



Half the Sky Foundation
Annual Report 2011

Half the Sky was created in order to enrich the lives of orphaned children in China. We provide model programs and caregiver training designed to offer loving, family-like care to children of all ages and abilities. It is our goal to ensure that every orphaned child has a caring adult in her life and a chance at a bright future.



Letter from the President

Dear Friends:

I am overjoyed to introduce Half the Sky's 2011 Annual Report with such exciting news about the Rainbow Program, an unprecedented government-NGO cooperative project that will impact every child living in a Chinese institution. Made possible by a generous grant from JPMorgan Foundation, the Rainbow Program will over five years provide training about best practices for the child welfare workers of an entire country!

No wonder that when it was launched Children's Day at the Great Hall of the People, the Rainbow Program was hailed as a new era for orphaned children in China. And no wonder that JPMorgan Foundation was praised for its "visionary investment" for the children.

Meanwhile, in addition to the new Rainbow Program, Half the Sky continued to provide care for thousands of children at its 51 centers all over the country and care for medically fragile children at the China Care Home in Beijing.

Thank you for your support during this crucial year for our efforts to bring the love of family to every child who has lost theirs.



Guy Russo

Letter from the CEO & Founder

Dear Friends:

When Half the Sky was founded, we were intent on reaching every child, but we did not know how. We just focused on one day and one center at a time. That's why I am so gratified to introduce this Annual Report for a year that included the launch of the Rainbow Program.

Through the Rainbow Program we are cooperating even more closely with our government partners to ensure that every child welfare caregiver in the country understands the importance of nurturing care. Through the Rainbow Program we are spreading our work across every province. Through the Rainbow Program we are fulfilling our promise to the children: that we would not rest until we reached every child.

Of course, we can't rest yet! But we can go forward thanks to the incredibly generous grant from JPMorgan Chase and thanks to every one of our corporate, foundation and individual friends who make our work at our Children's Centers, in our China Care Home, and the work of our Child Development Experts possible. To every one of our supporters, thank you for helping us keep our promise to the children.



Jenny Bowen

A Rainbow of Many, Many Colors

The Rainbow Program, a landmark cooperation between the Chinese government and Half the Sky Foundation and made possible by a generous grant from JPMorgan Foundation, was launched on Children's Day, June 1, 2011 at the Great Hall of the People in Beijing.

For a few hours at the Great Hall, everyone involved in this cooperative effort, including a virtual chorus of adopted children all over the world, stood still to celebrate a huge milestone for China's orphans. Said Half the Sky CEO Jenny Bowen: "This is a great day for the children."

Bowen said it was also a great day for government-NGOs partnerships. The scale of the Rainbow Program, which will provide training about best practices for the child welfare workers of an entire country, illustrates what can be accomplished when governments and NGOs work together to effect change. Bowen praised JPMorgan Chase Foundation's "visionary" investment in this groundbreaking government-NGO partnership that "will have positive global impact for generations to come."

After the celebration came the hard and rewarding work of beginning the implementation of every aspect of the multi-faceted, five-year program.

In the last six months of the year, with China Center for Children's Welfare and Adoption (CCWA), Half the Sky co-

trained 763 caregivers and administrators in six provinces: Jiangsu, Henan, Zhejiang, Shanxi, Hubei and Guangdong.

Participants, who will receive hands-on follow up training in 2012, responded enthusiastically to the training's interactive format and the revelatory curriculum. Said Wang Qinghua from the Weinan City Children's Welfare Institution in Shaanxi Province: "I have learned that responsive nurture means we need to carefully observe the children, help build up their confidence, develop a secure attachment with them, and create a learning environment for them to explore rather than simply reciting a bunch of numbers and facts."

Perhaps more importantly, the trainees expressed growing confidence about their ability to implement what they learned. Said Sun





Shuangshuang from Henan Province "I have started to believe I can make a difference."

Sun Shunagshuang will not be alone as she works to make a difference in the institution where she works. All Rainbow participants will receive follow up hands on training and guidance and support from a Half the Sky Child Development Expert (CDE) in their province. These CDEs, senior staffers with long experience working in Half the Sky's program, will be stationed at provincial training bases.

Trainees will also receive support from an innovative online community

being built to provide distance learning opportunities, expert advice, and peer-to-peer forums. The e-learning portion of the new website will undoubtedly spur China's welfare professionals to further their professional development by taking online courses for advanced certification.

Another crucial component of the Rainbow Program is preparing orphanage directors to run Half the Sky-inspired programs in their institutions. Last year, Half the Sky and CCWA co-hosted a national directors' conference in Guilin and instituted a peer support group for directors. During the rollout of the Rainbow Program, twice-a-year national directors' workshops will be held all over the country.

The Rainbow Program, which will reach 30 provinces in five years, provides an unprecedented opportunity to reach many thousands of caregivers and welfare institution directors through direct training and a new Web-based learning community. It is an opportunity that Half the Sky has dreamed about for a long time. Says Bowen: "The Rainbow Program is a bold new chapter for child welfare in China, the answer to all of our dreams and wishes for the children. We feel incredibly fortunate to be part of this Rainbow Program of many, many colors."



