



Half the Sky Foundation
Annual Report 2012

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 so happy to introduce this 2012 Annual Report because it has been another good news year for the children.

Thanks to a generous grant from the JPMorgan Chase Foundation, Rainbow trainings reached six more provinces in 2012, which means that more and more children are receiving the quality care they deserve.

That improved quality of care is a testament to the comprehensive curriculum and interactive training methods Half the Sky's staff has pioneered as well as to our government partners who are working closely with us to transform the child welfare system from within.

You'll read inspiring stories about the impact Rainbow trainings are making in children's lives, changes that I have had the privilege of seeing first hand, changes that have strengthened my resolve to do all I can to support Half the Sky's work.

I want to extend my thanks to everyone who supports Half the Sky's work, everyone who has helped make this such a good news year for the children.

Guy Russo

Letter from the CEO & Founder

Dear Friends,

After 14 years of working to bring a loving adult into the life of every institutionalized child in China, it is so gratifying for me to witness the incredible inroads the Rainbow Program has made in the last two years. As you'll read in this report, Rainbow Trainings have reached 12 provinces—we are well on our way to helping our government partners create a cadre of professional caregivers trained to provide best practice childcare for the children.

As you'll also read in this report, our three-year partnership with China Care Foundation has yielded remarkable results. In the past, when institutionalized children needed specialized medical care, it pained me to have to say we had no way to help. Now thanks to our partnership, we have embraced the mission of providing care for orphaned children fighting for their lives. This year we also embraced China Care Foundation's mission of youth empowerment by welcoming the China Care Clubs into Half the Sky's family.

In addition to welcoming China Care Club students, I want to thank every member of Half the Sky's growing family. Like the youth in our China Care Clubs, we have learned over and over that by joining together we have can change the world one child at a time.

Jenny Bowen

A Rainbow of Many, Many Colors

The ground-breaking Rainbow Program, a public/NGO/private national training initiative partially funded by a generous grant from JPMorgan Chase Foundation, is well on its way to fulfilling its promise to change the face of orphan care across China.

In year two of the five-year-program, Rainbow Trainings conducted by Half the Sky and China Center for Child Welfare and Adoption reached four new provinces, Inner Mongolia, Shandong, Sichuan, Yunnan, and two municipalities, Chongqing and Beijing. In addition, there were follow-up trainings in Jiangsu, Henan, Shaanxi, Hubei, Hunan and Guangdong provinces.

Since the program began, 3,282 welfare workers who care for 13,128 children have received training about the importance of nurturing care and how to deliver it and it is clear that the trainings are impacting the daily lives of the children. Ye Hong from Sichuan Province, for example, not only learned how important it is to get down on the floor to interact with children but also made sure changes were made at her institution in the wake of Rainbow Training. "After the training, we immediately bought comfortable mats with soothing colors. They free the children from their tiny beds."

At first, Half the Sky's interactive, discussion-

oriented style of training, which will eventually reach every caregiver in the country, is foreign to participants used to lecture-style learning. But when the participants are split up into groups and encouraged to speak their minds, the discussions become lively and the participants enthusiastic. Says Fang Xiaoyun, a trainee from Shaanxi Province: "The interactive training was the most impressive to me because it motivates you to learn and explore by making learning interesting."

The trainees are also motivated by case studies presented by our Child Development Expert (CDE) trainers who, thanks to the support of the Peter Bennett Foundation, are stationed in each provincial



Model Center as the Rainbow Program rolls out.

At one training, Hunan CDE Wang Yanhong told the story of 2-year-old FeiFei who arrived at our Little Sisters Preschool "pale," "weak," unable to sit up or speak, and with a diagnosis of "brain disease." Wang Yanhong flashed back and forth between photos of that sad child and joyous photos of running and smiling and skiing provided by her adoptive parents who wrote: "There is nothing wrong with

this girl. She has a strong body and a very, very strong and clever mind."

While showing the dramatically different photos, Wang Yanhong talked about how FeiFei's trained teacher helped her become the strong and clever child she was born to be. FeiFei's teacher celebrated every small victory: FeiFei's first smile, her first word, her growing curiosity, and the first time she stretched out her arms to accept rather than reject caregiver's love. By the time FeiFei's parents came to China to adopt her, there was no sign of the developmentally delayed child with "brain disease" who had arrived at our program. In fact, there was, just as her parents wrote, nothing wrong with FeiFei that patient love and nurturing was not able to cure.

