to our partnership, more children are receiving more comprehensive care at the new China Care Home (CCH) we opened in the spring of 2009. Every year, 250 children from 100 institutions all over the country are referred to the CCH for specialized medical treatment. Located near China’s top pediatric hospitals in Beijing, the CCH staff includes five nurses, a part-time doctor, and nannies trained by Half the Sky’s senior staff to provide nurturing, family-style care for children fighting for their lives.

Through their volunteer efforts at such a young age, China Care Club members like Margaret are learning the same lesson Matt Dalio learned when he founded China Care Foundation, that when children who need specialized medical care are given excellent care, they can thrive, and that young people can help transform the life of a child. Half the Sky has learned that when two organizations united by their concern for China’s orphaned children join forces, they can accomplish far more than each one can accomplish alone.

It Takes a Village to Raise a Child

ZenHao is a 9-year-old boy who has been part of Half the Sky’s “village” since he was four months old. ZhenHao was abandoned by his parents when he was three months old because of severe medical disabilities involving his hip and spinal canal. Had Half the Sky not intervened, it is likely that ZhenHao would have lain in bed for the rest of his life.

Instead, when ZhenHao underwent his first tumor removal surgery, his Half the Sky nanny was by his side. Despite the pain of his medical treatment and recuperation, ZhenHao learned the most important lesson children need to learn—that they are loved, cared for, and trusted.

Then ZhenHao moved on to a Half the Sky’s preschool where he easily adapted to his new environment because of the trust he had built with his nanny. He engaged in daily activities to explore the world around him. He became increasingly self confident, his social, emotional and cognitive skills grew, and he started to show an interest and talent in art. ZhenHao learned that he is important, he is valued, and he is competent.

In 2007, ZhenHao started his family life with foster parents and siblings when he became part of The Family Village Program. In his new family, ZhenHao experienced for the first time the security of living in a family. A few years later, The Youth Services Program provided him with an art tutor. As a result, ZhenHao’s art skills became sophisticated and he won many awards in local, national and international competitions.

Still dogged by health problems, ZhenHao had to endure three more surgeries, the last, most serious one at a top pediatric hospital in Beijing through Half the Sky’s China Care Program. As he fought for his life, ZhenHao’s mom and dad and our China Care staff took care of him day and night.

After ZhenHao’s slow, painful and ultimately successful recovery, he was adopted internationally where we trust he will thrive because he has learned from so many caregivers in Half the Sky’s village how to love and be loved.

By Wen Zhao/Sky’s Senior Professional Development Director
14 14,000 Foot Peaks & 12 Races for the Children

Our incredible volunteers came up with amazing ways to raise funds for Half the Sky in 2012, including an adoptive dad, who set out to climb 14 14,000 foot peaks in Colorado, and another dad and his 9-year-old daughter adopted from China, who ran 12 races, some of them half marathons.

Despite several setbacks, including knee surgery that led him to postpone his first climb and late-season bad weather, Dave West still managed to summit 10 mountain peaks and raise enough money to support 12 children in Half the Sky’s Family Village program for a year.

Mark and Maggie Fogas note that the challenges they faced pale in comparison to those institutionalized children in China face every day, but they were proud when they finished: “The race is against the little voice inside your head that tells you to quit. Whenever that voice enters into our heads we can now respond with a hearty, ‘You get out of here’ because we learned we can accomplish whatever we set our minds to!”