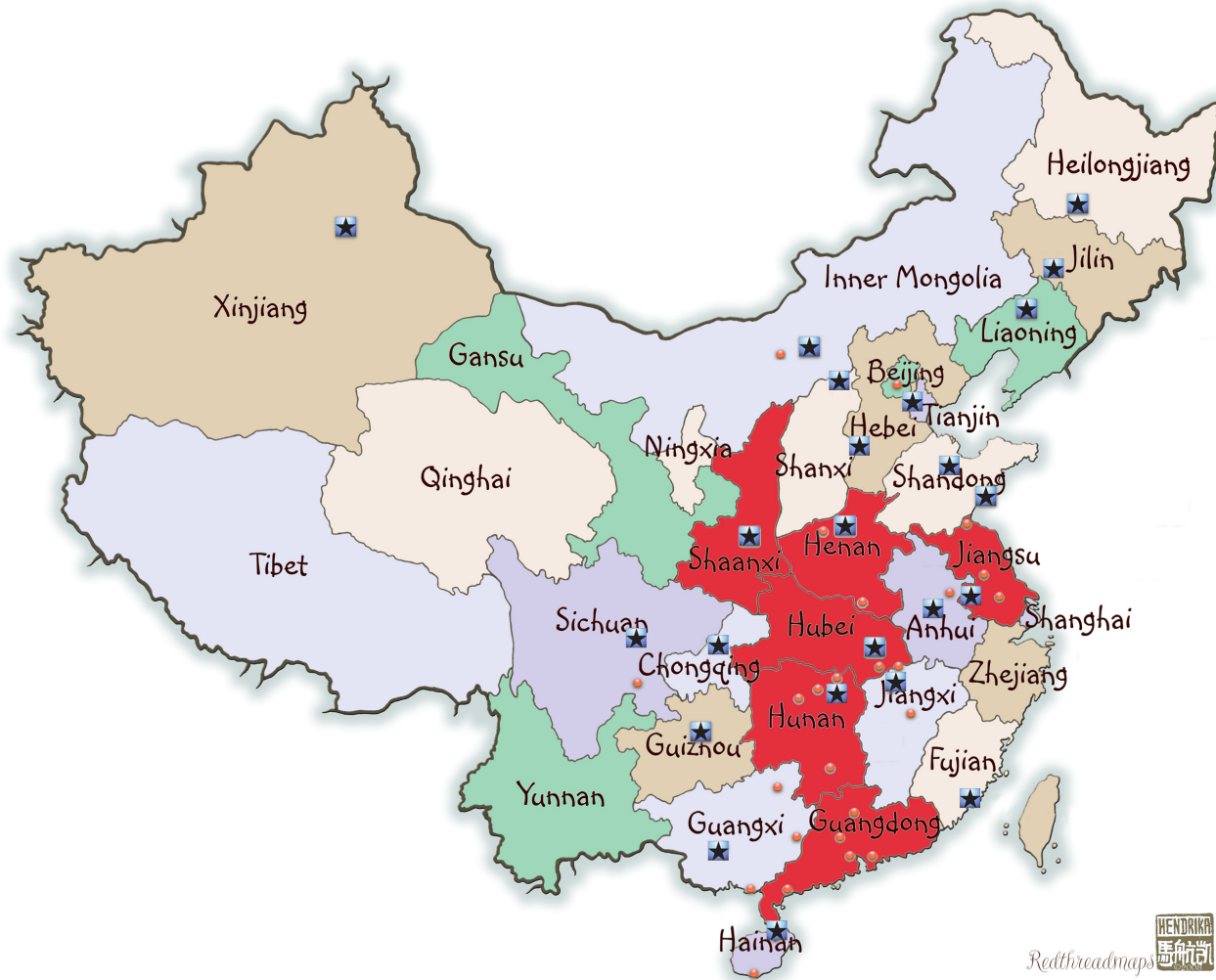
"Children are our hope for the future. Let us raise our hands and work together to build a nationwide team of dedicated child welfare workers who will provide the best and most advanced child welfare system for our children."

*Sun Shaocheng, Vice Minister, Ministry of Civil Affairs
Children's Day, Great Hall of the People*

"Our firm JPM Morgan and our Foundation are proud to be a partner here in China where we can collaborate by responding and offering positive solutions for community needs through our dollars and the volunteerism of our colleagues--all focused on the goal of growing China's children into responsible global citizens of the world."

*彩虹桥项目 Kimberly B. Davis, President, JPMorgan Chase Foundation
The Rainbow Project Children's Day, Great Hall of the People*





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

Anhui - Hefei, Chuzhou

Chongqing

Fujian - Xiamen

Guangdong - Guangzhou, Maoming, Maonan, Qingyuan, Shenzhen, Shaoguan

Guangxi - Beihai, Guilin, Nanning, Wuzhou

Guizhou - Guiyang

Hainan - Haikou, Sanya

Hebei - Shijiazhuang

Heilongjiang - Harbin

Henan - Luoyang, Xinyang, Zhengzhou

Hubei - Huangshi, Wuhan

Inner Mongolia - Hohhot, Baotou

Hunan - Changsha, Chenzhou, Shaoyang, Yiyang (2 sites), Yueyang

Jiangsu - Changzhou, Gaoyou, Lianyungang, Nanjing

Jiangxi - Fuzhou, Jiujiang, Nanchang

Jilin - Changchun

Liaoning - Shenyang

Shaanxi - Xi'an

Shandong - Jinan, Qingdao

Sichuan - Chengdu, Yibin

Tianjin

Xinjiang - Urumqi

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

The Children – Babies and Their Nannies

In 2011, Half the Sky established model Children’s Centers in Changsha (Hunan Province) and Jinan (Shandong Province), bringing the love of family to hundreds more children. including MengWei and MengXuan two babies in Jianan basking in the love of their nannies.

MengWei ("WeiWei") *By Half the Sky Nanny Liu Nana*

When I first met WeiWei, she was lying in her crib. When I called her name, she looked around and searched for me. As soon as she saw me, she smiled.

Now 6.5 months old, WeiWei is able to change her position from lying on her back to lying on her stomach. She can hold her head up for awhile when she is lying on her stomach. She likes to play with her feet and look at herself in the mirror--when she sees her reflection, she says “yiyi yaya.”

WeiWei can stand for a few seconds when I hold her arms. When she sees other children playing with toys, she watches them closely. When I walk up to her, she smiles.




MengXuan ("XuanXuan") *By Half the Sky Nanny Zhang PanPan*

When MengXuan ("XuanXuan") sees me come into the infant room, she murmurs “um, um” and raises her hands, asking for a hug. When I pick her up, she gives me a big smile.

Now a grown-up two years old, XuanXuan can stand up by holding onto the handrail beside the mirror. When I call her name, she walks towards me slowly and then throws herself into my arms.