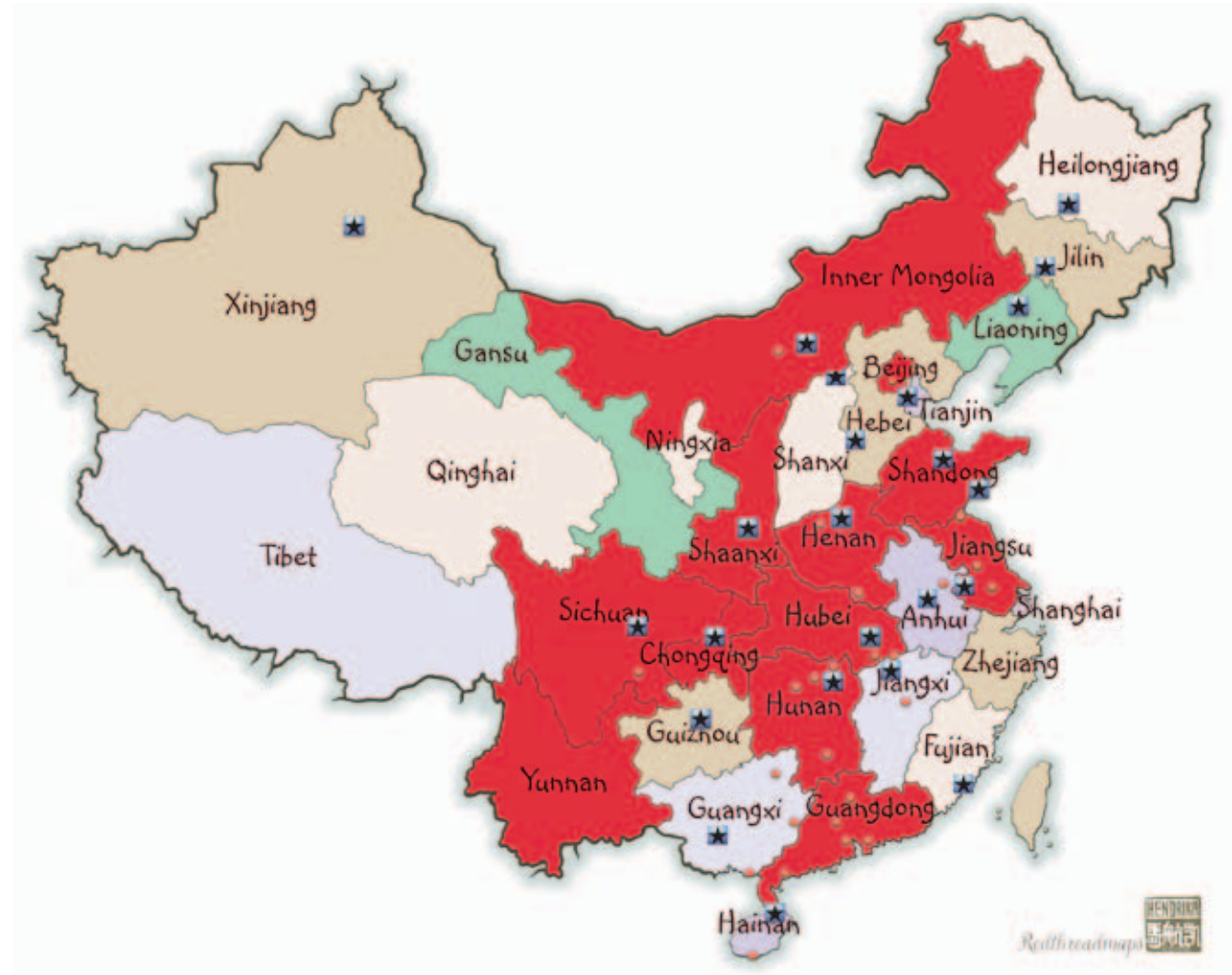
The Hunan trainees were moved by FeiFei's story and stunned by the profound impact a

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 FeiFei's caregiver. Our children could be the next Feifei if we look after them as carefully as FeiFei'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.

“I never thought our simple work could change the life of a child.” Zhou Jijun, Hunan Province



"Rainbow trainings are like a pebble thrown into the lake. Each of the ripples creates represents a change that training brings to the institutions,"
 Director Liu Fang, Zhuzhou Children's Welfare Institute



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

- Anhui - Hefei, Chuzhou
- Beijing
- Chongqing
- Fujian - Xiamen
- Guangdong - Guangzhou,
- 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
- Yunnan
- The China Care Home in Beijing: Serves medically fragile infants and toddlers

The Children - Babies and Their Nannies

Lucky Girl

When 2-year-old YeXiao arrived at the orphanage, she was only a few days old. Because she was wrapped so tightly in a blanket, at first I could only see her expressionless eyes. When I held her in my arms I was surprised by how light she was--she weighed only 1.75 kg.

At three months, YeXiao was enrolled in our Infant Nurture program. She was still so small that I carried her around with me throughout the day. Gradually, YeXiao and I became close. She would not let anyone else carry her around the activity room and became very good at making her desires known--though she was small, her cry was loud!

As she got older, YeXiao would stretch out her arms to ask me for a hug and a kiss, saying "Mama." Now YeXiao likes to look in the mirror and make faces, loves pretty new clothes, and spends a long time in front of the mirror admiring them.

YeXiao is lucky because although she was abandoned, she is now a healthy and lovely little girl who has a new big family and a loving "Mama."

By Half the Sky Nanny Zhuang GuiQin



Half the Sky 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

The Best Present Ever

I will never forget the day JiaLin entered our preschool classroom for the first time. I was just about to walk JiaLin over to the toys, when he burst into tears. As the tears poured down his face, I asked myself how I could help JiaLin overcome his fear and anxiety.

During the days that followed, I spent a lot of time with JiaLin, playing with him, kissing him and talking to him. One day JiaLin slipped when he was climbing the stairs and I quickly held his hand to save him from falling and comforted him. From then on, JiaLin did not refuse to take my hand.

Then one day JiaLin stretched his hand out to hold mine even before I held my hand out. I was so happy to see his trust in me. To see him growing past his fear was the best present I ever received.

JiaLin has become more and more attached to me. When he responds to me, I feel very encouraged and confident. Thank you, JiaLin, for helping me understand my mission and the meaning and beauty of my job.

