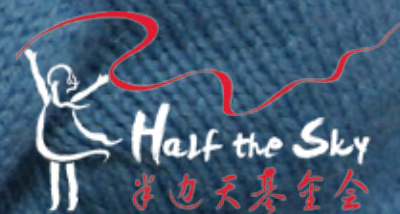


Half the Sky Foundation

Annual Report 2013



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,

Once again, as president of the board, I am honored to introduce a Half the Sky Annual Report because this year has been another extraordinary year for the children.

Not only are the individual children you'll read about in this report making huge strides, the number of children Half the Sky is reaching continues to grow thanks to the Rainbow Program.

It is truly amazing that a foundation started by a small group of adoptive parents passionate about bringing high-quality, family-style care to institutionalized children in China has evolved into a global NGO that is making a difference even in the most remote areas of China.

That progress is made possible by dedicated staffers like Child Development Expert Xia Hongying who, as you'll read, uprooted her family to move to remote northeast Jilin Province, one of the provinces the Rainbow Program reached this year.

It's also made possible by our dedicated individual, corporate and foundation supporters. My deepest thanks to every one of you for your support.



Guy Russo

Letter from the CEO & Founder

Dear Friends,

I'm so excited that in this report we're sharing the progress we have made toward meeting our greatest challenge—reaching scale in a country with almost 1.4 billion people, 330 million of them children.

Since the launch of the national Rainbow Program in 2011, we have reached caregivers in 18 of China's 31 provinces. In every province, our Child Development Experts are training, mentoring and inspiring caregivers and administrators to provide the high-quality, responsive care that is the hallmark of every Half the Sky program. And our newly launched *1jiaren.org* is creating a supportive online community for childcare workers throughout China.

In short, though China is a huge country, through the multifaceted Rainbow Program, we are well on our way to accomplishing what we set out to do—help China reimagine its entire child welfare system.

To everyone who is helping us on this journey toward a new childcare era, one in which the much-publicized ill effects of institutional care will be a distant memory, I cannot thank you enough.



Jenny Bowen

The Courage to Speak Out for Children

When the Rainbow Program reached Jilin this year, Half the Sky's longtime Family Village Supervisor in Chongqing, Xia Hongying, moved 2,300 kilometers northeast to Changchun to become the Province's Child Development Expert (CDE) where she immediately used her expertise to advocate for the children. On her first visit to Jilin's Siping orphanage, Xia saw a caregiver chasing a little girl around trying to feed her some rice porridge. When Xia asked why, the caregiver responded: "She's autistic. She can't learn." Xia knelt down, held six-year-old Yuqiao's hand to guide the spoon into her mouth, and gently encouraged her over and over. After a half hour, Xia could see that Yuqiao wanted to feed herself. She recommended that Yuqiao's caregivers break down the feeding process into a series of slow movements and illustrated how to hold Yuqiao's hands to offer steady encouragement. Six months later, Yuqiao, once completely alone, was sitting down to eat with the other children, playing with them, dressing herself, and following directions. Her amazed caregivers now reject the autism label because they have seen that with their patient, loving care, Yuqiao is not only learning, she is thriving.



Yuqiao is only one of the thousands of children who have blossomed thanks to the work of Half the Sky's CDEs, who serve as trainers, mentors, and role models in the provinces the Rainbow Program has reached. Made possible by a groundbreaking partnership among government, foundations, including the JPMorgan Chase Foundation, the Peter Bennett Foundation, and Half the Sky, the Rainbow Program's mission is to train every single child welfare worker in the country in a proven approach to providing family-like care to children who've never known love, help facilitate Half the Sky-inspired programs in orphanages all over each province, and in so doing transform the country's child welfare system.

Halfway into the six-year program, Half the Sky and our government partners have trained 5,446 child welfare

workers and administrators from 350 welfare institutions in 18 of the country's 31 provinces, municipalities and autonomous regions and assigned a CDE to each one. This year alone, the multifaceted program not only reached six new areas, Jilin, Liaoning, Zhejiang, Fujian, Tianjin and Ningxia, but also broadened its national impact with the launch of *1jiaren.org*, an online learning and support community for caregivers all over China. (p. 4)

That new online community augments the work of our on-the-ground CDEs who, along with their government counterparts, provide direct training sessions, workshops, mentoring, and in-service training to caregivers and administrators. Perhaps most importantly, our CDEs model the responsive care that is the hallmark of all our programs. When our CDEs kneel down to patiently encourage a six-year-old child as Xia Hongying did, or get down on a mat to intently focus on one baby, caregivers start learning how important it is to carefully observe and make a connection with each child. And when caregivers and administrators see the “miracles” this patient care sparks, they fully understand why, like children in loving families, institutionalized children should not languish alone in cribs.

Just as we had hoped, our CDEs' belief in the potential of each child has proven to be contagious. Government trainer Bo Long's eyes sparkle when she talks about the phone calls she receives from orphanage directors who tell her about the changes at their institutions...the newly energized caregivers, the administrators and caregivers clamoring for more training, and children like Yuqiao, who are developing in ways no one thought possible. It is those remarkable

changes that have emboldened Bo Long to become, just like our CDEs, the children's biggest advocates: “I am a Rainbow trainer now. I have the courage to speak out for our children, which I didn't dare do before!”

The Hunan trainees were moved by Yuqiao'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 Yuqiao's caregiver. Our children could be the next Yuqiao if we look after them as carefully as Yuqiao'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.



Boundless Help for China's Caregivers

Two years in the making, Half the Sky launched *1jiaren.org* (1Big-Family), an online learning community for China's child welfare workers. *1jiaren* offers forums where caregivers exchange ideas and work through daily challenges; a Video Resource Library (VRL) with 179 clips illustrating best practices in child-caregiver interaction; and, still in its infancy, an e-learning platform for professional development and eventually certification for career advancement.