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/en/content/partners

CORPORATE SUPPORTERS

- Armstrong
- Asia Alternatives Mgmt. LLC
- Avery Dennison
- Bank of America Merrill Lynch
- Baring Private Equity Asia
- Barclays
- BHP Billiton
- Capital Group Companies
- Charitable Foundation
- Capital World Hong Kong
- ChinaFriends
- CLSA Chairman’s Trust
- China Care Foundation
- Coach Foundation
- Credit Suisse
- Deutsche Bank
- Dow Jones Foundation
- GaveKal Endowment Limited
- Grant Thornton, LLP
- Hairy Crab Charities
- HAVI Logistics Asia
- HomeTex International Co. Ltd
- HSBC
- JPMorgan Chase Foundation
- Kmart
- Liberty Insurance
- Linkkaters LLP
- Lloyd George Asia Foundation
- Lo Ting Shek Chi Wai Foundation
- Larry & Celia Moh Family Foundation
- Noble Group
- Olympic International
- Open Arms Children’s Foundation
- Peter Bennett Foundation
- PricewaterhouseCoopers
- Reed Elsevier
- RGL, Inc.
- Skoll Foundation
- Target Corporation
- TCT Foundation for the Children of China
- Winston & Strawn, LLP
- World Childhood Foundation

IN KIND

- APL
- Box of Hope
- Bunnies By The Bay
- Freshfields Bruckhaus Deringer
- Global Sources
- GMR Gymnastics Sales, Inc.
- Jack Morton Worldwide
- PRG Chicago
- Radio Flyer
- Sixstar World
- Thomson Reuters
There is no doubt in our minds that the program developed and implemented by Half the Sky Foundation in the Hefei Social Welfare Institute has had a profoundly positive effect on the life our daughter Annie Kate experienced until we could become her forever family. On behalf of our beloved daughter, please accept the enclosed donation to help continue the life-changing work you accomplish on a daily basis for the children of China.

—Kim Myers & Family

Half the Sky Foundation has been recognized for its exceptional fiscal responsibility and transparency by a number of charity evaluation organizations, including Wise Giving, Guidestar and Charity Navigator. We work very hard to spend each and every dollar our generous donors give wisely and to keep our administrative costs as low as possible without compromising the efficient operations of our programs and our trainings that are transforming the lives of institutionalized children all over China.
To the Audit Committee and Board of Directors
Half the Sky Foundation and Subsidiaries
Berkeley, California

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Half the Sky Foundation and Subsidiaries ("Foundation"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Half the Sky Foundation and Subsidiaries as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 14 to the consolidated financial statements, the 2011 consolidated financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Crowe Horwath LLP
Sacramento, California
July 31, 2013
Consolidated Statements of Financial Position
Half the Sky Foundation and Subsidiaries, Year ended December 31, 2012 and 2011

Assets:

<table>
<thead>
<tr>
<th>2012</th>
<th>Restated 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$2,004,429</td>
</tr>
<tr>
<td>Pledges receivable, net (Note 3)</td>
<td>217,982</td>
</tr>
<tr>
<td>Other receivables</td>
<td>4,782</td>
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<tr>
<td>Prepaid program expenses</td>
<td>164,551</td>
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<tr>
<td>Inventory</td>
<td>68,090</td>
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<tr>
<td>Property and equipment, net (Note 4)</td>
<td>17,730</td>
</tr>
<tr>
<td>Deposits</td>
<td>29,583</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>$2,507,147</td>
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</table>

Liabilities:

<table>
<thead>
<tr>
<th>2012</th>
<th>Restated 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$319,721</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>98,633</td>
</tr>
<tr>
<td>Deferred rent liability</td>
<td>9,448</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$427,802</td>
</tr>
</tbody>
</table>

Net assets:

<table>
<thead>
<tr>
<th>2012</th>
<th>Restated 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted (Note 14)</td>
<td>$120,977</td>
</tr>
<tr>
<td>Designated by the Board for endowment (Note 7 and 14)</td>
<td>98,633</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$427,802</td>
</tr>
</tbody>
</table>

Total liabilities include:

- Accounts payable | $319,721 | $252,531 |
- Accrued expenses | 98,633 | 196,226 |
- Deferred rent liability | 9,448 | 11,957 |

Net assets include:

- Unrestricted (Note 14) | $120,977 | $252,531 |
- Designated by the Board for endowment (Note 7 and 14) | 98,633 | 196,226 |
- **Total liabilities** | $427,802 | $460,714 |

See accompanying notes to consolidated financial statements.
Consolidated Statements of Cash Flows
Half the Sky Foundation and Subsidiaries, Year ended December 31, 2012 and 2011