By Half the Sky Preschool Teacher Li Shuang



The Children - Youth and Their Mentors

A Star is Born



When QianRu was in junior high, she came very close to being adopted, but for many reasons, did not go. Instead, she stayed in the institution while, one after another, many of her good friends were adopted. For QianRu, it was the hardest time. She spent day after day crying in her room and was not interested in anything, even basketball, which she had loved. All of QianRu's caregivers and friends stood by her. Gradually, time diluted her sorrow.

Then QianRu started taking Latin dance lessons through Youth Services. Most of the girls in the class had had studied dance before, which made beginner QianRu nervous and stiff. When the bell that ended the first class rang, she was the first to rush out.

But the dance teacher praised QianRu and said she had potential, which energized her. She made so much progress that she won the prize for new star of Latin dance.

QianRu also made good friends with several girls in the class and often invites them to the institution or goes to their homes. She is proud to have friends who are not from the institution. QianRu understands that there is much bitterness in life, but she has also become so much more confident that we believe she is ready to face the road ahead.

By Youth Services Mentor Huang Ju & Field Trainer Hu QunHua



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.

The Families

Half the Sky-trained foster parents create loving, permanent families for 3-5 children with special needs who otherwise would likely spend their lives in institutions. Finally, these children have a mom and dad of their own.



Airplanes, Noodles & Loving Parents

One day, my husband asked our children if they wanted to learn how to make paper airplanes. "I promise it will be no less fun than playing outdoors!" All three children shouted "Yes!"

After dinner, the children took their showers quickly and didn't even watch their usual cartoons. Instead, they gathered in the living room around their dad.

My son GuangSong asked many questions and learned quickly how to make airplanes, ships and rockets out of newspaper. My son LianJun also worked hard, though his plane looked shapeless. But when his dad told him: "Your airplane is better than the ones I could make when I was your age," LianJun laughed happily.

My son ZongGuo on the other hand got so upset that he threw away the paper because no matter how hard he tried, he couldn't make an airplane. I stopped taking photos and went to him and said, "Don't give up! You are almost there. Why don't we make an airplane together?" ZongGuo still refused to pick up the paper, but I was persistent: "If you don't like airplanes, we can try something else. How about a bowl, a boat, or you can roll the paper like this into noodles. See?" ZongGuo finally started rolling the paper into balls.

In the end, all the children—including ZongGuo, who learned not to give up—happily played with and shared their creations and they all agreed that their family night at home was as much fun as playing outside.

By Family Village Mother Wei QuanXiang



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 dotting pre-and-post operative care at the China Care Home.

Our Little Elf



When YueRu arrived at the China Care Home to recover from surgery to fix a congenital heart defect, she kept crying and wouldn't allow anyone to touch or hug her.

Then it came time for lunch. YueRu's China Care foster mom came to her and asked her, "YueRu, shall we eat now? It's so delicious." YueRu looked at her mom and watched her intently as she used a spoon to get some food and put it near YueRu's mouth. YueRu began to eat.

YueRu soon became very attached to her mom. When YueRu woke up in the morning, if she couldn't see her mom, she would cry, but she would stop crying immediately after her mom arrived. YueRu also warmed up to other children. She loved to walk around the room socializing. When someone called her name, she would turn back to look at the person and smile, like an elf.

Now 16 months old, YueRu's doctor says she has made a great recovery and can stop taking heart medications! We are all happy that YueRu can move on with her life, even though we know it means that it is time for us to say goodbye.



China Care - Half the Sky

A Remarkable, Unstoppable Force for the Children

Three years ago, Half the Sky entered into a partnership with China Care Foundation, a partnership that has in the words of Half the Sky's CEO Jenny Bowen proven to be "a remarkable, unstoppable force for the children."

Thanks to our partnership, more children are receiving more comprehensive care at the new China Care Home (CCH) we opened in the spring of 2009. Every year, 250 children from 100 institutions all over the country are referred to the CCH for specialized medical treatment. Located near China's top pediatric hospitals in Beijing, the CCH staff includes five nurses, a part-time doctor, and nannies trained by Half the Sky's senior staff to provide nurturing, family-style care for children fighting for their lives.

Thanks to our partnership, this year Half the Sky embraced a new challenge: empowering youth to realize they can make a difference in the work, a mission China Care Foundation has championed ever since it was founded by 16-year-old Matt Dalio more than a decade ago. Half the Sky is now overseeing 50 high school and college China Care Clubs that fundraise, host local community service programs, and volunteer at the China Care Home over their summer break.

During her volunteer trip to the China Care Home, North Carolina high school student Margaret Tian met a little boy named Yue Fe, who can't speak because of hearing problems. Nevertheless, Yu Fe

has developed an "extremeley effective" communication system of his own that includes hand gestures, noises and body language: "Despite all the hardships he has faced, Yu Fe is still able to play so happily and laugh so joyfully. Meeting him humbled me and reminded me of how innovative people can be."

Through their volunteer efforts at such a young age, China Care Club members like Margaret are learning the same lesson Matt Dalio learned when he founded China Care Foundation, that when children who need specialized medical care are given excellent care, they can thrive, and that young people can help transform the life of a child. And Half the Sky has learned that when two organizations united by their concern for China's orphaned children join forces, they can accomplish far more than each one can accomplish alone.