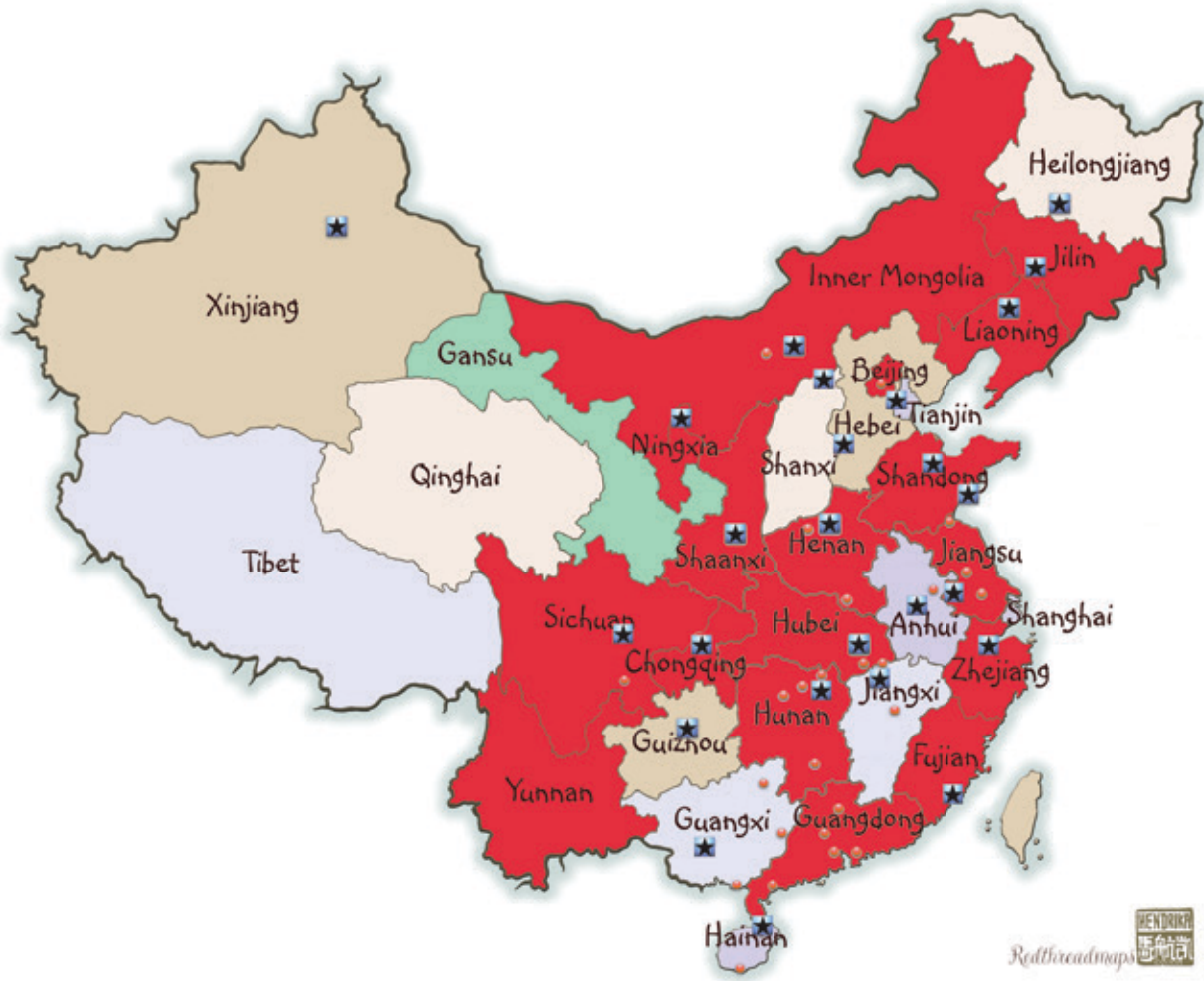
The most active features on the site are *1jiaren's* discussion forums where caregivers post thousands of comments, including this one from a Half the Sky preschool teacher in Chuzhou: "It's nice to know we are connected to counterparts around the country going through the same things we are, all of us trying our best to help the children and get better at what we do."

1jiaren also helps our Beijing-based supervisors maintain the quality of our far-flung programs. For example, when Infant Nurture Director Li Daoxin saw photos of the activity room in the Luoyang orphanage's new building online, she realized that the essential elements of our infant nurture rooms – soothing colors, a mirror with a railing placed so babies can reach out to pat their reflections and toddlers can pull themselves up, make faces, and kiss themselves – were missing, so she immediately contacted our Luoyang care team. "Some of the changes were made the next day. For an impatient person like me, this is my favorite part of *1jiaren*!"

The synergy between online and offline learning extends to the VRL because the clips can be streamed or downloaded and viewed individually or in groups. When the first videos were posted, foster parents in Changzhou watched them three times. The first time, they focused on understanding why they need to provide nurturing care for their children; the second on how to provide that care for children with special needs; and the third on how to develop a concrete plan for improving their current practices. By providing teaching multiple times, says Li Daoxin, "This way of teaching shatters the obstacles of traditional face-to-face teaching."

For caregivers, who were once looked down on as menial laborers, *1jiaren* makes it clear that they are professionals and that help is available for their professional growth. As Urumqi nanny Zhu Haijie wrote, "When I meet any difficulty at work, I can always find help on the website. This kind of help feels boundless."





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

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**

Ningxia - Yinchuan

Shaanxi - **Xi'an**

Shandong - **Jinan**, **Qingdao**

Shanxi - **Datong**

Sichuan - **Chengdu**, Yibin

Tianjin

Xinjiang - **Urumqi**

Yunnan

Zhejiang - Hangzhou

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

The Children - Babies and Their Nannies

An Unbreakable Bond

When Bosheng first entered the Infant Nurture Program, he held back when his nanny tried to play with him. Undaunted, Nanny Li Hongyan took him in her arms and made him feel secure.


