HALF THE SKY FOUNDATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

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INDEPENDENT AUDITOR’S REPORT

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, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

(Continued)
Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Half the Sky Foundation and Subsidiaries as of December 31, 2015 and 2014 and the changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Sacramento, California
May 26, 2016
### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$3,234,779</td>
<td>$3,914,518</td>
</tr>
<tr>
<td>Pledges receivable, net (Note 3)</td>
<td>300,000</td>
<td>24,811</td>
</tr>
<tr>
<td>Other receivables</td>
<td>8,012</td>
<td>38,452</td>
</tr>
<tr>
<td>Prepaid program expenses</td>
<td>123,116</td>
<td>127,078</td>
</tr>
<tr>
<td>Inventory</td>
<td>64,632</td>
<td>62,065</td>
</tr>
<tr>
<td>Property and equipment, net (Note 4)</td>
<td>17,118</td>
<td>14,873</td>
</tr>
<tr>
<td>Deposits</td>
<td>64,367</td>
<td>40,469</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$3,812,024</strong></td>
<td><strong>$4,222,266</strong></td>
</tr>
</tbody>
</table>

|                  | 2015          | 2014          |
| **LIABILITIES AND NET ASSETS** |               |               |
| Liabilities:     |               |               |
| Accounts payable | $193,217      | $94,091       |
| Accrued expenses | 134,470       | 110,825       |
| **Total liabilities** | **327,687** | **204,916**  |

|                  | 2015          | 2014          |
| Commitments and contingencies (Note 7) |               |               |
| Net assets:      |               |               |
| Unrestricted net assets: |         |               |
| Unrestricted     | 1,248,825     | 858,911       |
| Designated by the Board | 6,928       | 4,445         |
| **Total unrestricted net assets** | **1,255,753** | **863,356** |
| Temporarily restricted (Note 5) | **2,228,584** | **3,153,994** |
| **Total net assets** | **3,484,337** | **4,017,350** |
| **Total liabilities and net assets** | **$3,812,024** | **$4,222,266** |

See accompanying notes to consolidated financial statements.
<table>
<thead>
<tr>
<th>Year Ended December 31</th>
<th>2015</th>
<th>2014</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Restricted</td>
<td>Total</td>
<td>Unrestricted</td>
</tr>
<tr>
<td>Revenues, gains and other support:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions (Notes 9, 10, and 11)</td>
<td>$4,289,985</td>
<td>$4,311,329</td>
<td>$8,601,314</td>
<td>$3,722,534</td>
</tr>
<tr>
<td>Contributed services and materials</td>
<td>432,614</td>
<td>-</td>
<td>432,614</td>
<td>312,120</td>
</tr>
<tr>
<td>Merchandise sales</td>
<td>3,828</td>
<td>-</td>
<td>3,828</td>
<td>15,574</td>
</tr>
<tr>
<td>Interest and dividend income on investments</td>
<td>309</td>
<td>-</td>
<td>309</td>
<td>-</td>
</tr>
<tr>
<td>Other income</td>
<td>70,939</td>
<td>-</td>
<td>70,939</td>
<td>63,663</td>
</tr>
<tr>
<td>Net assets released from restriction (Note 6)</td>
<td>5,236,739</td>
<td>(5,236,739)</td>
<td>-</td>
<td>5,400,796</td>
</tr>
<tr>
<td>Total revenues, gains and other support</td>
<td>10,034,414</td>
<td>(925,410)</td>
<td>9,109,004</td>
<td>9,514,687</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donated goods and services</td>
<td>20,228</td>
<td>-</td>
<td>20,228</td>
<td>63,890</td>
</tr>
<tr>
<td>Other program services</td>
<td>7,634,901</td>
<td>-</td>
<td>7,634,901</td>
<td>7,079,417</td>
</tr>
<tr>
<td>Total program services</td>
<td>7,655,129</td>
<td>-</td>
<td>7,655,129</td>
<td>7,143,307</td>
</tr>
<tr>
<td>Fundraising:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donated goods and services</td>
<td>11,373</td>
<td>-</td>
<td>11,373</td>
<td>9,906</td>
</tr>
<tr>
<td>Other fundraising</td>
<td>1,098,437</td>
<td>-</td>
<td>1,098,437</td>
<td>755,809</td>
</tr>
<tr>
<td>Total fundraising</td>
<td>1,109,810</td>
<td>-</td>
<td>1,109,810</td>
<td>765,715</td>
</tr>
<tr>
<td>Merchandise costs</td>
<td>1,212</td>
<td>-</td>
<td>1,212</td>
<td>3,966</td>
</tr>
<tr>
<td>Management and general (Notes 7 and 8):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donated goods and services</td>
<td>235,762</td>
<td>-</td>
<td>235,762</td>
<td>131,983</td>
</tr>
<tr>
<td>Other management</td>
<td>640,104</td>
<td>-</td>
<td>640,104</td>
<td>655,885</td>
</tr>
<tr>
<td>Total management and general</td>
<td>875,866</td>
<td>-</td>
<td>875,866</td>
<td>787,868</td>
</tr>
<tr>
<td>Total expenses</td>
<td>9,642,017</td>
<td>-</td>
<td>9,642,017</td>
<td>8,700,856</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>392,397</td>
<td>(925,410)</td>
<td>(533,013)</td>
<td>813,831</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>863,356</td>
<td>3,153,994</td>
<td>4,017,350</td>
<td>49,525</td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$1,255,753</td>
<td>$2,228,584</td>
<td>$3,484,337</td>
<td>$863,356</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
### CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015 and 2014