Cash flows used in operating activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjustments to reconcile change in net assets</td>
<td>$(486,070)</td>
<td>$(890,024)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>23,839</td>
<td>27,976</td>
</tr>
<tr>
<td>Deferred rent liability</td>
<td>(2,509)</td>
<td>(1,380)</td>
</tr>
<tr>
<td>Net realized and unrealized gains on investments</td>
<td>(49,538)</td>
<td></td>
</tr>
<tr>
<td>Change in assets and liabilities:</td>
<td></td>
<td></td>
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<tr>
<td>Pledges receivable, net</td>
<td>(215,418)</td>
<td>107,380</td>
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<tr>
<td>Other receivables</td>
<td>(505)</td>
<td>10,347</td>
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<tr>
<td>Accrued expenses</td>
<td>(97,593)</td>
<td>74,165</td>
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<tr>
<td>Deferred income</td>
<td>(359)</td>
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</tr>
<tr>
<td>Change in net assets</td>
<td>(717,893)</td>
<td>(462,763)</td>
</tr>
</tbody>
</table>

Cash flows from investing activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of property and equipment</td>
<td>(9,113)</td>
<td>(7,426)</td>
</tr>
<tr>
<td>Loss on disposal of property and equipment</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>1,794</td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of investments</td>
<td>-</td>
<td>(11,454)</td>
</tr>
<tr>
<td>Net cash (used in) provided by investing activities</td>
<td>(7,319)</td>
<td>1,120,927</td>
</tr>
<tr>
<td>Change in cash and cash equivalents</td>
<td>(725,212)</td>
<td>459,595</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>2,729,641</td>
<td>2,729,646</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$2,004,429</td>
<td>2,729,646</td>
</tr>
</tbody>
</table>

Consolidated Statements of Functional Expenses
Half the Sky Foundation and Subsidiaries, Year ended December 31, 2012 and 2011

Consolidated Statements of Functional Expenses
Half the Sky Foundation and Subsidiaries, Year ended December 31, 2012 and 2011

See accompanying notes to consolidated financial statements.

Statement of Functional Expenses
Half the Sky Foundation and Subsidiaries, Year ended December 31, 2012 and 2011

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation and benefits for non-field staff</td>
<td>$1,328,062</td>
<td>$564,976</td>
</tr>
<tr>
<td>Consulting and professional services</td>
<td>72,645</td>
<td>-</td>
</tr>
<tr>
<td>Office expenses</td>
<td>37,807</td>
<td>16,926</td>
</tr>
<tr>
<td>Information technology</td>
<td>352,012</td>
<td>13,516</td>
</tr>
<tr>
<td>Occupancy</td>
<td>89,447</td>
<td>80,252</td>
</tr>
<tr>
<td>Travel</td>
<td>160,516</td>
<td>21,643</td>
</tr>
<tr>
<td>Conferences and meetings</td>
<td>125,055</td>
<td>-</td>
</tr>
<tr>
<td>Consulting and amortization</td>
<td>23,839</td>
<td>-</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>13,903</td>
</tr>
<tr>
<td>Compensation and benefits for field staff</td>
<td>1,958,557</td>
<td>-</td>
</tr>
<tr>
<td>Donated Goods &amp; Services</td>
<td>33,377</td>
<td>193,224</td>
</tr>
<tr>
<td>Stipends and Tuition</td>
<td>256,393</td>
<td>-</td>
</tr>
<tr>
<td>Orphanage Center</td>
<td>4,242</td>
<td>-</td>
</tr>
<tr>
<td>Construction, Equipment &amp; Furnishings</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Surgery and nurturing care in connection with</td>
<td>1,263,504</td>
<td>-</td>
</tr>
<tr>
<td>Program</td>
<td>1,185,833</td>
<td></td>
</tr>
<tr>
<td>Family Village</td>
<td>56,636</td>
<td>-</td>
</tr>
<tr>
<td>Training programs and materials</td>
<td>533,513</td>
<td>-</td>
</tr>
<tr>
<td>Event expense</td>
<td>-</td>
<td>281,052</td>
</tr>
<tr>
<td>All other expense</td>
<td>66,862</td>
<td>88,141</td>
</tr>
<tr>
<td>Total Functional Expenses</td>
<td>$8,973,167</td>
<td>$1,207,754</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
Half the Sky Foundation and Subsidiaries, Year ended December 31, 2012 and 2011

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, 2012, the Foundation also qualifies in the Netherlands as a charitable fund (“ANBI”).