When they played together, his giggles filled the activity room. Bosheng loved books so Nanny Li often read to him. At the end of each story, Bosheng would draw a picture and give it to Nanny Li. "Wow, you did a great job!" said Nanny Li, and Bosheng would beam with pride!

Nanny Li has recorded details of Bosheng's life and progress in

his Memory Book. Bosheng loves to look at his book and listens carefully to his nanny when she tells him stories about himself. One day, Bosheng compared the footprints and fingerprints in the book to his real hands. "My hands got bigger!" he told her. "My baby, you have grown!" she said.

Bosheng is going to be adopted soon, so he and his nanny do not have much time left together. Nanny Li knows that having a permanent family is best for Bosheng, but it is so hard to let him go. For now, she makes sure to hold Bosheng in her arms as much as she can so he knows that she will always love him.



A close-up photograph of a woman with dark hair, wearing a light blue button-down uniform over a yellow shirt. She is smiling and looking down at a baby. Her hands are gently holding the baby's hands. The baby is wearing a colorful, patterned blanket and is looking up at the woman with a joyful expression. The background is a dark green, leafy wall.

Half the Sky's 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.



Half the Sky's trained teachers aim to develop the “whole child” - using young children's natural curiosity and zest for learning to foster physical, intellectual, aesthetic, and moral growth, while teaching them how to live in harmony with each other.

The Children - Preschoolers and Their Teachers

In Bingbing's Hands

I met Bingbing the day she started preschool. All the other children gathered around her and wanted to shake hands with her. But she hid her hands behind her back and looked like she wanted to cry. She was born with cleft hands.

At first, Bingbing would not participate in the activities, but I stayed beside her. One day, when the children were doing an art project, I put a small bowl of glue near her and asked her: "What does it feel like?" She touched the glue and drew her hand back quickly. "Is it sticky?" I asked. She smiled and nodded.

After that, Bingbing started to use her hands. With practice, she became more and more dexterous. She learned to pick up, hold and manipulate objects, and even draw using a marker.

When Bingbing first started learning to write, she had trouble holding a pencil. She wrote and erased, wrote and erased, again and again. "I can write," she kept telling herself, "I can write." Finally, she made a beautiful character. She smiled and jumped for joy. All her classmates applauded.

Bingbing, I am so proud of you. Although you have experienced many storms, you are like a beautiful rainbow. I will be supportive of you forever.

By Jiang Yihan, Little Sisters Preschool Teacher



The Children - Youth and Their Mentors

I Am So Happy To Go To School

My name is Tao. I am 13 years old and I am deaf. I lived with a foster family in the countryside until I was 10 but then I had to return to the institution.

When I first arrived, I was eager to fit into this new place and make new friends but I had trouble. I wanted to greet everyone but didn't know how to speak so instead, I patted them on the shoulder. I also didn't know how to express that I wanted to play or share a toy so I often hid toys that I wanted to play with. The other children did not like playing with me. I felt sad and lonely.



One of my teachers noticed that I was quiet and always alone, so she helped me. She showed me how to correctly greet others and express myself when I needed or wanted something. Slowly, the other children began to play with me. I also started taking handicraft lessons and started learning sign language through Half the Sky's Youth Services Program.

I am so proud of myself and much more confident. Recently my teacher told me that I will be going to public school with my friends soon, to learn in a real classroom. I am so happy!





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.



Half the Sky-trained foster parents create loving, permanent families for up to 4 children with special needs who otherwise would likely spend their lives in institutions. Finally, these children have a mom and dad of their own.

The Families

Love is Thicker Than Blood

Shanshan's parents became Half the Sky foster parents when she was only sixteen years old. No longer an only child, Shanshan, as a teenager, had to learn to share her parent's love.

After a period of adjustment, Shanshan became supportive of her parent's new work and worked on forging a relationship with her three new siblings. Eventually, Shanshan's newly expanded family influenced her career choice — she chose orthopedics as her major at a vocational school, became interested in taking care of children with special needs, and started volunteering at the rehabilitation center at the orphanage after graduation. "I realized there were

so many children who needed help."

One summer day two years ago, Shanshan's dad rushed out in heavy rain to buy rain coats for all his children. He wanted to make sure they would have them for school the next day. While he was running that errand, he died of a brain hemorrhage. Shanshan, her mom, and her siblings were devastated by his sudden death. He was a gentle man who loved every one of his children.

Shanshan now helps her mom take care of her brother and two sisters on the weekends. They have become very close and Shanshan has learned that love is thicker than blood: "We are a big family. They are my brother and sisters. My father would be so happy if he could see how close we have become."

By Family Village Mother Wei Quanxiang





Children born too small and weak to survive or with life-threatening birth defects that require specialized treatment are moved from orphanages all over China to Beijing where they receive state-of-the-art medical care in hospital and doting pre- and post-operative care at the China Care Home.

The China Care Home

Keeping Zilong Warm

When Zilong arrived at the China Care Home, he was so tiny. He was born prematurely and only weighed 1.35 kg.

To keep him warm during Beijing's cold months, we put Zilong in his own room in an incubator. Our staff prepared a special feeding bottle designed for preemies and special formula that contained more protein and calories, but feeding Zilong was not easy. Though he only drank 10-15 ml of milk at a time, his feedings took about 20 minutes! Zilong spent most of the time sleeping peacefully in the incubator.

Sometimes he would cry but we could barely hear his cries outside the door because they were so weak. Our nannies paid close



attention to him and took turns watching him 24 hours a day.

The nutritionist modified Zilong's diet when necessary and Zilong grew bigger.

He also became more alert and often made sounds to attract his nanny's attention. His nanny would reach her hand into the incubator, hold his head up and talk to him. He would stare at her intently.

In early May, Zilong's body temperature was normal, which meant he could come out of the incubator. Everyone was amazed by his progress. He was now chubbier, more active, louder, and could grasp his nanny's finger tightly. The wonderful care of the nannies had paid off!



