

**HALF THE SKY FOUNDATION
AND SUBSIDIARIES
(DBA OneSky)**

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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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, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, 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, 2017 and 2016 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
Crowe Horwath LLP

Sacramento, California
May 25, 2018

HALF THE SKY FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 4,388,183	\$ 3,254,456
Pledges receivable, net (Note 3)	189,544	842,956
Other receivables	19,707	61,203
Prepaid program expenses	68,668	105,806
Inventory	39,065	62,218
Property and equipment, net (Note 4)	29,045	30,412
Deposits	<u>28,909</u>	<u>68,703</u>
Total assets	<u>\$ 4,763,121</u>	<u>\$ 4,425,754</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 103,792	\$ 80,293
Accrued expenses	<u>87,448</u>	<u>102,914</u>
Total liabilities	<u>191,240</u>	<u>183,207</u>
Commitments and contingencies (Note 7)		
Net assets		
Unrestricted net assets:		
Unrestricted	1,641,512	1,307,144
Designated by the Board	<u>9,928</u>	<u>9,328</u>
Total unrestricted net assets	1,651,440	1,316,472
Temporarily restricted (Note 5)	<u>2,920,441</u>	<u>2,926,075</u>
Total net assets	<u>4,571,881</u>	<u>4,242,547</u>
Total liabilities and net assets	<u>\$ 4,763,121</u>	<u>\$ 4,425,754</u>

See accompanying notes to consolidated financial statements.

HALF THE SKY FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:						
Contributions (Notes 9, 10, and 11)	\$ 4,172,183	\$ 4,881,422	\$ 9,053,605	\$ 3,463,589	\$ 5,234,991	\$ 8,698,580
Contributed services and materials	400,909	-	400,909	512,528	-	512,528
Merchandise sales	2,260	-	2,260	7,247	-	7,247
Other income	62,618	-	62,618	55,143	-	55,143
Net assets released from restriction (Note 6)	<u>4,887,056</u>	<u>(4,887,056)</u>	<u>-</u>	<u>4,537,500</u>	<u>(4,537,500)</u>	<u>-</u>
Total revenues, gains and other support	<u>9,525,026</u>	<u>(5,634)</u>	<u>9,519,392</u>	<u>8,576,007</u>	<u>697,491</u>	<u>9,273,498</u>
Expenses:						
Program services:						
Donated goods and services	21,197	-	21,197	158,748	-	158,748
Other program services	<u>7,250,587</u>	<u>-</u>	<u>7,250,587</u>	<u>6,518,587</u>	<u>-</u>	<u>6,518,587</u>
Total program services	7,271,784	-	7,271,784	6,677,335	-	6,677,335
Fundraising:						
Donated goods and services	8,504	-	8,504	13,791	-	13,791
Other fundraising	<u>1,184,888</u>	<u>-</u>	<u>1,184,888</u>	<u>1,120,332</u>	<u>-</u>	<u>1,120,332</u>
Total fundraising	1,193,392	-	1,193,392	1,134,123	-	1,134,123
Merchandise costs	19,909	-	19,909	3,816	-	3,816
Management and general (Notes 7 and 8):						
Donated goods and services	146,548	-	146,548	199,057	-	199,057
Other management	<u>558,425</u>	<u>-</u>	<u>558,425</u>	<u>500,957</u>	<u>-</u>	<u>500,957</u>
Total management and general	<u>704,973</u>	<u>-</u>	<u>704,973</u>	<u>700,014</u>	<u>-</u>	<u>700,014</u>
Total expenses	<u>9,190,058</u>	<u>-</u>	<u>9,190,058</u>	<u>8,515,288</u>	<u>-</u>	<u>8,515,288</u>
Change in net assets	334,968	(5,634)	329,334	60,719	697,491	758,210
Net assets, beginning of year	<u>1,316,472</u>	<u>2,926,075</u>	<u>4,242,547</u>	<u>1,255,753</u>	<u>2,228,584</u>	<u>3,484,337</u>
Net assets, end of year	<u>\$ 1,651,440</u>	<u>\$ 2,920,441</u>	<u>\$ 4,571,881</u>	<u>\$ 1,316,472</u>	<u>\$ 2,926,075</u>	<u>\$ 4,242,547</u>

See accompanying notes to consolidated financial statements.