Half the Sky Foundation (Asia Ltd.) (“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 nurseries, 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 51 state-run welfare institutions in 24 provinces and municipalities throughout China. The Foundation offers six programs:

The Infant Nurture (IN) Program: This program, designed to give infants aged 0-2 years a healthy start in life, the Foundation employs “nannies” – retired or semi-retired women who provide care and learning opportunities to children. The aim is to help these 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 institutions and provides training, salaries, other program expenses and supervision of staff.

The Youth Services (YS) Program: In this program, individual learning opportunities are provided to children who have been abandoned by their biological families.

The Rainbow Program: Beginning in October 2011, the Foundation began its rainbow program implementation plan to transition the Foundation to a

training and mentoring organization. The Foundation will provide training to all sites over the next 5 years to transition the responsibility of the site programs over to the Chinese government. By the end of December 31, 2012, 12 provinces had completed 96 sessions of the primary training program. By the end of December 31, 2012, 12 provinces had completed 96 sessions of the primary and secondary program training. The Foundation has trained 4 of its 12 primary and 323 secondary nursery center trainees. They anticipate that after the 5-year training program, they will have over 1,000 workers who will be able to effectively and jointly perform the responsibilities with China Center for Child Welfare and Adoption as well as ensure the sites maintain the Half the Sky program quality.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Foundation and its subsidiaries. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and with the applicable accounting standards of the People’s Republic of China. All significant inter-company transactions and balances have been eliminated on 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 the balance sheet date. 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. The average exchange rates for the years ended December 31, 2012 and 2011 were translated for the Chinese Renminbi amounts. 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 amount and classification of assets and liabilities at the date of the balance sheet, and revenue and expenses during the reporting period. Actual results could differ from these estimates.

The Future of the Foundation - The Foundation recognizes that its financial resources are limited. In order to ensure that its programs can continue and be sustainable, the Foundation is planning to prepare an Integrated Strategic Plan. The Foundation will identify its key initiatives and goals, and work towards achieving these goals with a focus on prudent use of its financial resources.

Cash and Cash Equivalents: Cash and cash equivalents consist primarily of cash on hand, cash equivalents and overnight repurchase agreements, which are highly liquid investments with an original maturity of three months or less. The Foundation maintains cash and cash equivalents with highly liquid investments with an original maturity of three months or less. The Foundation maintains cash and cash equivalents with highly liquid investments with an original maturity of three months or less.
NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporary restricted net assets were available for the following purpose-related restrictions or programs located at December 31, 2012 and 2011:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Care Project (TCCP)</td>
<td>$278,361</td>
<td>$28,938</td>
</tr>
<tr>
<td>Funds to cover “walk” events</td>
<td>$8,239</td>
<td>$1,381</td>
</tr>
<tr>
<td>Brussels</td>
<td>37,254</td>
<td>2,888</td>
</tr>
<tr>
<td>Digital Publishing and News Media Training</td>
<td>3,313</td>
<td>11,563</td>
</tr>
<tr>
<td>Chenzhou</td>
<td>187,919</td>
<td>$52,681</td>
</tr>
<tr>
<td>Fuzhou</td>
<td>150,307</td>
<td>143,923</td>
</tr>
<tr>
<td>Equipment</td>
<td>26,219</td>
<td>25,284</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>16,579</td>
<td>113,528</td>
</tr>
<tr>
<td>Guilin and Shaoguan</td>
<td>158,796</td>
<td>$11,563</td>
</tr>
<tr>
<td>Guiyang</td>
<td>16,579</td>
<td>161,679</td>
</tr>
<tr>
<td>Shanghai</td>
<td>37,254</td>
<td>278,361</td>
</tr>
<tr>
<td>Total</td>
<td>176,526</td>
<td>158,796</td>
</tr>
</tbody>
</table>

NOTE 6 – TAXES

The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Foundation recognizes interest and/or penalties related to income tax matters in income tax expense. The Foundation did not have any amounts accrued for interest and penalties at December 31, 2012 and 2011.