Big Sisters, We Are the Same



In the summer of 2013, 19 teenagers adopted from China participated in our first ever adoptee volunteer trip at the China Care Home in Beijing. “It was truly an incredible experience being with such an amazing group of adoptees,” says Charlotte Cotter co-founder of China’s Children International, which helped coordinate the trip. Every day the children welcomed the volunteers with cries of “Jiejie! Jiejie! Baowo!” (Big Sister! Big Sister! Pick me up!) And every day, their Big Sisters understood the wisdom of 5-year-old Longwei, who donned an extra small volunteer t-shirt and pronounced: “Big Sisters, we are the same.”

Contributing to the Laughter

18-year-old Charissa Loo

Before I left home, I was scared to go to the orphanage because I thought it would be a depressing environment. I tend to be an empathetic person, so I thought I would be crying every day, feeling for the children who did not get the same opportunity as I did. What I loved about the China Care Home is that it does not fit the stereotypical connotation that the word "orphanage" suggests. Although it is not a "normal" family home, it is a place full of bright smiles and hope. I loved learning more and more about the children and being able to contribute to the laughter. I also loved seeing the bond between the nannies and the kids. I honestly think of these women as heroes.

A Deep Connection to Our Shared Beginnings

17-year-old Laura Cotter

One child we nicknamed "Scooter" had a cute little smile and chubby cheeks and reminded me of pictures of me when I was little. Another boy called "Er Pang" (Second Fat) reminded me of a nickname I had at my orphanage. One of the few stories I know from my early life in China is that the nannies nicknamed me "Pang Dizhu" (Fat Landlord) because I was not shy about demanding food and attention. It was shocking at first to see some of the children with more severe physical issues, but when they smiled and laughed, nothing else mattered but making them smile again.



They were easy to love and so quick to return the love. With each child I met, my own beginnings in China came into sharper focus. I did not face the challenges that many of these children face, but I felt a deep connection to our shared beginnings as Chinese orphans.

A Relief to Know the Children Are Loved

19-year-old Laney Allison

As someone who was adopted from China, it is a relief to know that children waiting to be adopted are receiving the love and care they need. I now know that no matter what I do, I can always do more to help others. Thank you Half the Sky for giving me the opportunity to love and be a part of these children's lives.

The Volunteers

A Partnership for the Children

We are so grateful to the Coach Foundation for its ongoing support of our Little Sisters Preschool Program. This year alone, Coach supported 10 preschools all over China. That support meant that 68 Half the Sky-trained teachers were able to create a lively learning environment for 365 children.

There were field trips, including one to a paleontology museum (the children are still talking about dinosaurs!). In Jinan, Coach's Finance Team made all the arrangements for a wonderful outing to the nearby Wildlife Safari Zoo. The children saw tigers, free-roaming ostriches and, to their delight, got a chance to feed green branches to the giraffes. There was a seed-planting activity in Chongqing where the children tried hard to be patient while they waited for the first sprouts. When at last, tiny green buds emerged from the soil, the entire class shouted with joy. No student was more enthusiastic than Weiwei, who was often to be found sitting quietly next to the planters, his chin resting on his hands, carefully observing the green sprouts growing taller and developing leaves.

"It is truly amazing what we have been able to offer so many curious learners like Weiwei thanks to our generous, committed partners at Coach and the Coach Foundation," says Jenny Bowen CEO and Founder of Half the Sky. Felice Schulaner, a spokesperson for the Coach Foundation is proud of the multi-year relationship "The Coach Foundation is committed to funding education for underserved



populations. Half the Sky does outstanding work in a geography where we have many employees and customers. Our partnership has financially supported the children served and has also been important and highly gratifying to Coach's employees who have had the opportunity to engage with them over time. Everyone benefits."



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 donations 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/content/partners>

CORPORATE SUPPORTERS

Armstrong	Credit Suisse	Lo Ying Shek Chi Wai Foundation	The Body Shop Foundation
Asia Alternatives Mgmt. LLC	Deutsche Bank	Larry & Celia Moh Family Foundation	The Walt Disney Company
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Bain Capital Asia, LLC	GaveKal Endowment Limited	Open Arms Children's Foundation	World Childhood Foundation
Bank of America Merrill Lynch	Grant Thornton, LLP	The P&G Fund of the Greater Cincinnati Foundation	IN KIND
Baring Private Equity Asia	Hairy Crab Charities	Peter Bennett Foundation	APL
Barclays	HAVI Supply Chain Solutions	PricewaterhouseCoopers	Box of Hope
Capital Group Companies Charitable Foundation	Hometex International Co. Ltd	Reed Elsevier	Freshfields Bruckhaus Deringer
Capital World Hong Kong	HSBC	RGI, Inc.	Global Sources
ChinaFriends	JPMorgan Chase Foundation	Skoll Foundation	GMR Gymnastics Sales, Inc.
CLSA Chairman's Trust	Kmart	Target Corporation	Jack Morton Worldwide
China Care Foundation	Liberty Insurance	TCT Foundation for the Children of China	PRG Chicago
Coach Foundation	Linklaters LLP		Radio Flyer
	Lloyd George Asia Foundation		

Half the Sky Board of Directors and Advisors

Board of Directors

Guy Russo President

Managing Director of the Kmart retail chain owned by Wesfarmers Ltd in Australia and New Zealand; former Managing Director & CEO in Australia and President in Greater China of McDonald's Corporation.

Jenny Bowen

Founder and CEO of Half the Sky Foundation

A former screenwriter and film director who wrote screenplays for major Hollywood producers and was writer-director on several independent films.

Peter Bennett

After a successful career in the financial industry, established the Peter Bennett Foundation to support charitable and social impact development in Hong Kong, China, and Southeast Asia.

Stephen Chipman

CEO of Grant Thornton LLP, the U.S. member firm of Grant Thornton International Ltd. Launched his career with Grant Thornton in 1981 in the UK.