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</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>$(533,013)</td>
<td>$1,529,805</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>9,333</td>
<td>7,269</td>
</tr>
<tr>
<td>Deferred rent liability</td>
<td>-</td>
<td>(4,990)</td>
</tr>
<tr>
<td><strong>Net change in assets and liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>(275,189)</td>
<td>137,721</td>
</tr>
<tr>
<td>Other receivables</td>
<td>30,440</td>
<td>(36,574)</td>
</tr>
<tr>
<td>Prepaid program expenses</td>
<td>3,962</td>
<td>(73,118)</td>
</tr>
<tr>
<td>Inventory</td>
<td>(2,567)</td>
<td>3,462</td>
</tr>
<tr>
<td>Deposits</td>
<td>(23,898)</td>
<td>(17,260)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>99,126</td>
<td>(41,500)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>23,645</td>
<td>35,145</td>
</tr>
<tr>
<td><strong>Net cash (used in) provided by operating activities</strong></td>
<td>$(668,161)</td>
<td>$1,539,960</td>
</tr>
</tbody>
</table>

| **Cash flows used in investing activities:** |          |          |
| Acquisition of property and equipment | (11,578)  | (11,747) |

(Decrease) increase in cash and cash equivalents | $(679,739) | 1,528,213 |

Cash and cash equivalents, beginning of the year | 3,914,518   | 2,386,305 |

**Cash and cash equivalents, end of the year** | $3,234,779  | $3,914,518 |

**Supplemental disclosures of cash flow information**

Contributed services and materials | $432,614   | $312,120|

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See accompanying notes to consolidated financial statements.
## CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2015 and 2014

<table>
<thead>
<tr>
<th>Expenses (Note 8):</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation and benefits for non-field staff</td>
<td>$ 2,199,406</td>
<td>$ 785,170</td>
</tr>
<tr>
<td>Consulting and professional services</td>
<td>276,428</td>
<td>81,776</td>
</tr>
<tr>
<td>Office expenses</td>
<td>43,761</td>
<td>16,805</td>
</tr>
<tr>
<td>Information technology</td>
<td>105,896</td>
<td>123,318</td>
</tr>
<tr>
<td>Occupancy</td>
<td>53,928</td>
<td>91,855</td>
</tr>
<tr>
<td>Conference and meetings</td>
<td>22,764</td>
<td>22,764</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>9,333</td>
<td>9,333</td>
</tr>
<tr>
<td>Compensation and benefits for field staff</td>
<td>3,610,420</td>
<td>3,610,420</td>
</tr>
<tr>
<td>Donated goods and services</td>
<td>20,228</td>
<td>235,762</td>
</tr>
<tr>
<td>Stipends and tuition</td>
<td>183,304</td>
<td>183,304</td>
</tr>
<tr>
<td>Orphanage Center construction, equipment and furnishings</td>
<td>205,659</td>
<td>205,659</td>
</tr>
<tr>
<td>Surgery and nurturing care in connection with China Care program</td>
<td>10,844</td>
<td>10,844</td>
</tr>
<tr>
<td>Family Village</td>
<td>48,663</td>
<td>48,663</td>
</tr>
<tr>
<td>Training programs and materials</td>
<td>523,775</td>
<td>523,775</td>
</tr>
<tr>
<td>Event expense</td>
<td>-</td>
<td>117,784</td>
</tr>
<tr>
<td>All other expense</td>
<td>52,762</td>
<td>108,846</td>
</tr>
<tr>
<td><strong>Total functional expenses</strong></td>
<td>$ 7,655,129</td>
<td>$ 7,143,307</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.

