

HALF THE SKY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of **HALF THE SKY FOUNDATION** (a non-profit organization) as of December 31, 2003 and the related statements of activities, functional expenses and cash flows for year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's December 31, 2002 financial statements and, in our report dated February 20, 2003, we 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Half the Sky Foundation as of December 31, 2003, and the results of its operations and cash flows for the year then ended.

*Coté & Company, APC*

Oakland, California  
February 9, 2004

**HALF THE SKY FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2003

(With Comparative Totals for December 31, 2002)

	<u>ASSETS</u>		Total	
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	2003	(Summarized) 2002
<b>CURRENT ASSETS</b>				
Cash	\$ 205,142	\$ 63,108	\$ 268,250	\$ 477,623
Grants and contributions receivable, net	101,966	-	101,966	93,248
Prepaid program expenses	122,393	-	122,393	76,320
Total current assets	<u>429,501</u>	<u>63,108</u>	<u>492,609</u>	<u>647,191</u>
<b>FIXED ASSETS</b>				
Equipment	35,052	-	35,052	12,718
Furniture & fixtures	5,675	-	5,675	4,746
Less accumulated depreciation	(11,246)	-	(11,246)	(4,985)
Total fixed assets	<u>29,481</u>	<u>-</u>	<u>29,481</u>	<u>12,479</u>
INVESTMENTS, at fair value	<u>4,611</u>	<u>-</u>	<u>4,611</u>	<u>439</u>
<b>TOTAL ASSETS</b>	<u>\$ 463,593</u>	<u>\$ 63,108</u>	<u>\$ 526,701</u>	<u>\$ 660,109</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 5,719	\$ -	\$ 5,719	\$ 4,819
Accrued expenses	19,062	-	19,062	14,046
Lease payable	16,097	-	16,097	-
Total Liabilities	<u>40,878</u>	<u>-</u>	<u>40,878</u>	<u>18,865</u>
<b>NET ASSETS</b>				
Unrestricted	422,715	-	422,715	612,073
Temporarily restricted	-	63,108	63,108	29,171
Total Net Assets	<u>422,715</u>	<u>63,108</u>	<u>485,823</u>	<u>641,244</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 463,593</u>	<u>\$ 63,108</u>	<u>\$ 526,701</u>	<u>\$ 660,109</u>

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

**HALF THE SKY FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(With Comparative Totals for December 31, 2002)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2003</u>	<u>Total (Summarized) 2002</u>
<b>SUPPORT AND REVENUES</b>				
Contributions	\$ 815,942	\$ 124,608	\$ 940,550	\$ 937,530
Matching gifts	11,768	-	11,768	5,783
Merchandise sales - net of \$38,185 and \$34,371 in costs of sales in 2003 and 2002, respectively	19,117	-	19,117	15,261
Interest	5,038	-	5,038	4,028
Investment losses	(553)	-	(553)	(582)
Miscellaneous income	45	-	45	2,217
Net assets released from restrictions	<u>90,671</u>	<u>(90,671)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>942,028</u>	<u>33,937</u>	<u>975,965</u>	<u>964,237</u>
<b>EXPENSES</b>				
Program Services	918,350	-	918,350	630,124
Little sister program	90,367	-	90,367	89,579
Management and general	122,669	-	122,669	131,536
Fundraising	<u>1,131,386</u>	<u>-</u>	<u>1,131,386</u>	<u>851,239</u>
Total expenses	<u>1,131,386</u>	<u>-</u>	<u>1,131,386</u>	<u>851,239</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(189,358)</b>	<b>33,937</b>	<b>(155,421)</b>	<b>112,998</b>
<b>NET ASSETS</b>				
Beginning of the year	<u>612,073</u>	<u>29,171</u>	<u>641,244</u>	<u>528,246</u>
End of the year	<u>\$ 422,715</u>	<u>\$ 63,108</u>	<u>\$ 485,823</u>	<u>\$ 641,244</u>