Matt Dalio

Founder, CEO and Chief of Product at Endless Mobile; president of board of directors of China Care Foundation, Inc. that he founded in 2000 at age 16; BA Harvard University; MBA, Stanford Graduate School of Business.

Ellen Eliasoph

Partner in the Washington and Beijing offices of Covington and Burling, LLC; former Managing Director of Warner Brothers, China; has worked on many cutting-edge transactions in the media and entertainment industries, as well as with many leading companies and policymakers throughout the Asia-Pacific region.

Tim Huxley

CEO of Wah Kwong Maritime Transport Holdings Ltd., a leading independent ship owner based in Hong Kong; served as Vice Chairman of the Hong Kong Shipowners Association together with several other industry bodies and is a regular commentator on shipping issues in the press and on television.

Dana Johnson, MD, PhD

Professor of Pediatrics and Director of the Division of Neonatology; and Co-Founder of the International Adoption Medical Program at the University of Minnesota. Also serves as Medical Consultant on international adoptions to multiple agencies across the United States.

Peter Lighte

Vice Chairman, Global Corporate Banking, JPMorgan Chase Bank; was the founding Chairman of

JPMorgan Chase Bank (China) and has been associated with the bank in London, Hong Kong and Tokyo; PhD from Princeton University in East Asian studies; Author of a lively memoir, *Pieces of China*.

F. Chapman Taylor

Senior Vice President of Capital International Research, Inc., a global investment management firm that is part of the Capital Group of Companies. Serves on the boards of For Love of Children, L'Arche Greater Washington DC and Karya Salemba Empat.

Wang Zhenyao

Director of new Beijing Normal University's One Foundation Philanthropy Research Institute & China Institute for Social Policy

Advisors

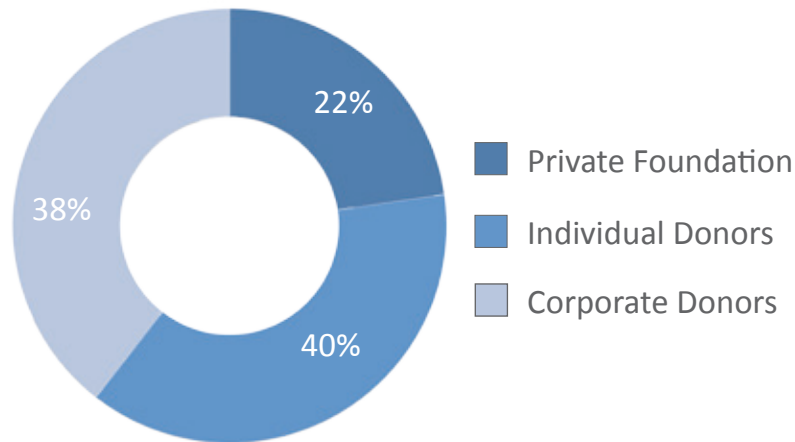
Zhang Zhirong

Senior Executive Consultant for Half the Sky

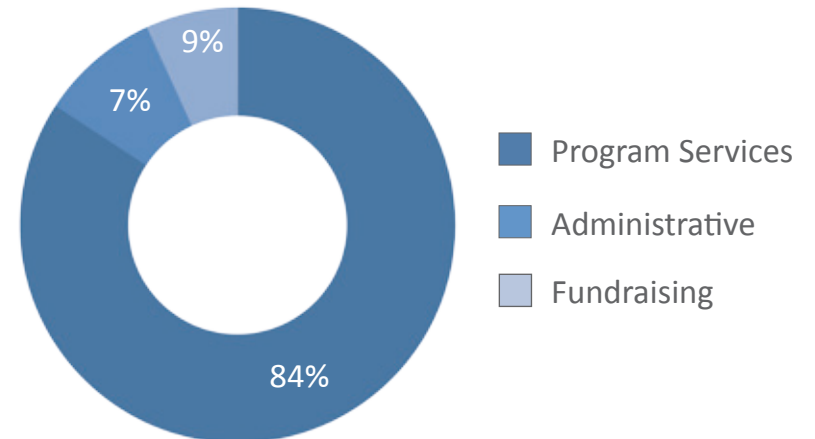
Half the Sky has been recognized for its exceptional fiscal responsibility and transparency by a number of charity evaluation organizations, including Wise Giving, Guidestar and Charity Navigator.

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.

Income Resources



Expenses



“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 Financial Statements

Letter from Independent Auditor

June 1, 2014

Crowe Horwath

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, 2013 and 2012, 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, 2013 and 2012, and the changes in 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
June 1, 2014

Consolidated Statements of Financial Position

Half the Sky Foundation and Subsidiaries, Year Ended December 31, 2013 and 2012

	2013	2012
Assets:		
Cash and cash equivalents	\$2,386,305	\$2,004,429
Pledges receivable, net (Note 3)	162,532	217,982
Other receivables	1,878	4,782
Prepaid program expenses	53,960	164,551
Inventory	65,527	68,090
Property and equipment, net (Note 4)	10,395	17,730
Deposits	23,209	29,583
Total assets	<u>2,703,806</u>	<u>2,507,147</u>
Liabilities:		
Accounts payable	135,591	319,721
Accrued expenses	75,680	98,633
Deferred rent liability	4,990	9,448
Total liabilities	<u>216,261</u>	<u>427,802</u>
Commitments and contingencies (Note 8)		
Net assets:		
Unrestricted	49,525	120,977
Designated by the Board for endowment (Note 7)	-	52,802
Total unrestricted net assets	<u>49,525</u>	<u>173,779</u>
Temporarily restricted (Note 5)	2,438,020	1,905,566
Total net assets	<u>2,487,545</u>	<u>2,079,345</u>
Total liabilities and net assets	<u>\$2,703,806</u>	<u>\$2,507,147</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Activities and Changes in Net Assets