6.
NOTE 1 – ORGANIZATION AND OPERATION

Half the Sky Foundation (the "Foundation" or "HTS"), a non-profit public benefit corporation, was incorporated in November 1998 with its corporate office located in Berkeley, California.

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

Half the Sky Foundation (Asia) Limited ("Asia Ltd."), a supporting organization of the Foundation, was incorporated in Hong Kong in March 2006. Half the Sky Foundation United Kingdom Limited ("UK Ltd."), another supporting organization of the Foundation, was incorporated in England and Wales in April 2008.

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

The Foundation was created in order to enrich the lives of China's most vulnerable children. The Foundation provides model programs and caregiver training designed to offer loving, family-like care to children of all ages and abilities. It is the Foundation's goal to ensure that every at-risk child has a caring adult in her life and a chance at a bright future. The Foundation works in 54 state-run welfare institutions in 26 provinces and municipalities in China and offers three primary programs:

Model Children's Centers Program that Includes: Infant Nurture (IN) designed to give infants aged 0-3 years a healthy start in life. The Foundation employs "nannies" - retired or laid-off workers from the local community - to cuddle, love and provide orphaned infants (0-3 years) the physical and emotional stimulation essential to normal development. The Foundation renovates rooms in the welfare institutions and provides training, salaries, other program expenses and supervision of staff.

Preschools (PS) in which Foundation-trained teachers use a unique and progressive curriculum that blends principles of the Reggio Emilia approach to early childhood education with contemporary Chinese teaching methods. PS are designed not only to prepare the children (4-7 years) to succeed in Chinese schools, but also to help develop the "whole child", facilitating healthy emotional, physical and cognitive development. The Foundation renovates rooms in the welfare institution and provides training, salaries, other program expenses and supervision of staff.

Youth Services (YS) in which the Foundation provides individualized learning opportunities for older children (8-21 years) who remain in the institutions. The Foundation tailors these opportunities to the specific child, offering such services as tutoring prior to entrance exams, tuition to vocational schools, funds for music, dance, computer or art classes, and tutors for learning a second language. The Foundation also provides school fees for a growing number of orphans to attend universities throughout China.

Family Village (FV) in which children whose disabilities or special needs preclude adoption, live in permanent foster families in comfortable apartments in or nearby the welfare institutions. FV enables children who are unlikely to be adopted to grow up knowing the love of family while also receiving the support services that the welfare institution and the Foundation provide. The children attend the Foundation preschools and then go on to enjoy the enrichment opportunities of YS. The Foundation partners with local governments to renovate apartments, provide furnishings, a small stipend for foster parents, ongoing training and miscellaneous fees.
NOTE 1 – ORGANIZATION AND OPERATION (Continued)

National Training Plan (Rainbow Program): Beginning in October 2011, the Foundation began its National training Plan (called the “Rainbow Program” in China) which will enable the Foundation to eventually train every caregiver in the country and thereby help the Chinese raise the standards of care for its entire children's welfare system. Primary training sessions through the National Training Plan include lectures, group discussions, reflection, problem solving, and guided hands-on practice with children. For secondary training, the Foundation completes an assessment of the needs for each institution and then develops tailored on-site training for those needs.

The Foundation has trained 10,986 caregivers from 679 welfare centers. The Foundation is also working to transition support and operations of the Children's Centers it has established in government-run social welfare institutions over to the Chinese, except for its Model Centers. After that transition is complete, the Foundation will be a training and mentoring organization that continues to conduct effective joint provincial trainings with China Center for Child Welfare and Adoption, helps welfare institutions create Half the Sky-inspired programs of their own, and runs Model programs that serve as examples of best-practice childcare.