When she sees me distributing snacks, she crawls quickly to me and stands up with my help. Then she extends her hands to me and shouts “ah, ah.” As soon as I give her her snack, she puts it into her mouth quickly.





I Have a Sense of Pride

I have worked for Half the Sky for ten years and every day when I arrive at work, the children run to me with open arms, holding my neck and snuggling in my arms. When I see their smiles and healthy growth, I feel very satisfied.

I have a sense of pride when I talk about the children I have nurtured. I give the children with special needs more help and feel a strong sense of achievement when I see how they progress.

Children, cheer up, I will always be there for you.

By Half the Sky Nanny Shen YuJuan

The Children - Preschoolers and Their Teachers

My Little Princess Yun

Yun was so shy when she first arrived at our preschool. She was afraid to take part in activities with the other children and every time we had visitors, she would quietly withdraw into my arms.

But during her year with us, I was thrilled to see Yun become a joyfully curious child. Every time we took the children outside she would get so excited she would run quickly, so quickly that sometimes she would fall down!

One day when we were outside, Yun enthusiastically joined the other children "helping" Grandpa Gao clear the grass. At first, "helping" meant throwing the grass around willy-nilly, but then I taught Yun and the other children to carry the grass to the trash bin and throw it in. When I turned around, I saw Yun eating the grass! When I stopped her, she smiled at me.

We were all so happy for Yun when we heard she would be adopted in the United States, though I knew we would all miss her smiles. Yun, my little princess, you were only 2 years old when you left us, but I hope you will enjoy happiness and healthy growth and that you will remember this place in China where you were truly loved.

by Jiang ShuYing

Little Sisters Preschool Teacher





Touching the Bottom of Each Child's Heart

By Little Sisters Preschool Teacher Hu CuiPing

At one time, I thought the idea that you could turn into a butterfly was only a fairy tale. Six years as a Half the Sky preschool teacher has changed my mind. I now know that nothing is impossible because the children have transformed into fluttering butterflies with beautiful wings and so have I.

When I first started, my heart was distracted because of my lack of

confidence. But when I was discouraged, my colleagues kept cheering me on. My once dispirited heart expanded and I started to feel like a fairytale butterfly. I became confident because, like the other teachers, I learned how to touch the bottom of each child's heart.

Even a child like gentle Jie-An, who rejected me at first. Then one day, Jie-An threw himself into my lap. It was the first sign that he too would emerge from his cocoon. Embracing him, I felt like the most blessed person in the world.

The Children - Youth and Their Mentors

Cold Hands and Warm Hearts

One day I decided to escort Xiaolin and Shuai to their taekwon do class on the bus because it was too cold for them to walk. The two boys, however, did not want me to pay their fare, so they refused to ride on the bus!

Strangers on the street that day were treated to quite an unusual sight: One boy riding a bike with an adult – me – on the back of it and another boy jogging alongside. It was really cold and neither of the boys was wearing gloves, but both bravely denied being cold even though their faces were bright red.

After the lesson, the boys insisted that I ride the bus back to the institution. Before I could even say anything, they climbed on the bike and rode away. But the moment I got off the bus, I heard their voices urging me to climb onto the bicycle to ride to the institution. On the way, they told me they had waited 10 minutes for me to arrive.

I told them they shouldn't have waited so long for me, but they had been concerned that it was too far from the bus stop to the institution and that I wouldn't be able to handle the cold.

I fell silent, deeply touched. I looked down at the boys' hands, reddened by the cold. Two pairs of little hands – a reminder of the joy you feel when someone cares.

By Fu Yan, Youth Services Mentor/Hohhot





Fighting for a Future

By GuangQi/Henan

I am studying Water Supply and Drainage Engineering at Hunan University. I had to work very hard to get to college, but looking back, I know the struggle was worth it.

The year I took the grueling college examination, there were times when I wanted to give up. In the 365 days and nights of that year, I got up every day at 5:30 and went to bed at 22:30, only making an exception on Lunar New Year's Day. I did about five sets of practice exam tests every day and the results varied greatly. One day I would get scores higher than I expected; the next day my scores would drop below the first one. These results made me doubt myself.

But every morning when I got up, instead of reading or studying right away, I would go outside to the playground and shout, "I can do it! I will surely do it! I will get into a good university!" My shouting gave me the courage to fight for what I wanted, I felt inspired and encouraged, which gave me the drive to start each new day. I am grateful for the help I received, but I know that had I not worked as hard as I did, I would not have accomplished my goal to get into a good university.

The Families

Half the Sky creates loving, permanent families for children with special needs who otherwise would spend their lives in institutions.



A Loving Daughter

When Ma ChunXue became a dad at our Family Village in Changchun, he knew his three children, especially his daughter HuiQiu, would require lots of care. What he didn't know was that caring for them would bring him so much joy.

Born with Down's syndrome, 18-month-old HuiQiu struggled with the simplest tasks, including eating. HuiQiu was unable to chew and refused everything but milk. It took incredible patience and help from experts Ma found on the internet, but eventually HuiQiu transitioned to solid food—the first spoonfuls HuiQiu swallowed were so welcome that the food was mixed with her parents' tears.

Ma then started acting like a clown— he jumps like a frog, pretends to be a cat catching a mouse, and speaks like baby lion Simba, from “The Lion King,” all to see HuiQiu's face break out in huge smiles.

One night, HuiQiu developed a high fever so her dad rushed her to the hospital. HuiQiu recovered quickly, but Ma collapsed with weariness after their long night. He didn't wake until he felt a light scratching on his forehead.

When Ma opened his eyes, he saw Huiqiu stroking his head tenderly, imitating the way her dad strokes her head. HuiQiu's innocent face lit up when she saw her dad wake up. As for Ma, he burst into tears—tears of joy for the loving daughter HuiQiu has become.