It Takes a Village to Raise a Child

ZenHao is a 9-year-old boy who has been part of Half the Sky's "village" since he was four months old. ZhenHao was abandoned by his parents when he was three months old because of severe medical disabilities involving his hip and spinal canal. Had Half the Sky not intervened, it is likely that ZhenHao would have lain in bed for the rest of his life.

Instead, when ZhenHao underwent his first tumor removal surgery, his Half the Sky nanny was by his side. Despite the pain of his medical treatment and recuperation, ZhenHao learned the most important lesson children need to learn—that they are loved, cared for, and trusted.

Then ZhenHao moved on to a Half the Sky's preschool where he easily adapted to his new environment because of the trust he had built with his nanny. He engaged in daily activities to explore the world around him. He became increasingly self confident, his social, emotional and cognitive skills grew, and he started to show an interest and talent in art. ZhenHao learned that

he is important, he is valued, and he is competent.

In 2007, ZhenHao started his family life with foster parents and siblings when he became



part of The Family Village Program. In his new family, ZhenHao experienced for the first time the security of living in a family. A few years later, The Youth Services Program provided him with an art tutor. As a result, ZhenHao's art skills became sophisticated and he won many awards in local, national and international competitions.

Still dogged by health problems, ZhenHao had to endure three more surgeries, the last, most serious one at a top pediatric hospital in Beijing through Half the Sky's China Care Program. As he fought for his life, ZhenHao's mom and dad and our China Care staff took care of him day and night.

After ZhenHao's slow, painful and ultimately successful recovery, he was adopted internationally where we trust he will thrive because he has learned from so many caregivers in Half the Sky's village how to love and be loved.

By Wen Zhao/Sky's Senior Professional Development Director

The Volunteers

14 14,000 Foot Peaks & 12 Races for the Children

Our incredible volunteers came up with amazing ways to raise funds for Half the Sky in 2012, including an adoptive dad, who set out to climb 14 14,000 foot peaks in Colorado, and another dad and his 9-year-old daughter adopted from China, who ran 12 races, some of them half marathons.

Despite several setbacks, including knee surgery that led him to postpone his first climb and late-season bad weather, Dave West still managed to summit 10 mountain peaks and raise enough money to support 12 children in Half the Sky's Family Village program for a year.



Mark and Maggie Fogas note that the challenges they faced pale in comparison to those institutionalized children in China face every day, but they were proud when they finished: "The race is against the little voice inside your head that tells you to quit. Whenever that voice enters into our heads we can now respond with a hearty, 'You get out of here' because we learned we can accomplish whatever we set our minds to!"



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

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Sixstar World

Thomson Reuters

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 South East 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

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. 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

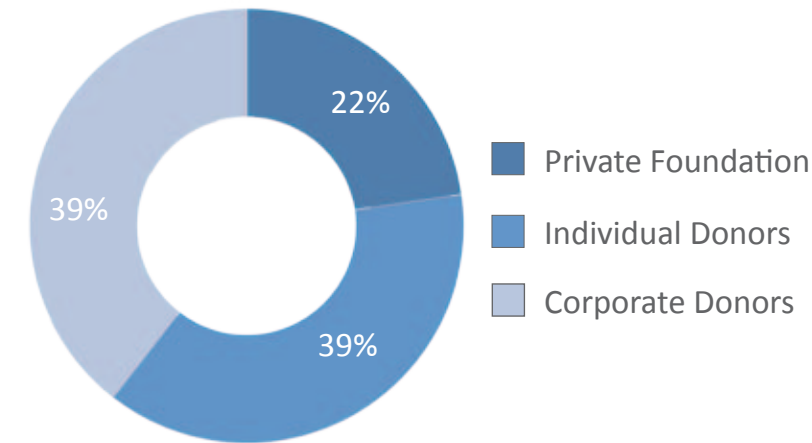
Zhang Zhirong

Senior Executive Consultant for Half the Sky

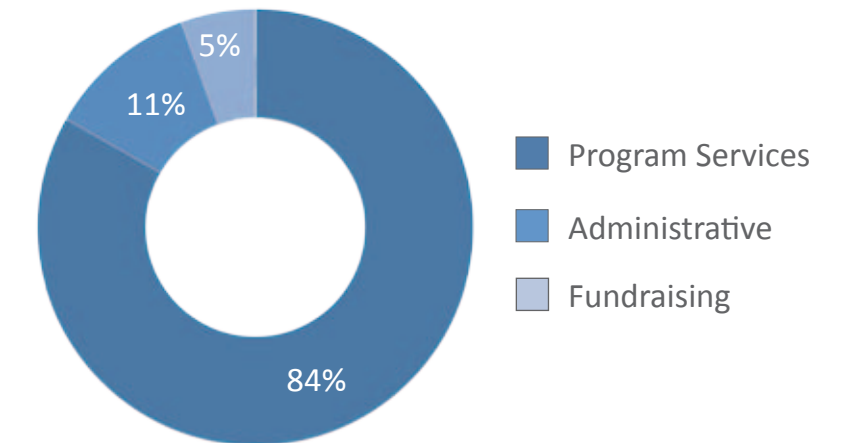
Half the Sky has been recognized for its exceptional fiscal responsibility and transparency by a number of charity evaluation organizations, including Wise Giving, Guidestar and Charity Navigator.

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

August 8, 2013

To the Audit Committee and Board of Directors
Half the Sky Foundation and Subsidiaries
Berkeley, California

Crowe Horwath

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, 2012 and 2011, 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.