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

**HALF THE SKY FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**(With Comparative Totals for December 31, 2002)**

	Program Services	Management & General	Fund Raising	Total (Summarized)	
				2003	2002
Salaries	\$ 104,429	\$ 38,546	\$ 85,627	\$ 228,602	\$ 211,517
Payroll taxes	7,609	2,808	6,238	16,655	15,787
Personnel - China	367,494	-	-	367,494	231,852
Education and documentation	67,354	-	-	67,354	42,677
Teacher training	79,873	-	-	79,873	24,863
Professional fees	27,120	4,360	1,500	32,980	48,812
Bank and credit card fees	-	12,030	-	12,030	8,639
Conferences and meetings	10,311	-	-	10,311	12,853
Development expense	2,483	-	12,187	14,670	9,744
Design and printing	-	-	6,202	6,202	2,772
Equipment and construction materials	73,471	-	-	73,471	93,184
Insurance	-	15,226	-	15,226	11,935
Office expense	-	1,653	-	1,653	1,056
Occupancy	5,025	1,855	4,120	11,000	5,000
Postage & delivery	2,578	2,087	4,305	8,970	5,735
Special projects	23,740	-	-	23,740	4,162
Supplies	49,022	10,681	-	59,703	18,580
Telephone	176	65	145	386	200
Travel	76,165	-	-	76,165	94,058
Depreciation	2,860	1,056	2,345	6,261	4,474
Miscellaneous	18,640	-	-	18,640	3,339
<b>Total</b>	<b>\$ 918,350</b>	<b>\$ 90,367</b>	<b>\$ 122,669</b>	<b>\$ 1,131,386</b>	<b>\$ 851,239</b>

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

**HALF THE SKY FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ (155,421)	\$ 112,998
Adjustments to reconcile the increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	6,261	4,474
Donated securities	(21,418)	(26,077)
Realized loss on investments	553	167
(Increase) decrease in:		
Grants and other receivables	(8,718)	40,527
Prepaid expenses	(46,073)	(43,542)
Increase (decrease) in:		
Accounts payable	899	3,488
Accrued expenses	<u>21,113</u>	<u>14,046</u>
Net cash provided (used) by operating activities	<u>(202,804)</u>	<u>106,081</u>
 <b>CASH FLOW FROM FINANCING ACTIVITIES</b>	 <u>-</u>	 <u>-</u>
 <b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Asset acquisitions	(23,263)	(10,639)
Proceeds from sales of investments	<u>16,694</u>	<u>25,470</u>
Net cash used in investing activities	<u>(6,569)</u>	<u>14,831</u>
 <b>NET INCREASE (DECREASE) IN CASH</b>	 (209,373)	 120,912
 <b>CASH</b>		
Beginning of year	<u>477,623</u>	<u>356,711</u>
End of year	<u>\$ 268,250</u>	<u>\$ 477,623</u>

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

**HALF THE SKY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

December 31, 2003

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**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

Organization

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

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

Financial Statement Presentation

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

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

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

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

# HALF THE SKY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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### NOTE A - SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Furnishings, Equipment and Depreciation

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

#### Functional Expense Allocations

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

#### Use of Estimates

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

#### Statement of Cash Flows

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

### NOTE B - MAJOR CUSTOMER AND CREDIT RISK CONCENTRATION

In compliance with Statement of Financial Accounting (SFAS) No. 105 – Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk, the Organization has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist of cash deposits. Credit risk related to cash deposits exists whenever the Organization's cash deposits exceed the \$100,000 federally insured amount. Such credit risk amounted to \$0 and \$149,386 as of December 31, 2003 and 2002, respectively.



# HALF THE SKY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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

During the fiscal years ended December 31, 2003 and 2002 approximately 95% of the Organization's support was from individual and foundation donations.

### NOTE C - INVESTMENTS

Investments at December 31, 2003 are as follows:

	<u>Fair Value</u>	<u>Cost</u>
Equity securities	\$ <u>4,611</u>	\$ <u>4,611</u>

The following schedule summarizes the investment return for the year ended December 31, 2003:

Realized losses on sales	\$ <u>(553)</u>
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### NOTE D - TAX EXEMPT STATUS

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

### NOTE E - RELATED PARTY TRANSACTIONS

The Organization leases its operating offices from its Executive Director on a month to month basis. Rent expense paid to the Executive Director amounted to \$11,000 in 2003 and \$5,000 in 2002.

HALF THE SKY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

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NOTE F - TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are as follows:

	<u>2003</u>	<u>2002</u>
Wu Zhou Orphanage Project	\$ 43,108	\$ -0-
Chengdu Child Welfare Institution	15,000	-0-
Yangdong Orphanage Project	-0-	29,171
Computer program	<u>5,000</u>	<u>-0-</u>
Total	\$ <u>63,108</u>	\$ <u>29,171</u>

NOTE G - LEASE PAYABLE

The Organization had entered a lease agreement to finance the purchase of software and computer equipment for operations. The payment term starts October 1, 2003 and lasts for 36 months at an equal monthly payment of \$528. The balance of the lease payable at December 31, 2003 is \$16,097.

NOTE H - SUBSEQUENT EVENTS

On February 4, 2003, the Organization had entered a lease agreement to rent office space. The term of the lease begins on February 1, 2004 and expires on January 31, 2007. The future lease payments are summarized as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2004	\$ 16,500
2005	18,495
2006	19,035
2007	<u>1,590</u>
Total	\$ <u>55,620</u>