

Coté & Company, APC

Certified Public Accountants

HALF THE SKY FOUNDATION

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2001

HALF THE SKY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Half the Sky Foundation
Berkeley, CA

We have audited the accompanying statements of financial position of **HALF THE SKY FOUNDATION** (a non-profit organization) as of December 31, 2001 and the related statements of activities and cash flow for year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Half the Sky Foundation as of December 31, 2001, and the results of its operations and cash flows for the year then ended.

Cote & Company, APC

Oakland, California
February 12, 2002

HALF THE SKY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2001

(With Comparative Totals for December 31, 2000)

	<u>ASSETS</u>		<u>Total</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2001</u>	<u>(Restated) 2000</u>
CURRENT ASSETS				
Cash	\$ 336,611	\$ 20,100	\$ 356,711	\$ 116,300
Grants and contributions receivable	8,775	125,000	133,775	5,000
Prepaid program expenses	32,778	-	32,778	-
Total current assets	378,164	145,100	523,264	121,300
FIXED ASSETS				
Equipment	2,079	-	2,079	-
Furniture & fixtures	4,746	-	4,746	-
Less accumulated depreciation	(512)	-	(512)	-
Total Fixed Assets	6,313	-	6,313	-
TOTAL ASSETS	\$ 384,477	\$ 145,100	\$ 529,577	\$ 121,300
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES				
Accounts payable	\$ 1,331	\$ -	\$ 1,331	\$ 2,568
Total Liabilities	1,331	-	1,331	2,568
NET ASSETS				
Unrestricted	383,146	-	383,146	118,732
Temporarily restricted	-	145,100	145,100	-
Total Net Assets	383,146	145,100	528,246	118,732
TOTAL LIABILITIES AND NET A	\$ 384,477	\$ 145,100	\$ 529,577	\$ 121,300

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

HALF THE SKY FOUNDATION
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2001
(With Comparative Totals for December 31, 2000)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>2001</u>	Total (Restated) <u>2000</u>
SUPPORT AND REVENUES				
Contributions	\$ 501,588	\$ 147,600	\$ 649,188	\$ 228,702
Matching gifts	6,654	-	6,654	3,743
Sales				
Newsletter	90	-	90	30
Merchandise	44,791	-	44,791	49,437
Interest	4,853	-	4,853	2,461
Net assets released from restrictions	<u>19,054</u>	<u>(19,054)</u>	<u>-</u>	<u>-</u>
 Total support and revenues	 <u>577,030</u>	 <u>128,546</u>	 <u>705,576</u>	 <u>284,373</u>
EXPENSES				
Program Services				
Little sister program	211,907	-	211,907	146,377
Management and general	20,836	-	20,836	9,889
Fundraising	<u>63,319</u>	<u>-</u>	<u>63,319</u>	<u>25,891</u>
 Total expenses	 <u>296,062</u>	 <u>-</u>	 <u>296,062</u>	 <u>182,157</u>
 INCREASE IN NET ASSETS	 280,968	 128,546	 409,514	 102,216
NET ASSETS				
Beginning of the year, as restated	<u>102,178</u>	<u>16,554</u>	<u>118,732</u>	<u>16,516</u>
 End of the year	 <u>\$ 383,146</u>	 <u>\$ 145,100</u>	 <u>\$ 528,246</u>	 <u>\$ 118,732</u>

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

HALF THE SKY FOUNDATION
STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	(Restated) <u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 409,514	\$ 102,216
Adjustments to reconcile the increase in net assets to net cash provided by operating activities:		
Depreciation	512	-
(Increase) decrease in:		
Grants and other receivables	(128,775)	(5,000)
Prepaid expenses	(32,778)	-
Increase (decrease) in:		
Accounts payable	<u>(1,237)</u>	<u>2,568</u>
Net cash provided by operating activities	<u>247,236</u>	<u>99,784</u>
CASH FLOW FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Asset acquisitions	<u>(6,825)</u>	<u>-</u>
Net cash used in investing activities	<u>(6,825)</u>	<u>-</u>
NET INCREASE IN CASH	240,411	99,784
CASH		
Beginning of year	<u>116,300</u>	<u>16,516</u>
End of year	<u>\$ 356,711</u>	<u>\$ 116,300</u>

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

HALF THE SKY FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2001
(With Comparative Totals for December 31, 2000)