The China Care Home



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 Safest Place in the World

When one-month-old DongLi came from the JiuJiang Welfare Institution to the China Care Home, she was immediately taken to the hospital for lifesaving surgery. DongLi did not go to the hospital alone—she was accompanied by her nanny, who watched over her during her entire stay in the hospital.

After her successful surgery to repair congenital anal atresia, DongLi stayed in the hospital for 20 days and then came back to the China Care Home to recuperate. During DongLi's five months recuperating at the China Care Home all the nannies grew to love her. Even nannies who work in other rooms would drop by to see her or play with her for a while. DongLi always smiled no matter who played with her or who called her name. Some of DongLi's post-operative medical care was painful, but she was very cooperative and didn't move or cry loudly when the nurse checked her wound. It seemed she knew it was good for her.

DongLi's favorite activity was interacting with her nanny. When her nanny put a towel on her head to cover her face, she would pull it off and giggle. She liked sitting on her nanny's lap or cuddling in her nanny's arms. Whenever DongLi felt unhappy, the best way to stop her from crying was for her nanny to hold her in arms because she believed it was the safest place in the world.



The Volunteers

The Changsha Project

All-volunteer-led Half the Sky Foundation Australia Ltd (HTSA), a registered tax-exempt charitable corporation in Australia, is part of the international Half the Sky Network with the shared ambition of enhancing the lives and prospects of orphaned children in China through development and aid projects undertaken in cooperation with local partners and authorities in China.

Thanks to HTSA's Changsha Project, a model Half the Sky Children's Center and Family Village was established in Hunan Province in 2011. Fifteen volunteers, including HTSA's Executive Director (Volunteer) and Board Member Deanne Bevan, helped refurbish rooms for the new Center in Changsha and chronicled their efforts in a daily blog.

By the time of the official opening party, the child-friendly rooms were ready for the 100 orphaned children enrolled in the four model programs at Changsha. In addition to providing care for the children, the Changsha Center also serves as a model base for the Rainbow Program's (see p. 5) province-wide trainings and for Half the Sky's Child Development Expert, who will provide mentoring and support as well as training for institution staff all over the province. Says Deanne Bevan, Executive Director (Volunteer) Half the Sky Australia Ltd: "We look forward to the day when all welfare institutions in Hunan and beyond develop similar programmes for the children in their care and trust the Changsha Project will provide a stellar model for others to follow."



“What is most exciting is the enthusiasm of the Changsha Welfare Institution and local authorities to embrace Half the Sky methods of caring for children. It is tremendous to see children in the arms of loving caregivers, or romping around with doting preschool teachers, rather than languishing in their cots.

- Deanne Bevan, Executive Director (Volunteer) Half the Sky Australia Ltd



After our group picture, one of the volunteers asked me if my heart was breaking. I told him it wasn't, because I was hopeful that the lives of these children would be better. A child living in an orphanage isn't optimal by any means, but that was what Half the Sky was created for – to positively impact the lives of those children who are in the orphanages and to help them have a happier and healthier childhood. I sincerely believe that we did that this week in Changsha SWI #1.

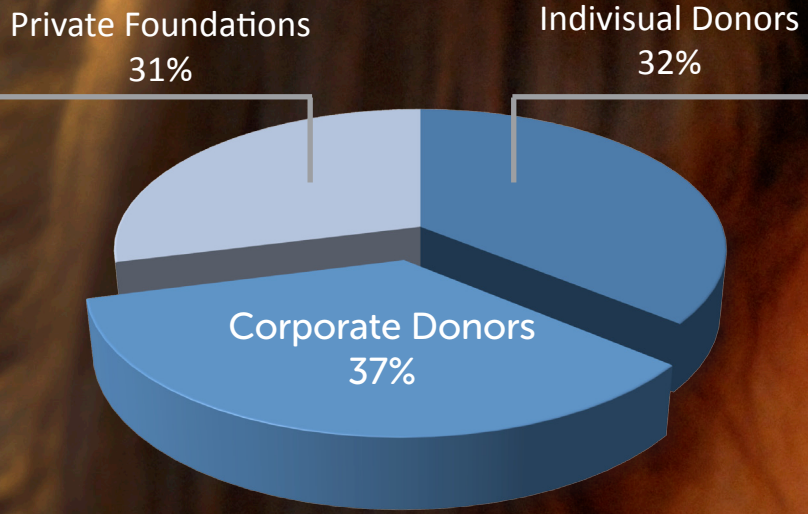
- Teri Andresen, Changsha Volunteer”

Corporations, Foundations & Small Business Supporters

We would like to extend a heartfelt thanks to all of our corporate, foundation and small business supporters for providing very significant financial and in-kind contributions. These are crucial for our work to bring a loving adult into the daily life of every institutionalized child in China. For more information about how to partner with Half the Sky to provide care for the children, please visit <http://halfthesky.org/en/content/partners>

CORPORATE SUPPORTERS

Armstrong	Coles Group Asia	McDonald's Corporation	World Childhood Foundation
Asia Alternatives Mgmt. LLC	Credit Suisse	Moh Family Foundation	IN KIND
Baring Private Equity Asia	Deutsche Bank	Noble Group	APL
Barclays	Dow Jones Foundation	PricewaterhouseCoopers	Bunnies By The Bay
BHP Billiton	Grant Thornton, LLP	Reed Elsevier	Freshfields Bruckhaus Deringer
Capital Group Companies Charitable Foundation	Hairy Crab Charities	Ronald McDonald House Charities	Global Sources
Capital World Hong Kong	HSBC	Skoll Foundation	GMR Gymnastics Sales, Inc.
Childreach International	Indigo Services (UK) Ltd.	Target Corporation	Jack Morton Worldwide
ChinaFriends	JPMorgan Chase Foundation	TCT Foundation for the Children of China	Little Partners Inc.
CLSA Chairman's Trust	Kmart	TimeWarner	PRG Chicago
China Care Foundation	Linklaters LLP	Western Union	Radio Flyer
Coach Foundation	Lloyd George Asia Foundation	Winston & Strawn, LLP	Sixstar World
	Lo Ying Shek Chi Wai Foundation		Thomson Reuters



Half the Sky was founded by a small group of individuals who generously provided 100% of our revenues in the first years of our operation.