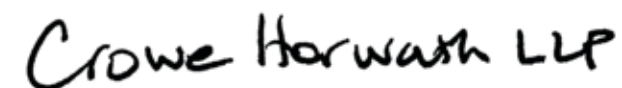
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the consolidated financial statements, the 2011 consolidated financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.



Crowe Horwath LLP
Sacramento, California
July 31, 2013

Consolidated Statements of Financial Position

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2012 and 2011

	2012	Restated 2011
Assets:		
Cash and cash equivalents	\$2,004,429	\$2,729,641
Pledges receivable, net (Note 3)	217,982	2,564
Other receivables	4,782	4,277
Prepaid program expenses	164,551	146,372
Inventory	68,090	80,680
Property and equipment, net (Note 4)	17,730	34,250
Deposits	29,583	28,345
Total assets	\$2,507,147	\$3,026,129
Liabilities:		
Accounts payable	\$319,721	\$252,531
Accrued expenses	98,633	196,226
Deferred rent liability	9,448	11,957
Total liabilities	427,802	460,714
Commitments and contingencies (Note 8)		
Net assets:		
Unrestricted (Note 14)	120,977	194,693
Designated by the Board for endowment (Note 7 and 14)	52,802	645,724
Total unrestricted net assets	173,779	840,417
Temporarily restricted (Note 5 and 14)	1,905,566	1,724,998
Permanently restricted (Note 7 and 14)	-	-
Total net assets	2,079,345	2,565,415
Total liabilities and net assets	\$2,507,147	\$3,026,129

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, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Contributions (Note 10)	\$4,153,659	\$5,567,611	\$ -	\$9,721,270	\$3,888,780	\$5,289,700	\$ -	\$9,178,480
Contributed services and materials	419,266	-	-	419,266	447,635	-	-	447,635
Merchandise sales	49,624	-	-	49,624	17,013	-	-	17,013
Interest and dividend income on investments	1,705	-	-	1,705	4,522	-	-	4,522
Other income	119,704	-	-	119,704	109,143	-	-	109,143
Net realized and unrealized gain on investments	-	-	-	-	27,630	-	-	27,630
Transfer for change in donor intent (Note 7)	(387,709)	387,709	-	-	-	-	-	-
Net assets released from restriction (Note 6)	5,774,752	(5,774,752)	-	-	5,171,542	(5,171,542)	-	-
Total revenues, gains and other support	10,131,001	180,568	-	10,311,569	9,666,265	118,158	-	9,784,423
Expenses:								
Program Services	8,973,167	-	-	8,973,167	8,614,516	-	-	8,614,516
Fundraising								
Donated goods and services	193,224	-	-	193,224	238,238	-	-	238,238
Other fundraising	1,014,510	-	-	1,014,510	1,098,396	-	-	1,098,396
Total fundraising	1,207,734	-	-	1,207,734	1,336,634	-	-	1,336,634
Merchandise costs	20,413	-	-	20,413	4,783	-	-	4,783
Management and general (Notes 8 and 9)	596,325	-	-	596,325	718,514	-	-	718,514
Total expenses	10,797,639	-	-	10,797,639	10,674,447	-	-	10,674,447
Change in net assets	(666,638)	180,568	-	(486,070)	(1,008,182)	118,158	-	(890,024)
Net assets, beginning of year, originally stated	840,417	1,724,998	-	2,565,415	1,083,313	1,737,636	634,490	3,455,439
Restatement (Note 14)	-	-	-	-	765,286	(130,796)	(634,490)	-
Net assets, beginning of year, restated	840,417	1,724,998	-	2,565,415	1,848,599	1,606,840	-	3,455,439
Net assets, end of year	\$173,779	\$1,905,566	\$ -	2,079,345	\$840,417	\$1,724,998	\$ -	\$2,565,415

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2012 and 2011

	2012	Restated 2011
Cash flows used in operating activities:		
Change in net assets	\$(486,070)	\$(890,024)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	23,839	27,976
Deferred rent liability	(2,509)	(1,380)
Net realized and unrealized gains on investments	-	(49,538)
Change in assets and liabilities:		
Pledges receivable, net	(215,418)	107,380
Other receivables	(505)	10,347
Prepaid program expenses	(18,179)	(44,466)
Inventory	12,590	(13,653)
Deposits	(1,238)	33,749
Accounts payable	67,190	103,040
Accrued expenses	(97,593)	74,165
Deferred income	-	(359)
Net cash used in operating activities	(717,893)	(642,763)
Cash flows from investing activities:		
Acquisition of property and equipment	(9,113)	(7,426)
Loss on disposal of property and equipment	1,794	-
Purchases of investments	-	(11,143)
Proceeds from sale of investments	-	1,120,927
Net cash (used in) provided by investing activities	(7,319)	1,102,358
(Decrease) increase in cash and cash equivalents	(725,212)	459,595
Cash and cash equivalents, beginning of year	2,729,641	2,270,046
Cash and cash equivalents, end of year	\$2,004,429	2,729,641

See accompanying notes to consolidated financial statements.