Village Programs: In 2015, the Foundation launched its Village Programs for children left-behind in rural China. In rural China today, more than 61 million children of migrant workers are left behind in the care of grandparents or relatives who are struggling to simply keep them fed; 23 million of those children are under seven years old. The Foundation’s Village Model programs are designed to mitigate the damage to children 0-6 who are left without nurturing, responsive care during their most critical early years.

Similar to other Foundation programs, the Village Programs are designed to be scalable and sustainable. Village Programs include Family Skills, Early Childhood Development Centers that provide a child-centered curriculum that emphasizes using responsive care to improve cognitive, social, and emotional development as well as school readiness; and Community Engagement that is geared toward strengthening now disintegrating rural communities and providing a nurturing home for young children despite parental absence by offering trainer-facilitated village gatherings, monthly community projects and cooperative childcare to give weary primary caregivers respite.

As part of this program expansion, the Foundation has changed its operating name to Half the Sky Foundation, Inc. DBA OneSky, effective January 1, 2016.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Foundation and its supporting organizations. Inter-organization transactions and balances have been eliminated upon consolidation.

Foreign Currency: Assets and liabilities denominated in foreign currencies are translated into United States of America dollars, the reporting currency, at exchange rates in effect on reporting dates, and revenue and expenses are translated at rates which approximate those in effect on transaction dates. A significant amount of the Foundation's expenses were paid for using the Chinese Renminbi for the years ended December 31, 2015 and 2014. 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.
NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The financial statement presentation follows the guidance of Financial Accounting Standards Board (the "FASB") Accounting Standards Codification™ ("ASC") 958 - 205, Not-for-Profit Entities – Presentation of Financial Statements ("ASC 958 – 205"). Under ASC 958 – 205, the Foundation is required to report information regarding its financial position and activities classified as permanently restricted, temporarily restricted, and unrestricted net assets with the change in each of these classes of net assets to be presented in the consolidated statements of activities and changes in net assets.

Unrestricted Net Assets - Unrestricted net assets have no donor-imposed restrictions and include those revenues and expenses associated with program and supporting services. The Board of Directors has designated certain unrestricted net assets to be used for certain purposes. As of December 31, 2015 and 2014, Board designated assets totaled $6,928, and $4,445, respectively.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions that are limited in use by the Foundation in accordance with donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Foundation according to the terms of the contribution. Upon satisfaction of such stipulations, net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Permanently Restricted Net Assets - Permanently restricted net assets are restricted by the donor for investment in perpetuity, such as endowments. The income from such invested assets is available to support the activities of the Foundation. As of December 31, 2015 and 2014, the Foundation held no permanently restricted net assets.

Cash and Cash Equivalents: Cash and cash equivalents consist primarily of highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are carried at cost which approximates fair value.

Credit Risk: The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. Cash balances may exceed the Federal Deposit Insurance Corporation ("FDIC") limits from time to time. At December 31, 2015 and 2014, the Foundation had deposits at two financial institutions eligible for FDIC insurance coverage with carrying amounts of $2,373,431 and $1,885,394, and bank balances of $2,373,431 and $1,885,414, respectively. Of the total bank balances, $403,887 and $271,445 were insured at December 31, 2015 and 2014, respectively. The credit risk in pledges receivable is addressed as the Foundation evaluates the collectability of pledges based on knowledge and available information about the donors. Additionally, any pledges that are expected to be collected after one year have been discounted and are reflected in the consolidated financial statements at their net present value.

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

Property and Equipment, Net: Acquisitions of property and equipment in excess of $500 are capitalized. Purchased property and equipment are stated at cost. Significant donated property and equipment are recorded at their estimated fair value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to ten years.
NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets and For Long-Lived Assets to be Disposed Of: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows, excluding interest, expected to be generated by the asset. If such assets are considered to be impaired, the impairment is recognized on an asset-by-asset basis. The impairment is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset (fair value determined by discounted cash flows, market comparison, or replacement cost). Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No assets have been determined to be impaired as of December 31, 2015 and 2014.

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

Revenue Recognition: Contributions are recognized as revenue when they are received or unconditionally promised as prescribed by ASC 958 – 605, Not-for-Profit Entities – Revenue Recognition (“ASC 958 – 605”). The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulation expires, that is, when a stipulated time restriction ends or the purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Conditional promises to give are not recorded as contributions until the conditions on which they depend are substantially met.