As Half the Sky's work spread throughout China, its community of donors expanded as well. By 2011, 37% of Half the Sky's revenues came from corporate and private foundations, who have become crucial for our work.

We appreciate every gift from our global community of supporters.

Half The Sky plays such an important role in improving the quality of life for China's orphans that it is an honor for the CLSA Chairman's Trust to have an opportunity to support that work. Training care givers means that orphans across the country will benefit from Half The Sky's efforts for many years to come.

- Andy Rothman, Macro Strategist, CLSA

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.

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. Serves on the Governing Board of the Center for Audit Quality (CAQ) and the Board of Directors for the Chicago Council on Global Affairs.

Matt Dalio

President of the board of directors of China Care Foundation, Inc., which he founded in 2000 at the age of 16; a graduate of Harvard University, he is currently an MBA candidate at Stanford Business School.

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 its 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, JP Morgan Chase Bank; was the founding Chairman of JP Morgan Chase Bank (China) and has been associated with the bank in London, Hong Kong and Tokyo; Ph.D. 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. MBA from The Wharton School at the University of Pennsylvania; BS in physics and theology from Tulane University. Serves on the boards of For Love of Children, L'Arche Greater Washington DC and Karya Salemba Empat.

Advisors

Wang Zhenyao

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

Zhang Zhirong

Senior Executive Consultant for Half the Sky



Half the Sky Financial Statements

Letter from Independent Auditor

August 12, 2011

Crowe Horwath

To the Board of Directors of
Half the Sky Foundation and Subsidiaries

We have audited the accompanying consolidated statement of financial position of Half the Sky Foundation and subsidiaries (the "Foundation"), as of December 31, 2011, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The 2010 financial statements of Half the Sky Foundation and subsidiaries were audited by other auditors and whose report dated August 12, 2011 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 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, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Sacramento, California
July 26, 2012

Consolidated Statements of Financial Position

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2011 and 2010

	2011	2010
Assets:		
Cash and cash equivalents	\$2,729,641	\$2,270,046
Pledges receivable, net (Note 3)	2,564	109,944
Other receivables	4,277	14,624
Investments (Note 4)	-	1,060,246
Prepaid program expenses	146,372	101,906
Inventory	80,680	67,027
Property and equipment, net (Note 5)	34,250	54,800
Deposits	28,345	62,094
Total assets	<u>\$3,026,129</u>	<u>\$3,740,687</u>
Liabilities:		
Accounts payable	\$252,531	\$149,491
Accrued expenses	196,226	122,061
Deferred rent liability	11,957	13,337
Deferred income	-	359
Total liabilities	<u>460,714</u>	<u>285,248</u>
Commitments and contingencies (Note 9)		
Net assets:		
Unrestricted	194,693	723,918
Designated by the Board for endowment	-	359,395
Total unrestricted net assets	<u>194,693</u>	<u>1,083,313</u>
Temporarily restricted (Note 6)	1,724,998	1,737,636
Permanently restricted (Note 8)	645,724	634,490
Total net assets	<u>2,565,415</u>	<u>3,455,439</u>
Total liabilities and net assets	<u>\$3,026,129</u>	<u>\$3,740,687</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, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Contributions (Note 11)	\$3,877,546	\$5,289,700	\$11,234	\$9,178,480	\$3,209,548	\$4,463,834	\$15,782	\$7,689,164
Contributed services and materials	447,635	-	-	447,635	504,945	-	-	504,945
Merchandise sales	17,013	-	-	17,013	25,696	-	-	25,696
Interest and dividend income on investments (Note 4)	8,994	-	-	8,994	31,402	-	-	31,402
Other income	82,763	-	-	82,763	47,760	-	-	47,760
Net realized and unrealized gain on investments (Note 4)	11,107	38,431	-	49,538	12,101	67,637	-	79,738
Net assets released from restriction (Note 7)	5,340,769	(5,340,769)	-	-	6,129,637	(6,129,637)	-	-
Total revenues, gains and other support	9,785,827	(12,638)	11,234	9,784,423	9,961,089	(1,598,166)	15,782	8,378,705
Expenses:								
Program Services	8,614,516	-	-	8,614,516	7,770,293	-	-	7,770,293
Fundraising								
Donated goods and services	238,238	-	-	238,238	417,906	-	-	417,906
Other fundraising	1,098,396	-	-	1,098,396	956,629	-	-	956,629
Total fundraising	1,336,634	-	-	1,336,634	1,374,535	-	-	1,374,535
Merchandise costs	4,783	-	-	4,783	17,462	-	-	17,462
Management and general (Notes 9 and 10)	718,514	-	-	718,514	661,149	-	-	661,149
Total expenses	10,674,447	-	-	10,674,447	9,823,439	-	-	9,823,439
Change in net assets	(888,620)	(12,638)	11,234	(890,024)	137,650	(1,598,166)	15,782	(1,444,734)
Net assets, beginning of year	1,083,313	1,737,636	634,490	3,455,439	945,663	3,335,802	618,708	4,900,173
Net assets, end of year	\$194,693	\$1,724,998	\$645,724	\$2,565,415	\$1,083,313	\$1,737,636	\$634,490	\$3,455,439

See accompanying notes to consolidated financial statements.