Half the Sky Foundation and Subsidiaries, Year Ended December 31, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:						
Contributions (Note 10, 11 and 12)	\$3,710,469	\$5,726,974	\$9,437,443	\$4,153,659	\$5,567,611	\$9,721,270
Contributed services and materials	523,881	-	523,881	419,266	-	419,266
Merchandise sales	13,562	-	13,562	49,624	-	49,624
Interest and dividend income on investments	165	-	165	1,705	-	1,705
Other income	97,100	-	97,100	119,704	-	119,704
Transfer for change in donor intent (Note 7)	-	-	-	(387,709)	387,709	-
Net assets released from restriction (Note 6)	5,194,520	(5,194,520)	-	5,774,752	(5,774,752)	-
Total revenues, gains and other support	9,539,697	532,454	10,072,151	10,131,001	180,568	10,311,569
Expenses:						
Program services:						
Donated goods and services	50,664	-	50,664	33,377	-	33,377
Other program services	7,794,577	-	7,794,577	8,939,790	-	8,939,790
Total program services	7,845,241	-	7,845,241	8,973,167	-	8,973,167
Fundraising:						
Donated goods and services	7,043	-	7,043	193,224	-	193,224
Other fundraising	820,342	-	820,342	1,014,510	-	1,014,510
Total fundraising:	827,385	-	827,385	1,207,734	-	1,207,734
Merchandise costs	5,836	-	5,836	20,413	-	20,413
Management and general (Notes 8 and 9):						
Donated goods and services	356,633	-	356,633	-	-	-
Other management	628,856	-	628,856	596,325	-	596,325
Total management and general	985,489	-	985,489	596,325	-	596,325
Total expenses	9,663,951	-	9,663,951	10,797,639	-	10,797,639
Change in net assets	(124,254)	532,454	(408,200)	(666,638)	180,568	(486,070)
Net assets, beginning of year	173,779	1,905,566	2,079,345	840,417	1,724,998	2,565,415
Net assets, end of year	\$49,525	\$2,438,020	\$2,487,545	\$173,779	\$1,905,566	\$2,079,345

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Half the Sky Foundation and Subsidiaries, Year Ended December 31, 2013 and 2012

	2013	2012
Cash flows used in operating activities:		
Change in net assets	\$408,200	\$(486,070)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	8,551	23,839
Loss on disposal of property and equipment	-	1,794
Deferred rent liability	(4,458)	(2,509)
Net Change in assets and liabilities:		
Pledges receivable, net	55,450	(215,418)
Other receivables	2,904	(505)
Prepaid program expenses	110,591	(18,179)
Inventory	2,563	12,590
Deposits	6,374	(1,238)
Accounts payable	(184,130)	67,190
Accrued expenses	(22,953)	(97,593)
Net cash provided by (used in) operating activities	383,092	(716,099)
Cash flows used in investing activities:		
Acquisition of property and equipment	(1,216)	(9,113)
Increase (decrease) increase in cash and cash equivalents	381,876	(725,212)
Cash and cash equivalents, beginning of year	2,004,429	2,729,641
Cash and cash equivalents, end of year	2,386,305	\$2,004,429

See accompanying notes to consolidated financial statements.

Statement of Functional Expenses

Half the Sky Foundation and Subsidiaries, Year Ended December 31, 2013 and 2012

Expenses (Notes 7, 8 and 9):	2013					2012				
	Program Service	Fundraising	Merchandise Cost	Management and General	Total	Program Service	Fundraising	Merchandise Cost	Management and General	Total
Compensation and benefits for non-field staff	\$1,822,224	\$483,342	\$ -	\$396,876	\$2,702,442	\$1,928,962	\$564,976	\$ -	\$371,200	\$2,865,138
Consulting and professional services	70,047	-	-	93,734	163,781	72,645	-	-	84,557	157,202
Office expenses	32,391	20,157	-	21,544	74,092	47,807	16,926	-	24,770	89,503
Information technology	233,988	9,879	-	-	243,867	352,012	13,516	-	-	365,528
Occupancy	95,417	-	-	81,706	177,123	89,447	-	-	80,252	169,699
Travel	128,091	47,126	-	24,715	199,932	160,316	49,899	-	21,643	231,858
Conferences and meetings	41,856	-	-	-	41,856	125,055	-	-	-	125,055
Depreciation and amortization	8,551	-	-	-	8,551	23,839	-	-	-	23,839
Insurance	-	-	-	10,281	10,281	-	-	-	13,903	13,903
Compensation and benefits for field staff	3,650,938	-	-	-	3,650,938	3,958,557	-	-	-	3,958,557
Earthquake relief	7,684	-	-	-	7,684	-	-	-	-	-
Donated goods & services	50,664	7,043	-	356,633	414,340	33,377	193,224	-	-	226,601
Stipends and tuition	231,566	-	-	-	231,566	256,393	-	-	-	256,393
Orphanage center construction, equipment & furnishings	22,831	-	-	-	22,831	4,242	-	-	-	4,242
Surgery and nurturing care in connection with China Care Program	823,743	-	-	-	823,743	1,263,504	-	-	-	1,263,504
Family Village	40,408	-	-	-	40,408	56,636	-	-	-	56,636
Training programs and materials	439,288	-	-	-	439,288	533,513	-	-	-	533,513
Event expenses	-	192,343	-	-	192,343	-	281,052	-	-	281,052
All other expenses	145,554	67,495	5,836	-	218,885	66,862	88,141	20,413	-	175,416
Total functional expenses	\$7,845,241	\$ 827,385	\$ 5,836	\$ 985,489	\$9,663,951	\$8,973,167	\$1,207,734	\$20,413	\$596,325	\$10,797,639

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Half the Sky Foundation and Subsidiaries, Year Ended December 31, 2013 and 2012

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, 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 orphaned children in China. 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 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 in China and offers six primary programs:

The Infant Nurture (IN) Program: In this program, designed to give infants aged 0-2 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 (0-2 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.