Statement of Functional Expenses

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2012 and 2011

Expenses (Notes 7, 8 and 9):	2012					2011				
	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	\$1,928,962	\$564,976	\$ -	\$371,200	\$2,865,138	\$1,571,836	\$649,624	\$ -	\$449,929	\$2,671,389
Consulting and professional services	72,645	-	-	84,557	157,202	49,189	-	-	90,933	140,122
Office expenses	47,807	16,926	-	24,770	89,503	49,336	51,374	-	29,767	130,477
Information technology	352,012	13,516	-	-	365,528	524,425	19,763	-	34	544,222
Occupancy	89,447	-	-	80,252	169,699	78,891	-	-	79,887	158,778
Travel	160,316	49,899	-	21,643	231,858	230,380	54,073	-	22,404	306,857
Conferences and meetings	125,055	-	-	-	125,055	172,807	-	-	-	172,807
Depreciation and amortization	23,839	-	-	-	23,839	-	-	-	27,976	27,976
Insurance	-	-	-	13,903	13,903	-	-	-	17,584	17,584
Compensation and benefits for field staff	3,958,557	-	-	-	3,958,557	3,688,504	-	-	-	3,688,504
Donated Goods & Services	33,377	193,224	-	-	226,601	54,140	238,238	-	-	292,378
Stipends and Tuition	256,393	-	-	-	256,393	259,010	-	-	-	259,010
Orphanage Center										
Construction, Equipment & Furnishings	4,242	-	-	-	4,242	70,152	-	-	-	70,152
Surgery and nurturing care in connection with China Care Program	1,263,504	-	-	-	1,263,504	1,165,833	-	-	-	1,165,833
Family Village	56,636	-	-	-	56,636	83,646	-	-	-	83,646
Training programs and materials	533,513	-	-	-	533,513	395,190	-	-	-	395,190
Event expense	-	281,052	-	-	281,052	-	245,194	-	-	245,194
All other expense	66,862	88,141	20,413	-	175,416	221,177	78,368	4,783	-	304,328
Total Functional Expenses	\$8,973,167	\$1,207,734	\$20,413	\$596,325	\$10,797,639	\$8,614,516	\$1,336,634	\$4,783	\$718,514	\$10,674,447

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Half the Sky Foundation and Subsidiaries, Year ended December 31, 2012 and 2011

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. By the end of December 31, 2012, 12 provinces had completed 96 sessions of the primary and secondary training program. The Foundation has trained 4,045 caregivers from 323 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, 2012 and 2011. 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 items 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 \$49,866 and \$44,540 at December 31, 2012 and 2011, 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. Due to regulatory legislation signed into law during 2010, the FDIC is required to fully insure all noninterest-bearing account balances through December 31, 2012. After December 31, 2012, these balances are insured up to

\$250,000. At December 31, 2012 and 2011, the Foundation had deposits at two financial institutions eligible for FDIC insurance coverage with carrying amounts of \$267,522 and \$515,164, and bank balances of \$267,522 and \$515,164, respectively. All balances were fully insured. The credit risk in pledges receivable is addressed as the Foundation evaluates the collectibility 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 collectibility of its pledges receivable on an ongoing basis and records a reserve for potential uncollectible pledges receivable.

Other Receivables: Other receivables include interest.

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, 2012 and 2011.

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, 2012 and 2011, with estimated fair values of \$155,864 and \$98,566, respectively.

Contributed goods are recorded at estimated fair value at the date of receipt and amounted to \$263,402 and \$349,069 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011.

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.

NOTE 3 – PLEDGES RECEIVABLE, NET

Pledges receivable represent unconditional promises to give by donors and are recorded at net realizable value. Pledges receivables of \$217,982 and \$2,564 at December 31, 2012 and 2011, respectively, were expected to be collected within one year. There were no long-term pledge receivables at December 31, 2012 and 2011.

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, 2012 and 2011. There were conditional promises to give of \$833,815 and \$613,913 as of the years ended December 31, 2012 and 2011, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following at December 31:

	2012	2011
Equipment	\$ 150,307	\$ 143,923
Furniture and fixtures	26,219	25,284
Total	176,526	169,207
Less: accumulated depreciation	(158,796)	(134,957)
Property and equipment, net	\$ 17,730	\$ 34,250

Depreciation expense for the years ended December 31, 2012 and 2011 amounted to \$23,839 and \$27,976, respectively.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purpose-restricted programs or locations at December 31, 2012 and 2011:

	2012	Restated 2011
2 HTS centers and 8 additional Family Village Projects	\$ -	\$ 187,919
Beihai and Sanya and Wuhan	64,254	51,840
Changsha	161,679	247,045
Changzhou	26,244	-
Chengdu	-	11,563
Chenzhou	37,254	28,736
China Care Club	8,239	-
The China Care Project (TCCP)	278,361	28,938
Chuzhou nanny salary	-	1,226
Digital Publishing and News Media Training	52,681	-
Fuzhou	1,381	2,888
Funds to cover "walk" events	6,219	-
Gaoyou LS	-	10,953
Guangzhou	91,491	197,697
Guilin and Shaoguan	89,709	113,528
Guiyang	16,578	-
Haikou	-	71,809