HALF THE SKY FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 329,334	\$ 758,210
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,632	11,360
Net change in assets and liabilities:		
Pledges receivable, net	653,412	(542,956)
Other receivables	41,496	(53,191)
Prepaid program expenses	37,138	17,310
Inventory	23,153	2,414
Deposits	39,794	(4,336)
Accounts payable	23,499	(112,924)
Accrued expenses	<u>(15,466)</u>	<u>(31,556)</u>
Net cash provided by operating activities	<u>1,145,992</u>	<u>44,331</u>
Cash flows used in investing activities		
Acquisition of property and equipment	<u>(12,265)</u>	<u>(24,654)</u>
Increase in cash and cash equivalents	1,133,727	19,677
Cash and cash equivalents, beginning of the year	<u>3,254,456</u>	<u>3,234,779</u>
Cash and cash equivalents, end of the year	<u>\$ 4,388,183</u>	<u>\$ 3,254,456</u>
Supplemental disclosures of cash flow information		
Contributed services and materials	<u>\$ 400,909</u>	<u>\$ 512,528</u>

See accompanying notes to consolidated financial statements.

HALF THE SKY FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2017 and 2016

	2017					2016				
	Program Services	Fundraising	Merchandise Cost	Management and General	Total	Program Services	Fundraising	Merchandise Cost	Management and General	Total
Expenses (Note 8):										
Compensation and benefits for non-field staff	\$ 2,179,618	\$ 885,422	\$ -	\$ 303,812	\$ 3,368,852	\$ 2,009,322	\$ 821,375	\$ -	\$ 268,865	\$3,099,562
Consulting and professional services	192,493	-	-	73,132	265,625	261,561	-	-	68,839	330,400
Office expenses	57,064	24,371	-	18,947	100,382	52,898	37,205	-	19,244	109,347
Information technology	80,690	7,311	-	-	88,001	90,837	6,377	-	-	97,214
Occupancy	52,618	-	-	99,381	151,999	53,081	-	-	95,822	148,903
Travel	280,611	86,523	-	46,726	413,860	209,441	62,672	-	31,639	303,752
Conferences and meetings	37,160	-	-	-	37,160	24,872	-	-	-	24,872
Depreciation	13,632	-	-	-	13,632	11,360	-	-	-	11,360
Insurance	-	-	-	16,427	16,427	-	-	-	16,548	16,548
Compensation and benefits for field staff	1,949,925	-	-	-	1,949,925	1,860,928	-	-	-	1,860,928
Donated goods and services	21,197	8,504	-	146,548	176,249	158,748	13,791	-	199,057	371,596
Subsidies, stipends and tuition	1,552,519	-	-	-	1,552,519	1,439,354	-	-	-	1,439,354
Center construction, equipment and furnishings	578,189	-	-	-	578,189	170,149	-	-	-	170,149
Surgery and nurturing care in connection with China Care program	86	-	-	-	86	9,616	-	-	-	9,616
Training programs and materials	261,030	-	-	-	261,030	317,235	-	-	-	317,235
Event expense	-	126,651	-	-	126,651	-	118,806	-	-	118,806
All other expense	14,952	54,610	19,909	-	89,471	7,933	73,897	3,816	-	85,646
Total functional expenses	\$ 7,271,784	\$ 1,193,392	\$ 19,909	\$ 704,973	\$ 9,190,058	\$ 6,677,335	\$ 1,134,123	\$ 3,816	\$ 700,014	\$8,515,288

See accompanying notes to consolidated financial statements.

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 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. OneSky Foundation UK Limited ("UK Ltd."), another supporting organization of the Foundation, was incorporated in England and Wales in April 2008.

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

The Foundation was created in order to enrich the lives of China's most vulnerable children. The Foundation has recently extended its mission to children outside of China, opening its first Early Learning Center in Vietnam in 2017. It is the Foundation's goal to ensure that all at-risk children have a caring adult in their lives and a chance at a bright future by teaching communities and caregivers to provide nurturing responsive care and early education that unlocks their hidden potential. As of December 31, 2017, the Foundation manages programs at 26 model children centers and 32 seed centers across 29 provinces in China (Orphanage Model), and provides family skill training and early childhood learning programs at 46 villages in Henan province (Village Model). In 2016, the Foundation signed an agreement with the government of Vietnam to set up an Early Learning Center in Vietnam (Factory Model). The Factory Model became operational in September 2017.

Demonstration Children's Centers' Programs: 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 develop the "whole child" by facilitating healthy emotional, physical and cognitive development. The Foundation renovates rooms in the welfare institution and provides training, salaries, other program expenses and staff supervision.

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, funds for music, dance, computer or art classes, and tutors for learning a second language. In 2014, the Foundation introduced the Sports Program by hiring sports teachers and designing tailored activities to improve the physical ability of the children with special needs.

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NOTE 1 – ORGANIZATION AND OPERATION (Continued)

Family Village (FV) in which children whose disabilities or special needs likely 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 preschools located in the orphanage 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.