NOTE 7 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of the Foundation’s financial instruments is determined by the management of the Foundation based on the best information available. The board of directors of the Foundation has reviewed the procedures for determining fair values and has approved the methods used. The Foundation’s exposure to market risks includes fluctuations in foreign currency rates, fluctuations in interest rates related to its borrowings, and fluctuations in interest rates related to the investments of the Foundation’s endowment.

NOTE 8 – DEPRECIATION EXPENSE

The cost of the Foundation’s property and equipment is recorded on a basis that approximates the amount that would be recovered if the asset were sold, less any costs to sell. Property and equipment consist of the following at December 31, 2012 and 2011:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixtures</td>
<td>$26,219</td>
<td>25,284</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>16,579</td>
<td>113,528</td>
</tr>
<tr>
<td>Total</td>
<td>176,526</td>
<td>158,796</td>
</tr>
</tbody>
</table>

NOTE 10 – PLEDGES RECEIVABLE, NET

The Foundation records pledges receivable on an ongoing basis and records a reserve for potential uncollectible pledges receivable.

NOTE 11 – PROPERTY AND EQUIPMENT

Note 11 to the consolidated financial statements describes the accounting policies related to property and equipment.

NOTE 12 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of the Foundation’s financial instruments is determined by the management of the Foundation based on the best information available. The board of directors of the Foundation has reviewed the procedures for determining fair values and has approved the methods used. The Foundation’s exposure to market risks includes fluctuations in foreign currency rates, fluctuations in interest rates related to its borrowings, and fluctuations in interest rates related to the investments of the Foundation’s endowment.

NOTE 13 – DEPRECIATION EXPENSE

The cost of the Foundation’s property and equipment is recorded on a basis that approximates the amount that would be recovered if the asset were sold, less any costs to sell. Property and equipment consist of the following at December 31, 2012 and 2011:

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixtures</td>
<td>$26,219</td>
<td>25,284</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>16,579</td>
<td>113,528</td>
</tr>
<tr>
<td>Total</td>
<td>176,526</td>
<td>158,796</td>
</tr>
</tbody>
</table>

NOTE 14 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:
time during the year ended December 31, 2012: incurring expense satisfying the purpose of the restriction or by the passage of

Temporarily restricted net assets were released from donor restrictions by

Qingdao 6,250 9,707
Nanchang - 23,310
Nanjing 74,020 51,669
National training curriculum 1,030 -
Qingdao - 128,161
Nanchang, Wuhan, Qingdao and Urumqi LS 2012 69,053 75,000
Shijiazhuang 12,322 -
National Training Program - 241,325
Chengdu and 9 additional Little Sister Programs 249,283 145,808

Other support for operations 287,709 -
Total temporarily restricted net assets $1,905,566 $1,724,998

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released from donor restrictions by incurring expense satisfying the purpose of the restriction or by the passage of time during the year ended December 31, 2012.

JPMC National Training $1,243,325
The China Care Project (TCCP) 1,263,585
The China Care Project (TCCP) 128,161

5.87%

3.52%

2.08%

4.04%

2.98%

3.29%

2.76%

2.05%

1.86%

1.18%

0.87%

0.23%

0.18%

0.09%

0.06%

0.04%

0.02%

0.01%

8.74%

6.14%

4.36%

2.98%

2.84%

2.29%

2.24%

2.14%

2.08%

1.76%

1.65%

1.64%

1.57%

1.49%

1.36%

1.57%

1.73%

1.57%

1.57%

1.57%

1.57%

1.36%
In 2012, a donor added a time restriction to an originally unrestricted donation of $387,709, and therefore, was reclassified to temporarily restricted net assets.