Hefei	4,781	4,404	Little Sister Preschools in Chengdu, Shenyang, Xi'an, Chongqing, Harbin, Nanning, Jinan, Shijiazhuang, Xiamen and Zhengzhou	196,525
Hohhot LSP	-	15,733		
National Training Program	-	241,325		
Chengdu and 9 additional Little Sister Programs	249,283	145,808	2 HTS centers and 8 additional Family Village projects	187,919
Luoyang	27,598	35,091	VRL	175,644
Maoming	-	23,703	Shijiazhuang	12,208
Maonan	-	8,578	Tianjin, One CCH Room and Chongqing INP	160,095
Nanchang	23,310	-	Youth Service Program	164,154
Nanjing	74,030	51,669	Qingyuan, Wuhan, Qingdao and Urumqi LSP	155,947
National training curriculum	-	1,030	Maoming	143,973
Qingdao	6,250	9,707	Changsha	138,923
Qingyuan, Wuhan, Qingdao and Urumqi LS 2012	69,053	75,000	Guangzhou (LS and YS)	133,101
Shaoyang	27,775	20,550	Shenzhen	121,762
Shenzhen	122,663	116,925	Nanjing	120,824
Shijiazhuang	12,322	-	Guilin and Nanning (LS)	112,834
Tianjin through Q2 and Chongqing Q4	139,905	-	Guangzhou (IN and FV)	106,365
Video Resource Library	21,358	-	National training curriculum	103,460
Wuzhou	1,661	9,162	Lianyungang	100,060
Xinyang	3,778	-	Wuzhou	82,498
Yiyang	-	1,404	Hefei	79,869
YS Newsletter Project	-	10,767	Beihai, Sanya & Wuhan INP	78,814
Other support for operations	287,709	-	Haikou	71,809
Total temporarily restricted net assets	<u>\$1,905,566</u>	<u>\$1,724,998</u>	HTS Strategic planning work	69,436
			Luoyang (LS and IN)	65,241
			Jinan	54,522
			Nanchang	46,167
			Fuzhou	37,714
			Changchun	36,547
			YS newsletter project	31,942
			Xinyang	28,521
			Changzhou (IN & LS)	22,898
			Chenzhou	21,474
			Huangshi	21,008

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, 2012:

JPMC National Training	\$1,241,325
The China Care Project (TCCP)	1,263,585
China Care Clubs	128,161

Yueyang and Yiyang IN	20,000
Qingdao (YS & IN)	17,507
Shaoyang (LS and IN 2012)	17,214
Gaoyou (all but LS)	16,565
Hohhot (LSP)	15,733
Guiyang (FV from Q3 2012)	14,049
Chengdu (IN)	11,563
Yueyang (all but IN)	10,360
Maonan	8,578
AIDS/New Harmony	6,733
Changzhou (FV)	5,762
Other	<u>115,363</u>
Total net assets released from restrictions	<u>\$5,774,752</u>

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.

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. 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 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.

The endowment net asset composition by type of fund as of December 31, 2012, consist of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ -	\$ -
Board-designated endowment funds	\$52,802	\$ -	\$ -	\$52,802
	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
Net appreciation (realized and unrealized)	-	-	-	-
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.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds, restated	\$ -	\$ -	\$ -	\$ -
Board-designated endowment funds, restated	\$645,724	\$ -	\$ -	\$645,724
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year, as restated	\$1,124,681	\$ -	\$ -	\$1,124,681
Investment income including foreign currency exchange gains	20,290	-	-	20,290
Net appreciation (realized and unrealized)	18,141	-	-	18,141
Contributions	11,234	-	-	11,234
Appropriation of endowment assets for expenditure	(169,227)	-	-	(169,227)
Transfer for a change in donor intent	-	-	-	-
Transfers to remove assets from board-designated endowment funds	(359,395)	-	-	(359,395)
Total Funds	\$645,724	\$ -	\$ -	\$645,724

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 \$359,395 and \$217,252 during the years ending December 31, 2011 and 2012, respectively.

NOTE 8 – 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 \$167,000 and \$153,000 for the years ended December 31, 2012 and 2011, respectively.

Year Ending December 31,	
2013	\$175,450
2014	77,620
Total	\$253,070

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, 2012 and 2011 were \$35,711 and \$22,475, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2012 and 2011, 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 \$742,310 and \$473,795, 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 as of 2011. Australia Ltd contributed \$53,557 and \$161,991 to the Foundation in the years ended December 31, 2012 and 2011, respectively. Half the Sky Foundation Canada Limited ("Canada Ltd"), another affiliate of the Foundation was incorporated in Canada in June 2009.

Canada Ltd contributed \$64,395 and \$32,783 to the Foundation in the years ended December 31, 2012 and 2011, respectively.

NOTE 12 – MAJOR CONTRIBUTIONS

For the years ended December 31, 2012 and 2011, the Foundation had two donors with more than 25% of total contributions.

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. During the year ended December 31, 2011, the Foundation received a designated grant of \$466,911, 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 14 – RESTATEMENT

January 1, 2011, the Foundation corrected for an error in the classification of permanently restricted net assets. These funds were donated to the Half the Sky Endowment fund established by the Board. In 2006, the funds were improperly classified to permanently restricted net assets instead of unrestricted net assets – board designated endowments. The Foundation did not have donor-directed documentation indicating the nature of restrictions for these contributions; instead the Board had established designations for the Family Village project. As such, the January 1, 2011 permanently restricted net assets decreased by \$634,490 with a corresponding increase in unrestricted net assets – board designated endowments to correct for this error. The results for the year ended December 31, 2011, were also restated to reclassify \$11,234 of permanently restricted contributions and \$38,431 of temporarily restricted investment earnings related to the permanently restricted net assets that should also be reclassified to the unrestricted net assets – board designated. Lastly, \$169,227 of temporarily restricted net assets released during 2011 from restriction should also be reclassified to unrestricted activities. There is no impact on the overall net asset position of the Foundation for the year ended December 31, 2011.