Statements of Cash Flows

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2011 and 2010

	2011	2010
Cash flows used in operating activities:		
Change in net assets	\$(890,024)	\$(1,444,734)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	27,976	29,732
Net realized and unrealized losses (gains) on investments	(49,538)	(79,738)
Contributions restricted for long-term investment	(11,234)	(15,782)
Change in assets and liabilities:		
Pledges receivable, net	107,380	27,600
Other receivables	10,347	(7,060)
Prepaid program expenses	(44,466)	(44,999)
Inventory	(13,653)	18,081
Deposits	33,749	(22,091)
Accounts payable	103,040	74,968
Accrued expenses	74,165	60,402
Deferred rent liability	(1,380)	13,337
Deferred income	(359)	359
Net cash used in operating activities	<u>(653,997)</u>	<u>(1,389,925)</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(7,426)	(8,142)
Purchases of investments	(11,143)	(40,598)
Proceeds from sale of investments	1,120,927	-
Net cash provided by (used in) investing activities	<u>1,102,358</u>	<u>(48,740)</u>
Cash flows provided by financing activities:		
Contributions restricted for long-term investment	11,234	15,782
Increase in cash and cash equivalents	459,595	(1,422,883)
Cash and cash equivalents, beginning of year	2,270,046	3,692,929
Cash and cash equivalents, end of year	<u>2,729,641</u>	<u>2,270,046</u>

See accompanying notes to consolidated financial statements.

Statement of Functional Expenses

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2011 and 2010

Expenses (Notes 8, 9 and 10)	2011					2010				
	Program Service	Management & General	Fundraising	Merchandise Cost	Total	Program Service	Management & General	Fundraising	Merchandise Cost	Total
Compensation and benefits for non-field staff	\$1,571,836	\$449,929	\$649,624	\$-	\$2,671,389	\$1,200,757	\$382,599	\$633,440	\$-	\$2,216,796
Consulting and Professional Services	49,189	90,933	-	-	140,122	99,665	96,262	-	-	195,927
Office expenses	49,336	29,767	51,374	-	130,477	45,844	34,968	93,097	-	173,909
Information technology	524,425	34	19,763	-	544,222	113,424	211	-	-	113,635
Occupancy	78,891	79,887	-	-	158,778	76,713	82,953	-	-	159,666
Travel	230,380	22,404	54,073	-	306,857	211,021	17,258	61,201	-	289,480
Conferences and meetings	172,807	-	-	-	172,807	185,830	-	-	-	185,830
Depreciation and amortization	-	27,976	-	-	27,976	-	29,732	-	-	29,732
Insurance	-	17,584	-	-	17,584	-	17,166	-	-	17,166
Compensation and benefits for field staff	3,688,504	-	-	-	3,688,504	2,884,115	-	-	-	2,884,115
Earthquake relief	-	-	-	-	-	47,857	-	-	-	47,857
Donated Goods & Services	54,140	-	238,238	-	292,378	12,300	-	417,906	-	430,206
Stipends and Tuition	259,010	-	-	-	259,010	261,868	-	-	-	261,868
Orphanage Center Construction, Equipment & Furnishings	70,152	-	-	-	70,152	163,609	-	-	-	163,609
Surgery and nurturing care in connection with China Care Program	1,165,833	-	-	-	1,165,833	1,364,611	-	-	-	1,364,611
Family Village	83,646	-	-	-	83,646	265,817	-	-	-	265,817
Critical Care Fund	-	-	-	-	-	444,275	-	-	-	444,275
Training programs and materials	395,190	-	-	-	395,190	202,490	-	-	-	202,490
Event expense	-	-	245,194	-	245,194	-	-	107,893	-	107,893
All other expense	221,177	-	78,368	4,783	304,328	190,097	-	60,998	17,462	268,557
Total Functional Expenses	\$8,614,516	\$718,514	\$1,336,634	\$4,783	\$10,674,447	\$7,770,293	\$661,149	\$1,374,535	\$17,462	\$9,823,439

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2011 and 2010

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 and enhance the prospects for orphaned children in China. The Foundation creates and operates infant nurture and early education programs, provides personalized learning for older children, and establishes loving permanent family care and guidance for children whose disabilities prevent them from finding adoptive families. It is the Foundation’s goal to ensure that every orphaned child has a caring adult in her life and a chance at a bright future. The Foundation works in 51 state-run welfare institutions in 24 provinces and municipalities 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 5 years to transition the responsibility of the site programs over to the Chinese government. By the end of December 31, 2011, 6 provinces had completed 14 sessions of the primary training program. The Foundation has trained 763 caregivers from 206 welfare centers. They anticipate that after the 5-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, 2011 and 2010. 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 accounts payable, accrued expenses and other liabilities 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.

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, it set up two accounts maintained by the managing director of programs. The balance in these accounts was \$44,540 and \$5,277 at December 31, 2011 and 2010, respectively. Overseas program operations, such as employee salaries, are funded through wire transfers from the Foundation's Berkeley 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. The Foundation's investments have been placed with high quality financial institutions. The Foundation monitors these investments and has not experienced significant credit losses. 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.

Other Receivables: Other receivables include interest and stock sale settlements.

Investments: The Foundation invests in marketable securities and money market funds. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the Foundation's fiscal year. Investment transactions are recorded on trade date. Contributions of public stock are recorded at quoted market prices at the date of donation. The Foundation sells donated securities received as soon as reasonably possible. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are calculated on an adjusted cost basis. Adjusted cost is the estimated fair value of the security at the beginning of the year, or the cost if purchased during the year. Dividend and interest income are accrued when earned.

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, 2011 and 2010.

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, 2011 and 2010, with estimated fair values of \$98,566 and \$107,894, respectively. The Foundation received contributed services for a director of development in Hong Kong at an estimated fair value of \$100,000 for the years ended December 31, 2010.

Contributed goods are recorded at estimated fair value at the date of receipt and amounted to \$349,068 and \$297,051 for the years ended December 31, 2011 and 2010, 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. Canada Ltd. has been granted tax exempt status by the Canada Revenue Agency. Australia Ltd. has been granted tax exempt status by the Australian Taxation Office.

Current accounting standards requires 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, 2011 and 2010, 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 did not have any amounts accrued for interest and penalties at December 31, 2011 and 2010.

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: The Foundation defines fair value as the amount that would be received for an asset, or paid to transfer a liability (exit price), in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

The three levels are defined as follows:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Reclassifications: Certain prior year balances have been reclassified to conform with current year financial statement presentation. Reclassification had no impact on prior year change in net assets or total net assets.