Seed Centers: To expand the reach of the Foundation's Orphanage Model, the Foundation provides short-term funding (three years) for mentoring and training to smaller children welfare centers with limited resources so they can establish equivalent programs of their own. As of December 31, 2017, the Foundation has helped establish programs in 39 Seed Centers.

National Training Plan: Beginning in October 2011, the Foundation began its National Training Plan (called the "Rainbow Program" in China) 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. Since the National Training program was established, the Foundation has trained 15,541 caregivers from 724 welfare centers. The Foundation has been working on transitioning support and operations of the Children's Centers it has established in government-run social welfare institutions over to the Chinese. After that transition is complete, the Foundation will be a training and mentoring organization that continues to conduct effective trainings, in various forms and both online and offline, to help welfare institutions create Half the Sky-inspired programs of their own, and runs Demonstration programs that serve as examples of best-practice childcare.

Village Model: In 2015, the Foundation launched its Village Model programs for left-behind children in rural China. The Foundation's Village Model programs are designed to mitigate the damage to children up to 6 years old who are left without nurturing, responsive care during their most critical early years.

Similar to other Foundation programs, the Village Model's programs are designed to be scalable and sustainable. Programs include Family Skills in which parenting skills and responsive care training is delivered to primary caregivers through group trainings and home visits; 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 by offering trainer-facilitated village gatherings, monthly community projects and cooperative childcare to give weary primary caregivers respite.

Since the Village Model launched in Ye County, Henan Province in 2015, 8,481 children have been reached and 462 local women have been hired as preschool teachers and mentors. The Village Model has also established preschool, family skills, and community engagement programs in 46 villages.

Factory Model: During 2016, the Foundation designed a new model, referred to as the Factory Model, and is structured specifically for children of factory workers. The new Factory Model and curriculum were tailored to transform the lives of at-risk children whose parents work long hours in Vietnam's factories. In 2016, the Foundation signed an agreement with the Vietnam Department of Education and Training (DOET) to collaborate on a groundbreaking project to implement the Factory Model, with a primary objective to reach more than 200 children living near the Hoa Khanh Industrial Zones in Da Nang, Vietnam. The project's first Early Learning Center opened in 2017. The Foundation admitted 143 children to the program and hired 32 teachers in Phase I.

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HALF THE SKY FOUNDATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As part of its effort towards expanded and newly created programs, the Foundation changed its operating name to Half the Sky Foundation, Inc. DBA OneSky, effective January 1, 2016. At that date and through December 31, 2017, the change did not impact the name of the legal entity, and as such the audited financial statements will continue to present the name Half the Sky Foundation and Subsidiaries. In 2018, the legal names for all entities will be formally changed to OneSky and the financial statements for future years will be updated to OneSky or OneSky for all children.

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, 2017 and 2016. Translation gains and losses were not material to the consolidated financial statements taken as a whole and are not reflected separately in the consolidated financial statements.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

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

Unrestricted Net Assets - Unrestricted net assets have no donor-imposed restrictions and include those revenues and expenses associated with program and supporting services. The Board of Directors has designated certain unrestricted net assets to be used for certain purposes. As of December 31, 2017 and 2016, Board designated assets totaled \$9,928 and \$9,328, 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, 2017 and 2016, the Foundation held no permanently restricted net assets.

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HALF THE SKY FOUNDATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016, the Foundation had deposits with two financial institutions eligible for FDIC insurance coverage with carrying amounts and bank balances of \$2,773,788 and \$2,004,872, respectively. Of the total bank balances, \$324,681 and \$325,325 were insured at December 31, 2017 and 2016, 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.

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, 2017 and 2016.

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.

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HALF THE SKY FOUNDATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 and 2016, with estimated fair values of \$167,745 and \$360,363, respectively.

Contributed goods are recorded at estimated fair value at the date of receipt and amounted to \$233,164 and \$152,165 for the years ended December 31, 2017 and 2016, 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.

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, 2017 and 2016.

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.

Subsequent Events: The Foundation has evaluated subsequent events for recognition and disclosure through May 25, 2018, 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 \$189,544 and \$842,956 at December 31, 2017 and 2016, respectively, were expected to be collected within one year. There were no long-term pledge receivables at December 31, 2017 and 2016.

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, 2017 and 2016. There were conditional promises to give of \$250,000 and \$675,000 as of the years ended December 31, 2017 and 2016, respectively.