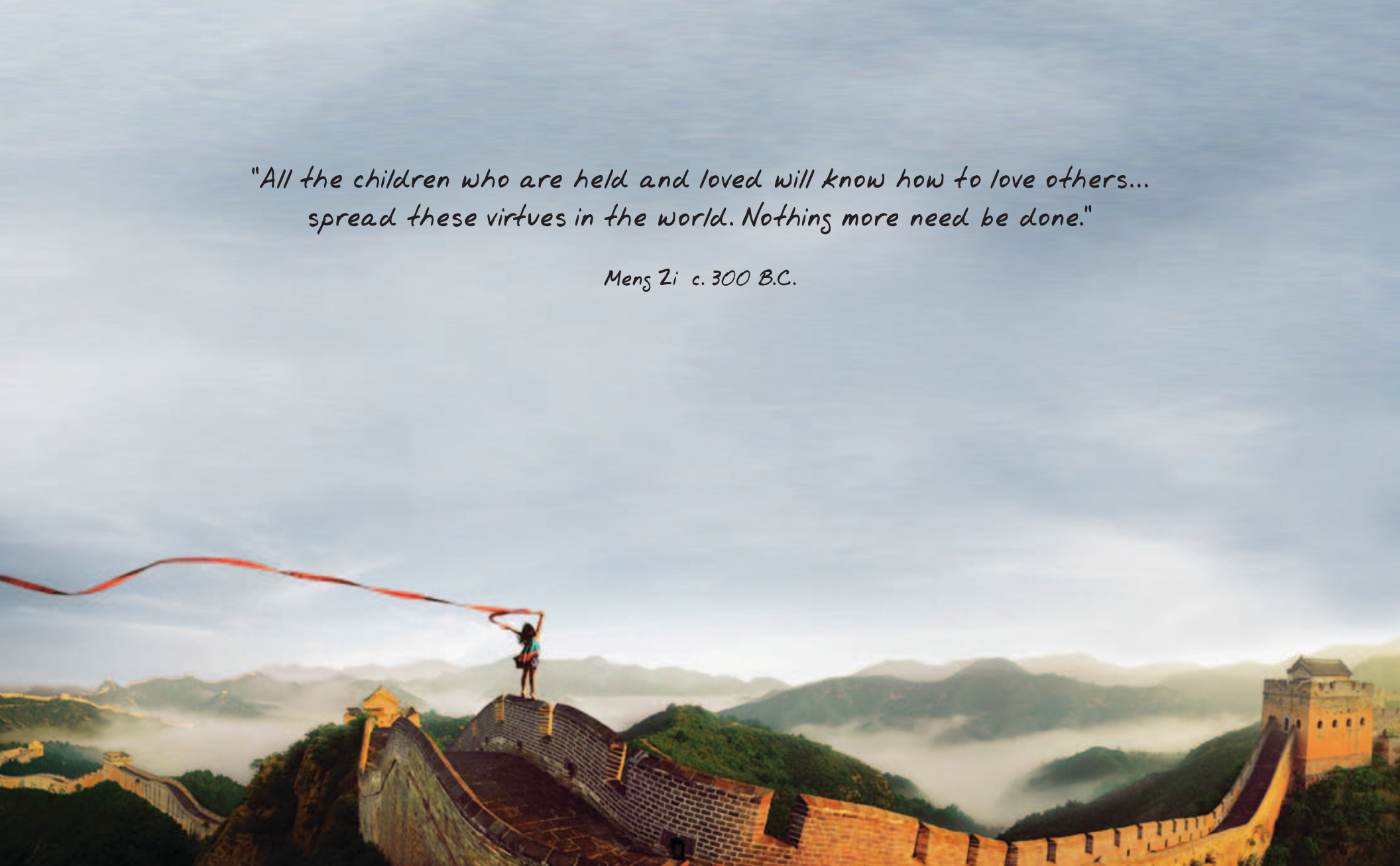
Permanently restricted net assets, January 1, 2011	\$634,490
Restatement	<u>(634,490)</u>
Permanently restricted net assets as of January 1, 2011, restated	<u>\$ -</u>
Temporarily restricted net assets, January 1, 2011	\$1,737,636
Restatement	<u>(130,796)</u>
Temporarily restricted net assets as of January 1, 2011, restated	<u>\$1,606,840</u>
Unrestricted net assets, January 1, 2011	\$1,083,313
Restatement	<u>765,286</u>
Unrestricted net assets as of January 1, 2011, restated	<u>\$1,848,599</u>
Permanently restricted change in net assets, December 31, 2011	\$11,234
Restatement	<u>(11,234)</u>
Permanently restricted change in net assets, December 31, 2011, restated	<u>\$ -</u>
Temporarily restricted change in net assets, December 31, 2011	\$(12,638)
Restatement	<u>130,796</u>
Temporarily restricted change in net assets, December 31, 2011, restated	<u>\$118,158</u>
Unrestricted change in net assets, December 31, 2011	\$(888,620)
Restatement	<u>(119,562)</u>
Unrestricted change in net assets, December 31, 2011, restated	<u>\$(1,008,182)</u>

NOTE 15 – SUBSEQUENT EVENTS

The Foundation has evaluated the effects of subsequent events that have

occurred subsequent to December 31, 2012 and through July 31, 2013 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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