NOTE 3 – PLEDGES RECEIVABLE, NET

Pledges receivable represent unconditional promises to give by donors and are recorded at net realizable value. Pledges receivables of \$2,564 and \$109,944 at December 31, 2011 and 2010, respectively, were expected to be collected within one year. There were no long-term pledge receivables at December 31, 2011 or 2010.

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, 2011 and 2010. There were conditional promises to give of \$613,913 and \$3,096,511 as of the years ended December 31, 2011 and 2010, respectively.

NOTE 4 – INVESTMENTS

Investment securities are recorded at fair value and are summarized as follows:

	December 31,	
	2011	2010
Mutual funds – equity securities	\$ -	\$ 683,435
Mutual funds – fixed income	-	376,811
Total	\$ -	\$ 1,060,246

The investment goal of the Foundation is to maintain or grow its asset size and spending power in real (inflation adjusted) terms with risk at a level appropriate to the Foundation’s program objectives. All financial assets of the Foundation are managed by external investment management firms selected by the Foundation. All financial assets of the Foundation are held in custody by a major commercial bank.

The majority of the Foundation’s assets are invested in equity funds, which are listed on national exchanges, treasury bonds of the U.S. government, and funds of investment grade corporate bonds for which active trading markets exist.

Net realized and unrealized gains and losses on investments are reflected in the consolidated statements of activities and changes in net assets.

The following schedule summarizes the investment returns for the years ended December 31, 2011 and 2010:

	2011	2010
Unrealized gains	\$ -	\$88,935
Realized gains	54,010	-
	<u>54,010</u>	<u>88,935</u>
Investment related expenses	(4,472)	(9,197)
Net realized and unrealized gains	<u>\$49,538</u>	<u>\$79,738</u>
Interest and dividend income on investment	<u>\$8,994</u>	<u>\$31,402</u>

The Foundation's cash equivalents, marketable equity securities and fixed income mutual funds are valued using Level 1 inputs.

NOTE 5 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

	2011	2010
Equipment	\$143,923	\$136,497
Furniture and fixtures	25,284	25,284
Total	<u>169,307</u>	<u>161,781</u>
Less: accumulated depreciation	(134,957)	(106,981)
Property and equipment, net	<u>\$34,250</u>	<u>\$54,800</u>

Depreciation expense for the years ended December 31, 2011 and 2010 amounted to \$27,976 and \$29,733, respectively.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purpose-restricted programs or locations at December 31, 2011 and 2010:

	2011	2010
2 HTS centers and 8 additional Family Village Projects	\$ 187,919	\$ 179,520
Beihai and Sanya	51,840	28,285
Blue Sky	-	180,821
Changchun	-	129,726
Changsha	247,045	167,329
Chengdu	11,563	27,584
Chenzhou	28,736	-
The China Care Project (TCCP)	28,938	-
Chuzhou nanny salary	1,226	-
Earnings on Endowment Funds	-	130,796
Fuzhou	2,888	31,878
Gaoyou LS	10,953	-
Guangzhou	197,697	-
Guilin	113,528	90,071
Haikou	71,809	320,819
Hefei	4,404	1,441
Hohhot LSP	15,733	-
National Training Program	241,325	-
Lianyungang	-	10,024
LSP in Chengdu, Shenyang, Xi'an, Chongqing and Harbin	145,808	-
Luoyang	35,091	46,958
Maoming	23,703	35,474
Maonan	8,578	26,111
Nanjing	51,669	68,059
National training curriculum	1,030	-
Qingdao and Shijiazhuang	9,707	63,392
Qingyuan, Wuhan, Qingdao and Urumqi LSP 2012	75,000	6,807
Shaoyang	20,550	-
Shenzhen	116,925	156,123
Wuzhou	9,162	5,811
Xiamen	-	19,470

Yiyang	1,404	3,384
YS Newsletter Project	10,767	7,753
Total temporarily restricted net assets	<u>\$1,724,998</u>	<u>1,737,636</u>

NOTE 7 – NET ASSETS RELEASED FROM RESTRICTIONS

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, 2011:

The China Care Project (TCCP)	\$ 1,129,600
JPMC National Training	758,675
Blue Sky	647,732
2 HTS centers and 8 additional Family Village projects	591,601
Haikou	399,110
Shenzhen	179,783
Earning on endowment funds	169,227
Maoming	115,025
Youth Service Program	114,154
Lianyungang	110,254
Nanjing (All but FV program)	100,597
Changsha	83,663
National training curriculum	76,660
Wuzhou	66,308
Shijiazhuang, Tianjin and One CCH Room	63,392
Guilin	57,286
LSP in Chengdu, Shenyang, Xi'an, Chongqing and Harbin	44,192
Beihai and Sanya	39,986
Xiamen (IN)	38,392
Maonan	37,758
Guangzhou (IN and FV)	37,317
Fuzhou	34,774
Luoyang (LS)	32,866
Guangzhou (LS andYS) Q4 2011	28,408
Chengdu (FV)	27,584
Hefei	26,000
Qiangyuan	20,867
YS newsletter project	18,162
China Care - training supervisor's salary	16,373
Chuzhou nanny salary	13,774

Chenzhou	12,413
Wuhan	10,913
Gaoyou (all but LS)	10,250
Yibin	10,215
Changzhou (FV)	10,000
Shaoyang (LS)	8,868
Xiamen (LS)	8,053
Zhengzhou director's workshop	7,500
Hohhot (LSP from Q4 2011)	7,006
Gaoyou (LS)	5,438
Shaoguan	5,274
Shaoyang IN nanny salaries	5,000
China Care	4,348
Other	25,744
Total net assets released from restrictions	\$ 5,340,769

NOTE 8 – ENDOWMENT

The Foundation accounts for endowment gifts under the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). UPMIFA was enacted in California on September 30, 2009 with an effective date of January 1, 2009. Under UPMIFA, the Foundation may allow an endowed fund to spend into historic gift value if it can prudently do so after consideration of 7 factors that affect the spending and future earnings of the fund. Contributions to the funds are classified as permanently restricted net assets while net earnings activity is reclassified to temporarily restricted net assets. When a stipulated time restriction ends or purpose restriction is accomplished, generally through the payment of grants and fund expenses, endowed fund expenses are reclassified to unrestricted net assets and reported in the statements of activity and changes in net assets as net assets released from restrictions. A board designated endowment fund, one where the Foundation's board has set aside a permanent portion of its unrestricted net assets to support the Foundation for the long term, is classified in its entirety as unrestricted net assets.