Donor-restricted contributions whose restrictions are met in the same reporting period as the contribution is recorded are reported as temporarily restricted contributions and net assets released from restrictions as donor restrictions are met.

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

Contributed Services and Materials: Contributed services and materials are recognized in accordance with ASC 958 – 605. The Foundation received and recorded contributed pro-bono legal services for the years ended December 31, 2015 and 2014, with estimated fair values of $255,900 and $195,873, respectively.

Contributed goods are recorded at estimated fair value at the date of receipt and amounted to $176,624 and $116,247 for the years ended December 31, 2015 and 2014, respectively.

Income Tax Status: The Foundation has been recognized as an organization exempt from tax pursuant to Internal Revenue Code Section 501(c)(3) and classified by the Internal Revenue Service as other than a private foundation, and has been recognized by the California Franchise Tax Board as exempt from California franchise taxes under Revenue and Taxation Code Section 23701(d). Asia Ltd. has been granted tax exempt status by the Hong Kong Inland Revenue Department. UK Ltd. has been granted tax exempt status by UK HM Revenue & Customs. The Foundation is also qualified as a charitable fund (“ANBI”) in the Netherlands for tax purposes.
NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Generally accepted accounting principles require that a tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. The Foundation recognizes interest and/or penalties related to income tax matters in income tax expense. The Foundation did not have any amounts accrued for interest and penalties at December 31, 2015 and 2014.

Functional Expense Allocations: The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Accordingly, certain expenses have been allocated among program services and supporting services based on estimates made by management.

Reclassifications: Some items in the prior year financial statements have been reclassified to conform to the current presentation, with no effect on the prior year change in, classification of restriction for, or ending balance of net assets for the Foundation.

Subsequent Events: The Foundation has evaluated subsequent events for recognition and disclosure through May 26, 2016, which is the date the financial statements were available to be issued.

NOTE 3 – PLEDGES RECEIVABLE, NET

Pledges receivable represent unconditional promises to give by donors and are recorded at net realizable value. Pledges receivables of $300,000 and $24,811 at December 31, 2015 and 2014, respectively, were expected to be collected within one year. There were no long-term pledge receivables at December 31, 2015 and 2014.

The Foundation has received notification of various conditional pledges. These pledges for which the conditions have not yet been substantially met are not included as revenues and are not included in total revenue on the accompanying consolidated statements of activities and changes in net assets for the years ended December 31, 2015 and 2014. There were conditional promises to give of $22,079 and $74,752 as of the years ended December 31, 2015 and 2014, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>$172,838</td>
</tr>
<tr>
<td>Furniture</td>
<td>28,229</td>
</tr>
<tr>
<td>Total</td>
<td>201,068</td>
</tr>
<tr>
<td>Less: accumulated depreciation</td>
<td>(183,949)</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>$17,118</td>
</tr>
</tbody>
</table>

Depreciation expense for the years ended December 31, 2015 and 2014 amounted to $9,333 and $7,269, respectively.