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HALF THE SKY FOUNDATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Equipment	\$ 197,834	\$ 185,569
Furniture and fixtures	<u>40,153</u>	<u>40,153</u>
Total	237,987	225,722
Less: accumulated depreciation	<u>(208,942)</u>	<u>(195,310)</u>
Property and equipment, net	<u>\$ 29,045</u>	<u>\$ 30,412</u>

Depreciation expense for the years ended December 31, 2017 and 2016 amounted to \$13,632 and \$11,360, respectively.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purpose-restricted programs or locations at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Changchun program	\$ -	\$ 18,038
Changzhou program	43,335	40,863
Chenzhou program	-	30,238
China Orphanage program	62,500	73,946
General China programs	500,000	500,000
Dapu program	15,962	28,281
Guangzhou program	5,273	45,735
Guangxi and Rainbow Training programs	162,000	209,194
Hangzhou program	76,248	-
Huazhou program	125,000	125,000
Hu 'nan, Kunming and Rainbow Training programs	622,710	644,460
Nanchang program	7,957	2,253
Nanjing program	127,362	134,492
Rainbow Training program	15,385	232,280
Shenzhen program	-	2,568
Tai'an Seed program	-	17,457
Tianjin and Shenyang programs	-	24,201
Vietnam program	214,121	-
Village program	774,266	598,520
Wuhan, Hefei and Rainbow Training programs	17,462	40,884
Unrestricted donation – time restricted	150,000	150,000
Others	<u>860</u>	<u>7,665</u>
Total temporarily restricted net assets	<u>\$ 2,920,441</u>	<u>\$ 2,926,075</u>

(Continued)

HALF THE SKY FOUNDATION AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 December 31, 2017 and 2016

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, 2017:

Changchun program	\$ 18,038
Changzhou program	42,116
Chenzhou program	30,238
Children film project	18,000
China Orphanage program	177,520
Dapu program	14,234
General China programs	500,000
Guangzhou program	143,389
Guangxi and Rainbow Training programs	197,194
Huazhou program	177,170
Hu 'nan, Kunming, and Rainbow Training programs	837,750
Nanchang program	2,253
Nanjing program	115,175
Rainbow Training program	503,977
Shenzhen program	2,568
Tai'an Seed program	17,457
Tianjin and Shenyang programs	45,670
Vietnam program	371,791
Village program	1,291,325
Wuhan, Hefei and Rainbow Training programs	223,439
Unrestricted donation – time restricted	150,000
Others	<u>7,752</u>
Total net assets released from restrictions	<u>\$ 4,887,056</u>

Total net assets released from restrictions for program services totaled \$4,537,500 for the year ended December 31, 2016.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Lease Obligation: The Foundation leases office facilities in the United States, an office facility in Beijing and an apartment unit in Shanghai, People's Republic of China (PRC), an office facility in Vietnam, and an apartment unit and office facility in Hong Kong. The operating leases expire at various dates through June 2018. Rent paid under these leases was approximately \$205,993, of which \$151,583 was recorded in rent expenses and \$54,410 as a benefit to two employees for the year ended December 31, 2017. Rent paid under these leases was approximately \$386,528, of which \$144,006 was recorded in rent expenses and \$242,522 as a benefit to two employees for the year ended December 31, 2016.

As of December 31, 2017, the Foundation's future minimum lease payments are as follows:

<u>Years Ending</u> <u>December 31,</u>	<u>Amount</u>
2018	<u>\$ 132,562</u>

(Continued)

HALF THE SKY FOUNDATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 7 – COMMITMENTS AND CONTINGENCIES (Continued)

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 January 1, 2009, the Foundation created a 401(k) plan, covering all employees who meet 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, 2017 and 2016 were \$64,979 and \$56,669, respectively.

NOTE 9 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2017 and 2016, 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 \$1,662,987 and \$1,322,248, 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 \$816,000 and \$689,329 to the Foundation in the years ended December 31, 2017 and 2016, 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 \$54,181 and \$11,772 to the Foundation in the years ended December 31, 2017 and 2016, respectively.

NOTE 11 – MAJOR CONTRIBUTORS

The Foundation had four donors whose combined contributions totaled more than 32% and 29% of total contributions for the years ended December 31, 2017 and 2016, respectively.

(Continued)

NOTE 12 – COOPERATION AGREEMENTS

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.

In April 2016, the Foundation signed an agreement with the Vietnam Department of Education and Training (DOET) to collaborate on a groundbreaking project to implement the Factory Model, with a primary objective to reach more than 200 children living near the Hoa Khanh Industrial Zones in Da Nang, Vietnam. The project's first Early Learning Center opened in September 2017.

NOTE 13– COOPERATION WITH CHBAF

Beginning 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.