The Little Sisters Preschool (LSP) Program: In this program, the 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. The program is designed not only to prepare the 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 institution and provides training, salaries, other program expenses and supervision of staff.

The Youth Services (YS) Program: In this program, individualized learning opportunities are provided for older children (8-21 years) who remain in the institutions. The Foundation tailors each program 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.

The Family Village (FV) Program: In this program, children whose disabilities or special needs preclude adoption, live in permanent foster families in comfortable apartments in or nearby the welfare institutions. This program enables children who will never be adopted to grow up knowing the love of family while also receiving the support services that the welfare institution and the Foundation programs provide. The children attend the Foundation preschools and then go on to enjoy the enrichment opportunities of the Big Sisters Program. The Foundation partners with local governments to renovate apartments, provide furnishings, a small stipend for foster parents, ongoing training and miscellaneous fees.

The China Care Program: In this program, medically fragile orphaned infants and toddlers are provided with specialized medical treatment and nurturing after-care. Whether receiving 24-hour loving attention in the HTS China Care Home's Special Care Nursery or adjacent Medical Family Care Unit or in a nearby Beijing hospital, these tiny children not only receive life-saving medical treatment, they also learn that they are not alone in this world.

Rainbow Program: Beginning in October 2011, the Foundation began its Rainbow Program Implementation Plan to transition the Foundation to be a training and mentoring organization. The Foundation will provide training to all sites over the next 6 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 and secondary training program. By the end of December 31, 2013, 18 provinces had completed 52 sessions of the primary and 110 secondary training program. The Foundation has trained 5,326 caregivers from 406 welfare centers. They anticipate that after the 6-year rainbow training, they will have covered at least 1,000 welfare centers. The Foundation will transition its mission to include conducting effective joint provincial training 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 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, 2013 and 2012. 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. The useful lives of fixed assets, allowance for pledges receivable and donated goods and services are particularly subject to change.

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.

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, 2013 and 2012, 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. The Foundation was unable to maintain a Chinese bank account under its name before the Beijing Representative Office registered. Accordingly, the Foundation set up two accounts maintained by the managing director of programs. The balance in these accounts was \$29,400 and \$49,866 at December 31, 2013 and 2012, respectively. Overseas program operations, such as employee salaries, are funded through wire transfers from the Foundation's U.S. office.

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, 2013 and 2012, the Foundation had deposits at two financial institutions eligible for FDIC insurance coverage with carrying amounts of \$807,021 and \$267,522, and bank balances of \$807,021 and \$267,522, respectively. Of the total bank balances, \$268,978 and \$267,522 were insured at December 31,

2013 and 2012, 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, 2013 and 2012.

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, 2013 and 2012, with estimated fair values of \$395,332 and \$155,864, respectively.

Contributed goods are recorded at estimated fair value at the date of receipt and amounted to \$128,549 and \$263,402 for the years ended December 31, 2013 and 2012, 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.

Current accounting standards require the Foundation to disclose the amount of potential benefit or obligation to be realized as a result of an examination performed by a taxing authority. For the years ended December 31, 2013 and 2012, management has determined that the Foundation does not have any tax positions that result in any uncertainties regarding the possible impact on the Foundation's financial statements. The Foundation is no longer subject to examination by taxing authorities for years before 2008. 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, 2013 and 2012.

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.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions. The Foundation's carrying amount for its cash and cash equivalents, pledges receivable, accounts payable, and accrued liabilities approximate fair value.

Reclassifications: Certain reclassifications have been made to the prior year's balances to confirm to classifications used in the current year. Reclassifications had no effect on the prior year change in net assets or total net assets.

Subsequent Events: The Foundation has evaluated subsequent events for recognition and disclosure through June 1, 2014, 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 \$162,532 and \$217,982 at December 31, 2013 and 2012, respectively, were expected to be collected within one year. There were no long-term pledge receivables at December 31, 2013 and 2012.

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, 2013 and 2012. There were conditional promises to give of \$197,706 and \$833,815 as of the years ended December 31, 2013 and 2012, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

	2013	2012
Equipment	\$ 151,523	\$ 150,307
Furniture and fixtures	26,219	26,219
Total	177,742	176,526
Less: accumulated depreciation	(167,347)	(158,796)
Property and equipment, net	<u>\$ 10,395</u>	<u>\$ 17,730</u>

Depreciation expense for the years ended December 31, 2013 and 2012 amounted to \$8,551 and \$23,839, respectively.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purpose-restricted programs or locations at December 31, 2013 and 2012:

	2013	2012
Henan	\$ 2,428	-
Baotou 2014	5,125	-
Beihai, Sanya and Wuhan	107,087	64,254
Changsha	14,145	161,679
Changzhou	34,242	26,244
Chenzhou	44,047	37,254
China Care Club	9,648	8,239
The China Care Project (TCCP)	325,473	278,361
Digital publishing and news media training	69,129	52,681
Fuzhou	6,897	1,381
Funds to cover "walk" events	6,219	6,219
Guangzhou	108,101	91,491
Guilin and Shaoguan	2,799	89,709
Guiyang	40,914	16,578
Hefei	5,563	4,781
Huazhou	101,990	-
JPMC National training program	399,249	-