(Continued)
NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purpose-restricted programs or locations at December 31, 2015 and 2014:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Village Program</td>
<td>$616,245</td>
<td>$858,712</td>
</tr>
<tr>
<td>Rainbow Training</td>
<td>55,000</td>
<td>168,588</td>
</tr>
<tr>
<td>Changsha, XianTan Seed, and Kunming programs</td>
<td>396,538</td>
<td>169,521</td>
</tr>
<tr>
<td>Ten Little Sister Programs (LSP)</td>
<td>-</td>
<td>320,027</td>
</tr>
<tr>
<td>Child Development Experts</td>
<td>300,000</td>
<td>-</td>
</tr>
<tr>
<td>Nanchang, Datong, and Rainbow</td>
<td>-</td>
<td>192,638</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>11,513</td>
<td>14,184</td>
</tr>
<tr>
<td>Huazhou</td>
<td>-</td>
<td>156,518</td>
</tr>
<tr>
<td>Nanning programs, and Guangxi Rainbow training</td>
<td>158,162</td>
<td>153,000</td>
</tr>
<tr>
<td>Beihai, Sanya LSP, Wuhan INP, Hefei FVP</td>
<td>46,218</td>
<td>29,283</td>
</tr>
<tr>
<td>National YSP</td>
<td>-</td>
<td>100,147</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>128,263</td>
<td>118,930</td>
</tr>
<tr>
<td>Qingyuan Wuhan, Qingdao, and Urumqi LSP</td>
<td>-</td>
<td>27,501</td>
</tr>
<tr>
<td>Changchun</td>
<td>29,746</td>
<td>134,229</td>
</tr>
<tr>
<td>Tianjin</td>
<td>20,165</td>
<td>-</td>
</tr>
<tr>
<td>Digital Media Training, Rainbow and YSP</td>
<td>-</td>
<td>93,277</td>
</tr>
<tr>
<td>China Care Clubs</td>
<td>30,606</td>
<td>21,026</td>
</tr>
<tr>
<td>Nanjing</td>
<td>66,074</td>
<td>63,021</td>
</tr>
<tr>
<td>Tianjin and Shenyan FVP</td>
<td>61,934</td>
<td>18,126</td>
</tr>
<tr>
<td>Changzhou</td>
<td>39,804</td>
<td>99,498</td>
</tr>
<tr>
<td>Wuzhou</td>
<td>-</td>
<td>1,208</td>
</tr>
<tr>
<td>National INP</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Henan</td>
<td>2,130</td>
<td>3,990</td>
</tr>
<tr>
<td>Maonan</td>
<td>-</td>
<td>42,345</td>
</tr>
<tr>
<td>Huangshi, Luoyang, Qingyuan INP</td>
<td>-</td>
<td>33,823</td>
</tr>
<tr>
<td>Harbin and Heilongjiang CDE &amp; Project Office</td>
<td>-</td>
<td>30,255</td>
</tr>
<tr>
<td>Chengdu Family Village Program (FVP)</td>
<td>-</td>
<td>30,214</td>
</tr>
<tr>
<td>Tai’an Seed Program</td>
<td>13,433</td>
<td>11,298</td>
</tr>
<tr>
<td>Lianjiang Seed Program</td>
<td>2,498</td>
<td>30,000</td>
</tr>
<tr>
<td>Shaoguan</td>
<td>-</td>
<td>20,459</td>
</tr>
<tr>
<td>Development Evaluation</td>
<td>-</td>
<td>17,034</td>
</tr>
<tr>
<td>Chenzhou</td>
<td>30,238</td>
<td>45,379</td>
</tr>
<tr>
<td>Lianyungang</td>
<td>-</td>
<td>13,001</td>
</tr>
<tr>
<td>Huazhou, Kuming, and Yinchuan start-up cost</td>
<td>-</td>
<td>13,057</td>
</tr>
<tr>
<td>Ya’an</td>
<td>-</td>
<td>13,042</td>
</tr>
<tr>
<td>China Care</td>
<td>145</td>
<td>5,029</td>
</tr>
<tr>
<td>Unrestricted donation – time restricted</td>
<td>150,000</td>
<td>-</td>
</tr>
<tr>
<td>Creating Optimal Learning Spaces project</td>
<td>40,015</td>
<td>-</td>
</tr>
<tr>
<td>Nanchang LSP</td>
<td>15,280</td>
<td>-</td>
</tr>
<tr>
<td>Guiyang LSP</td>
<td>14,477</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>100</td>
<td>105,634</td>
</tr>
</tbody>
</table>

Total temporarily restricted net assets $2,228,584 $3,153,994
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, 2015:

Village Program $ 1,216,367
Rainbow Training 592,264
Changsha, XianTan Seed, and Kunming programs 466,120
Ten Little Sister Programs (LSP) 320,027
Child Development Experts 300,000
Nanchang, Datong, and Rainbow 193,438
Guangzhou 202,148
Huazhou 156,668
Nanning programs, and Guangxi Rainbow training 144,838
Beihai, Sanya LSP, Wuhan INP, Hefei FVP 143,707
National YSP 119,147
Shenzhen 115,667
Qingyuan Wuhan, Qingdao, and Urumqi LSP 107,501
Changchun 104,483
Tianjin 95,789
Digital Media Training, Rainbow and YSP 93,277
China Care Clubs 90,420
Nanjing 81,656
Tianjin and Shenyang FVP 61,191
Changzhou 59,694
Wuzhou 55,619
National INP 54,782
Henan 36,860
Maonan 33,833
Huangshi, Luoyang, Qingyuan INP 33,823
Harbin and Heilongjiang CDE & Project Office 30,255
Chengdu Family Village Program (FVP) 30,214
Tai’an Seed Program 27,865
Lianjiang Seed Program 27,502
Shaoquan 20,509
Development Evaluation 17,034
Chenzhou 15,541
Lianyungang 13,101
Huazhou, Kunming, and Yinchuan start-up cost 13,057
Ya’an 13,043
China Care 10,844
Unrestricted donation -
Creating Optimal Learning Spaces project 9,985
Nanchang LSP 7,232
Guiyang LSP 5,656
Others 115,582