	Little Sister Program	Management & General	Fund Raising	Total (Restated)	
				2001	2000
Personnel - China	81,060	\$ -	\$ -	\$ -	\$ 34,461
Education & documentati	25,145	-	-	-	-
Teacher training	7,174	-	-	-	8,349
Professional fees	-	3,000	30,000	33,000	5,740
Development	-	-	2,807	2,807	-
Individual assistance	14,980	-	-	-	-
Cost of sales	-	-	26,696	26,696	-
Insurance	-	461	-	461	-
Equipment & construction materials	22,404	-	-	-	51,319
Design & printing	-	-	2,406	2,406	21,196
Supplies	3,703	7,728	-	7,728	5,057
Postage & delivery	628	1,912	1,410	3,322	5,750
Conferences & meetings	1,333	1,962	-	1,962	763
Travel	55,480	-	-	-	42,992
Depreciation	-	512	-	512	-
Miscellaneous	-	5,261	-	5,261	6,530
Total	\$ 211,907	\$ 20,836	\$ 63,319	\$ 84,155	\$ 182,157

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

HALF THE SKY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Half the Sky Foundation (“the Organization”) is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’s management who is responsible for their integrity and objectivity.

Organization

The Organization was incorporated in November 1998, and the principal office for the transaction of its business is located in Berkeley, California.

The Organization’s main objective is to enrich the lives and enhance the outcome for abandoned girls living in China’s welfare institutions. In order to create on-site early childhood care and education for girls eighteen months to five years of age, programs are developed to provide essential financial support, materials and arrangement for certified childhood education teachers to train local teaching teams. Where needed, the Organization develops programs that employ local women to provide physical contact, nurture and stimulation for abandoned infants less than eighteen months of age.

Financial Statement Presentation

The financial statements have been prepared in accordance with Statement of Financial Accounting Standards No. 116 Accounting for Contributions Received and Contributions Made and No. 117 Financial Statements of Not-for-Profit Organizations. Under these provision, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - Funds that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted - A donor-imposed restriction that permits the Organization to use or expense the donated assets as specified and is satisfied either by the passage of time or by actions of the Organization.

Permanently restricted - A donor-imposed restriction that stipulates that certain resources be maintained permanently but permits the Organization to use or expend part or all of the income derived from the donated assets.

HALF THE SKY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2001

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Furnishings, Equipment and Depreciation

Furniture and equipment are recorded at cost. Depreciation is recorded using the straight-line method over estimated useful lives of three to ten years, with a half year of depreciation recognized in the year of acquisition and the year of disposal. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Functional Expense Allocations

The costs of providing program services of the Organization have been summarized on a functional basis. Certain costs, not directly attributable to a particular program, have been allocated among the program and support services based upon service statistics and estimates made by the Organization's management.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Statement of Cash Flows

For purposes of the statement of cash flows, demand deposits and money market funds with a maturity of three months or less are considered to be cash equivalent.

NOTE B - MAJOR CUSTOMER AND CREDIT RISK CONCENTRATION

In compliance with Statement of Financial Accounting (SFAS) No. 105 – Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk, the Organization has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist of cash deposits. Credit risk related to cash deposits exists whenever the Organization's cash deposits exceed the \$100,000 federally insured amount. Such credit risk amounted to \$256,711 and \$16,300 as of December 31, 2001 and 2000, respectively.

HALF THE SKY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2001

NOTE B - MAJOR CUSTOMER AND CREDIT RISK CONCENTRATION (Continued)

During the fiscal year ended December 31, 2001 approximately 93% of the Organization's support was from individual and foundation donations.

NOTE C - TAX EXEMPT STATUS

The Organization is exempt under Section 501(c)(3) of the Internal Revenue Code. In addition, it is exempt under Section 23701d of the California Revenue and Taxation Code.

NOTE D - RESTATED NET ASSETS

In the fiscal year ended December 31, 2001, the Organization changed to the accrual basis of accounting in order to conform with accounting principles generally accepted in the United States of America. In prior years, the Organization prepared its financial statements on the modified cash basis of accounting.

An analysis of the restatement is as follows:

Net Assets, December 31, 2000	
- As originally reported	\$ 116,300
Add: Contributions receivable	5,000
Less: Accounts payable	<u>(2,568)</u>
Net Assets, December 31, 2000	
- As restated	\$ <u>118,732</u>

As a result of the restatement the Increase in Net Assets for the year ended December 31, 2000 increased from \$99,784 to \$102,216.

HALF THE SKY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
(Continued)

December 31, 2001

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are as follows:

Little Sister Program	\$ 125,000
Yangdong Orphanage Project	<u>20,100</u>
Total	<u>\$ 145,100</u>