The net endowment asset composition by type of fund as of December 31, 2012, consists of the following:

- **Endowment net assets**, beginning of year, as restated $1,124,681 $ - $ - $1,124,681
- **Investment income including foreign currency exchange gains** $20,290 - - 20,290
- **Appropriation of endowment assets for expenditure** 18,141 - - 18,141
- **Transfer for a change in donor intent** (387,709) - - (387,709)
- **Transfer to remove assets from board-designated endowment funds** (217,252) - - (217,252)
- **Total Funds** $645,724 $ - $ - $645,724

**Unrestricted Temporarily Permanently Restricted Restricted Total**

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets,</td>
<td>$645,724</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$645,724</td>
</tr>
<tr>
<td>investment income</td>
<td>$20,290</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$20,290</td>
</tr>
<tr>
<td>Appropriation of</td>
<td>$18,141</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$18,141</td>
</tr>
<tr>
<td>endowment assets for</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer for a change</td>
<td>(387,709)</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>(387,709)</td>
</tr>
<tr>
<td>in donor intent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to remove</td>
<td>(217,252)</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>(217,252)</td>
</tr>
<tr>
<td>assets from board-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>designated endowment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Funds</td>
<td>$645,724</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$645,724</td>
</tr>
</tbody>
</table>

For the purposes of assisting the Foundation in funding operating expenses as the endowment funds transition to becoming a training and mentoring organization, the Foundation transferred board-designated endowment funds of $539,395 and $217,252 during the years ending December 31, 2011 and 2012, respectively.

**Note 8 – Commitments and Contingencies**

**Lease Obligations:** 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 2044.

**Note 9 – Employee Benefit Plans**

In 2008, the Foundation had a 403(b) retirement plan for its employees. In January 2009, the Foundation transferred all assets to a 401(k) plan designed to offer all employees who have met certain eligibility requirements. Under the 401(k) plan, employees may elect to contribute a certain percent of their annual compensation up to IRS limits. 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 for the years ended December 31, 2013 and 2012 were $51,741 and $47,425, respectively.

**Note 10 – Related Party Transactions**

For the years ended December 31, 2012 and 2011, 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 $742,810 and $743,795, respectively.

**Note 11 – 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 as of 2011. Australia Ltd contributed $153,557 and $61,991 to the Foundation in the years ended December 31, 2012 and 2011, respectively. Half the Sky Foundation Canada Limited ("Canada Ltd"), another affiliate of the Foundation was incorporated in Canada in June 2009.
<table>
<thead>
<tr>
<th>Description</th>
<th>January 1, 2011</th>
<th>Restatement</th>
<th>Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanently restricted net assets, January 1, 2011</td>
<td>$634,490</td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Temporarily restricted net assets, January 1, 2011</td>
<td>$1,737,636</td>
<td>(130,796)</td>
<td>$1,606,840</td>
</tr>
<tr>
<td>Unrestricted net assets, January 1, 2011</td>
<td>$1,083,313</td>
<td>765,286</td>
<td>$1,848,599</td>
</tr>
<tr>
<td>Permanently restricted change in net assets, December 31, 2011</td>
<td>$11,234</td>
<td></td>
<td>$ -</td>
</tr>
<tr>
<td>Temporarily restricted change in net assets, December 31, 2011</td>
<td>$(12,638)</td>
<td>130,796</td>
<td>$118,158</td>
</tr>
<tr>
<td>Unrestricted change in net assets, December 31, 2011</td>
<td>$(888,620)</td>
<td>(119,562)</td>
<td>$(1,008,182)</td>
</tr>
</tbody>
</table>

**NOTE 15 – SUBSEQUENT EVENTS**

The Foundation has evaluated the effects of subsequent events that have occurred subsequent to December 31, 2012 and through July 31, 2013 which is the date the financial statements were available to be issued, and has determined that there were no subsequent events that require recognition or disclosure in the financial statements or notes therein.
"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 Zì** c. 300 B.C.