Total net assets released from restrictions $ 5,236,739

Total net assets released from restrictions for program services totaled $5,400,796 for the year ended December 31, 2014.

(Continued)
NOTE 7 – COMMITMENTS AND CONTINGENCIES

Lease Obligation: The Foundation leases office facilities in the United States, an apartment unit and an office facility in Beijing and an apartment unit in Shanghai, People’s Republic of China, and an apartment unit and office facility in Hong Kong. The operating leases expire at various dates through January 2017. Rent paid under these leases was approximately $375,963 of which $140,713 is recorded in rent expenses and $235,250 as a benefit to an employee for the year ended December 31, 2015. Rent paid under these leases was approximately $237,400, of which $157,856 is recorded in rent expenses and $79,544 as a benefit to an employee for the year ended December 31, 2014.

As of December 31, 2015, the Foundation's future minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Years Ending December 31</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$380,945</td>
</tr>
<tr>
<td>2017</td>
<td>$ 31,736</td>
</tr>
<tr>
<td></td>
<td>$ 412,681</td>
</tr>
</tbody>
</table>

Contingencies: The Foundation is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Foundation.

NOTE 8 – EMPLOYEE BENEFIT PLANS

In 2008, the Foundation had a 403(b) retirement plan for its employees. In January 1, 2009, the Foundation transferred all assets to a 401(k) plan, covering all employees who have met certain eligibility requirements. Under the 401(k) plan, employees may elect to contribute a certain percent of their eligible compensation to the 401(k) plan, subject to IRS limitations. The Foundation may make matching contributions during the year equal to a discretionary percentage, as determined by the Foundation, of the participant's salary reductions. Employer contributions vest at the rate of 20% per year with full vesting after 6 years of service with the Foundation. Total contributions made to the retirement plans by the Foundation for the years ended December 31, 2015 and 2014 were $50,686 and $41,260, respectively.

NOTE 9 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2015 and 2014, 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 $1,339,518 and $2,165,381, respectively.

NOTE 10 – 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 since 2011. Australia Ltd contributed $693,137 and $448,025 to the Foundation in the years ended December 31, 2015 and 2014, respectively. Half the Sky Foundation (“Canada”) Inc., another affiliate of the Foundation was incorporated in Canada in June 2009. Half the Sky Foundation (“Canada”) Inc. contributed $8,883 and $19,325 to the Foundation in the years ended December 31, 2015 and 2014, respectively.

(Continued)
NOTE 11 – MAJOR CONTRIBUTIONS

The Foundation had two donors with more than 15% and 19% of total contributions for the years ended December 31, 2015 and 2014, respectively.

NOTE 12 – COOPERATION AGREEMENT

In early 2008, the Foundation entered into a cooperation agreement with the Ministry of Civil Affairs of the PRC ("MCA") known as the "Blue Sky Plan." Under this agreement, the Foundation works with the MCA to establish cooperative model centers and to develop relevant care and education programs in each of the provinces in the PRC.

In July 2015, the Foundation entered into the “OneSky Ye-County Project” agreement with the Civil Affairs Bureau of Ye County and the Henan Social Welfare Association in order to fund the Village Program at the Ye-county (of the Henan Province). Under this agreement, the Foundation works with the Chinese partners to establish Family-skills program and Early Childhood Development Centers designed to mitigate the damage to children under 6 years old, who are left without nurturing, responsive care during their most critical early years.

NOTE 13– COOPERATION WITH CHBAF

In September 2012, a Chinese fund-raising organization called ChunHui Bo'Ai Children's Foundation (CHBAF) was established with objectives similar to those of the Foundation. Currently, the Foundation provides support and assistance to CHBAF on an interim basis, to help CHBAF operate programs for disadvantaged children throughout China to similar standards as programs operated by the Foundation.