Chengdu and 9 additional Little Sister Programs	279,464	249,283	Changsha center and Hunan Rainbow Program	149,771
Luoyang	-	27,598	Qingyuan, Wuhan, Qingdao and Urumqi LSP	143,889
Nanchang	123,246	23,310	Guangzhou (LSP and YS)	142,542
Nanjing	92,172	74,030	Changchun	138,112
Qingdao	-	6,250	Shenzhen	130,273
Qingyuan, Wuhan, Qingdao and Urumqi LSP	75,164	69,053	Lianyungang	130,020
Shaoyang	33,241	27,775	Maoming	121,670
Shenzhen	118,152	122,663	China Care Clubs	119,666
Shijiazhuang	-	12,322	Youth Service Program (YSP)	114,154
Tianjin IN, LS and YS and Chongqing IN	87,495	139,905	Shenyang & Liaoning CDE and Project Office	95,884
Video resource library	-	21,358	Guilin & Shaoguan INP	87,276
Wuzhou	-	1,661	Beihai, Sanya LSP & Wuhan INP	80,334
Xinyang	-	3,778	Haikou	76,831
Yueyang	1,561	-	Wuzhou	76,661
Ya'an Earthquake	23,293	-	Henan	57,572
Child Development Expert (CDE)	7,067	-	Family Village Program (FVP)	54,862
Development Evaluation Project	126,400	-	Changzhou IN & LS and YS from Q3 2013	53,420
Other support for operations	187,709	287,709	Digital Publishing and New Media Training	43,839
Total temporarily restricted net assets	<u>\$2,438,020</u>	<u>\$1,905,566</u>	Hefei IN	43,793
			Nanchang, Datong from Q4 2013	43,669
			Maonan	37,900
			Hefei FV	37,000
			Nanjing FVP	36,443
			Guiyang FV	35,468
			Fuzhou	31,291
			Luoyang LS	29,563
			Nanjing LS&YS	28,038
			Development Evaluation Project	23,600
			Nanchang IN, LS and YS	23,310
			Yueyang and Yiyang IN	23,290
			Nanjing IN	21,042
			Jinan IN & FV	17,523
			Shaoyang YS	14,284

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, 2013:

China Care	\$853,568
JPMC National Training	743,725
Child Development Expert (CDE)	392,406
LSP in Chengdu, Shenyang, Xi'an, Chongqing, Harbin, Nanning, Jinan, Shijiazhuang, Xiamen & Zhengzhou	334,819
Video Resource Library	213,590
Tianjin center and Chongqing INP	156,621

Shijiazhuang IN	12,322
Chenzhou IN	11,748
Chenzhou (all but IN)	11,199
Hefei YS & Huangshi YSP from 17 July 2013	10,575
Ya'an Earthquake	10,543
Yueyang LSP	9,527
Shaoyang IN	9,474
Yibin	9,458
National Training Curriculum	8,815
Shaoyang LS	7,850
Qingdao INP	7,800
Qingdao YS	6,250
Nanning	5,000
Xinyang IN	3,778
Guiyang IN from Q4 2013	3,038
Other	109,424
	<hr/>
Total net assets released from restrictions	<u>\$5,194,520</u>

The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the duration and preservation of the fund, the purposes of the organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, and the investment policies of the organization in making a determination to appropriate or accumulate donor-restricted endowment funds.

Return Objectives and Risk Parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds.

NOTE 7 – ENDOWMENT

Endowments: The Foundation accounts for endowment gifts under Uniform Prudent Management of Institutional Funds Act (UPMIFA). From time to time, the fair value of assets associated with individual board-designated endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature will be reported in unrestricted net assets, unless specified otherwise by donor, as required.

Interpretation of UPMIFA: The Board of Trustees has interpreted Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original and subsequent gifts as of the gift date of the Board-designated endowment funds absent explicit donor stipulations to the contrary.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets to invest the majority of the endowment funds into certificates of deposit to achieve long-term return objectives to maintain prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Foundation has a policy of appropriating for distribution each year up to 5 percent of the endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow 2 percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts

and investment return. The Spending Policy will be reviewed and/or updated, and approved by the Board of Directors on an annual basis.

There were no endowment net assets outstanding at December 31, 2013. During the year ended December 31, 2013, changes in the endowment net assets composition, by type of fund, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$52,802	\$ -	\$ -	\$52,802
Investment income including foreign currency exchange gains	6,246	-	-	6,246
Contributions	10,092	-	-	10,092
Appropriation of endowment assets for expenditure	(6,246)	-	-	(6,246)
Transfers to remove assets from board-designated endowment funds	(62,894)	-	-	(62,894)
Total funds	\$ -	\$ -	\$ -	\$ -

As of December 31, 2012 the endowment net assets composition, by type of fund, were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds, restated	\$ -	\$ -	\$ -	\$ -
Board-designated endowment funds, restated	\$ 52,802	\$ -	\$ -	\$52,802

During the year ended December 31, 2012, changes in the endowment net assets composition, by type of fund, were as follows

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$645,724	\$ -	\$ -	\$645,724

Investment income including foreign currency exchange gains	3,962	-	-	3,962
Contributions	12,039	-	-	12,039
Appropriation of endowment assets for expenditure	(3,962)	-	-	(3,962)
Transfer for a change in donor intent	(387,709)	-	-	(387,709)
Transfers to remove assets from board-designated endowment funds	(217,252)	-	-	(217,252)
Total funds	\$52,802	\$ -	\$ -	\$52,802

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

For the purposes of assisting the Foundation in funding operating expenses as the Foundation transitions to becoming a training and mentoring organization, the Foundation transferred board-designated endowment funds of \$62,894 and \$217,252 during the years ended December 31, 2013 and 2012, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Lease Obligation: Lease Obligation: 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 2014. Rent paid under these leases was approximately \$176,000 and \$167,000 for the years ended December 31, 2013 and 2012, respectively. The future lease payments total \$176,794 for the year ending December 31, 2014.

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 9 – 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, 2013 and 2012 were \$40,160 and \$35,711, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2013 and 2012, 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 \$984,517 and \$742,310, 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 since 2011. Australia Ltd contributed \$2,237 and \$53,557 to the Foundation in the years ended December 31, 2013 and 2012, 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 \$37,903 and \$64,395 to the Foundation in the years ended December 31, 2013 and 2012, respectively.

NOTE 12 – MAJOR CONTRIBUTIONS

The Foundation had two donors with more than 18% and 25% of total contributions for the years ended December 31, 2013 and 2012, respectively.

NOTE 13 – 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.



*"All the children who are held and loved will know how to love others...
spread these virtues in the world. Nothing more need be done."*

Meng Zi c. 300 B.C.



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