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.

During 2011, as approved by the Board of Directors, endowment funds were moved from the HTS U.S. account to the HTS Asia account and converted into Chinese Yuan to prevent the loss of exchange rate depreciation. Management anticipates a total return of 2% in certificates of deposit with bond funds as an additional investment alternative.

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 a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within 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 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.

The endowment net asset composition by type of fund as of December 31, 2011, consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 645,724	\$ 645,724
Accumulated gains on donor-restricted endowment funds	-	-	-	-
Board-designated endowment funds	-	-	-	-
	\$ -	\$ -	\$ 645,724	\$ 645,724
Endowment net assets, beginning of year	\$ 359,395	\$ 130,796	\$ 634,490	\$ 1,124,681

Net appreciation (realized and unrealized)	-	38,431	-	38,431
Contributions	-	-	11,234	11,234
Appropriation of endowment assets for expenditure	-	(169,227)	-	(169,227)
Transfers to remove assets from board-designated endowment funds	(359,395)	-	-	(359,395)
Total Funds	\$ -	\$ -	\$ 645,724	\$ 645,724

During 2011 the Foundation transferred all board-designated endowment funds of \$359,395 and \$94,188 of related accumulated earnings to assist in funding operating expenses as the Foundation transitions to becoming a training and mentoring organization.

The endowment net asset composition by type of fund as of December 31, 2010, consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 634,490	\$ 634,490
Accumulated gains on donor-restricted endowment funds	-	130,796	-	130,796
Board-designated endowment funds	359,395	-	-	359,395
	\$ 359,395	\$ 130,796	\$ 634,490	\$ 1,124,681
Endowment net assets, beginning of year	\$ 309,395	\$ 63,160	\$ 618,708	\$ 991,263
Net appreciation (realized and unrealized)	-	67,636	-	67,636
Contributions	50,000	-	15,782	65,782
Appropriation of endowment assets for expenditure	-	-	-	-
Total Funds	\$ 359,395	\$ 130,796	\$ 634,490	\$ 1,124,681

As of December 31, 2010, the board-designated endowment funds had accumulated earnings of \$74,087.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

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 \$153,000 and \$158,000 for the years ended December 31, 2011 and 2010, respectively.

Years ending December 31,

2012	\$ 161,344
2013	61,639
2014	57,396
Total	<u>\$ 280,379</u>

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 10 – 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, 2011 and 2010 were \$22,475 and \$19,266 respectively

NOTE 11 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2011 and 2010, 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 \$473,795 and \$184,365, respectively.

NOTE 12 – 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 in 2011. Half the Sky Foundation Canada Limited (“Canada Ltd”), another affiliate of the Foundation was incorporated in Canada in June 2009. It organized fundraising events in 2010 to collect funds for the programs of the Foundation. Canada Ltd Contributed \$32,783 to the Foundation in 2011. There were no donations made from Canada Ltd. to the Foundation in 2010.

Half the Sky Foundation Canada (Foundation HTS du Canada) was an independent charitable entity, registered with the Canadian government, which used to raise funds and make unrestricted donations to the Foundation until August 2010, at which point it was closed.

NOTE 13 – MAJOR CONTRIBUTIONS

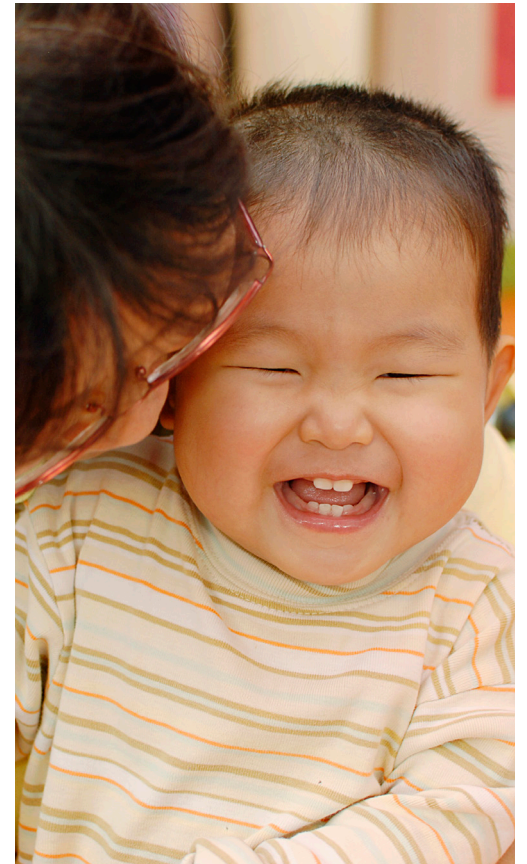
For the year ended December 31, 2011, the Foundation had two donors with more than 25% of total contributions. For the year ended December 31, 2010, the Foundation had one donor with more than 20% of total contributions.

NOTE 14 – 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. During the years ended December 31, 2011 and 2010, the Foundation received a designated grant of \$466,911 and \$699,500, respectively, from an international charity to implement this program, which is recorded in contributions revenue on the accompanying consolidated statements of activities and changes in net assets.

NOTE 15 – SUBSEQUENT EVENTS

The Foundation has evaluated the effects of subsequent events that have occurred subsequent to December 31, 2011 and through July 26, 2012, which is the date the financial statements were available to be issued, and has determined that there were no subsequent events that require recognition or disclosure in the financial statements or notes therein.



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

Meng Zi c. 300 B.C.



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