

COLLINS, MASON AND COTÉ, LLP
CERTIFIED PUBLIC ACCOUNTANTS

HALF THE SKY FOUNDATION

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2004

HALF THE SKY FOUNDATION

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Collins, Mason & Coté, LLP

Certified Public Accountants

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, 2004 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, 2003 financial statements and, in our report dated February 9, 2004, 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, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Collins, Mason & Coté, LLP

Oakland, California
March 1, 2005

HALF THE SKY FOUNDATION
STATEMENT OF FINANCIAL POSITION
For The Year Ended December 31, 2004
(With Comparative Totals for December 31, 2003)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2004</u>	<u>Total (Summarized) 2003</u>
<u>ASSETS</u>				
CURRENT ASSETS				
Cash	\$ 240,405	\$ 54,283	\$ 294,688	\$ 268,250
Grants and contributions receivable, net	111,207	-	111,207	101,966
Prepaid program expenses	174,776	-	174,776	122,393
Total current assets	<u>526,388</u>	<u>54,283</u>	<u>580,671</u>	<u>492,609</u>
FIXED ASSETS				
Equipment	38,384	-	38,384	35,052
Furniture and fixtures	10,975	-	10,975	5,675
Less accumulated depreciation	<u>(21,536)</u>	<u>-</u>	<u>(21,536)</u>	<u>(11,246)</u>
Total fixed assets	<u>27,823</u>	<u>-</u>	<u>27,823</u>	<u>29,481</u>
INVESTMENTS, at fair value	<u>200,048</u>	<u>-</u>	<u>200,048</u>	<u>4,611</u>
TOTAL ASSETS	<u>\$ 754,259</u>	<u>\$ 54,283</u>	<u>\$ 808,542</u>	<u>\$ 526,701</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES				
Accounts payable	\$ 2,161	\$ -	\$ 2,161	\$ 5,719
Accrued expenses	2,546	-	2,546	19,062
Lease payable	<u>12,581</u>	<u>-</u>	<u>12,581</u>	<u>16,097</u>
Total liabilities	<u>17,288</u>	<u>-</u>	<u>17,288</u>	<u>40,878</u>
NET ASSETS				
Unrestricted	736,971	-	736,971	422,715
Temporarily restricted	<u>-</u>	<u>54,283</u>	<u>54,283</u>	<u>63,108</u>
Total net assets	<u>736,971</u>	<u>54,283</u>	<u>791,254</u>	<u>485,823</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 754,259</u>	<u>\$ 54,283</u>	<u>\$ 808,542</u>	<u>\$ 526,701</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, 2004
(With Comparative Totals for December 31, 2003)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2004</u>	Total (Summarized) <u>2003</u>
SUPPORT AND REVENUES				
Contributions	\$ 1,536,632	\$ 82,041	\$ 1,618,673	\$ 940,550
Matching gifts	19,293	-	19,293	11,768
Merchandise sales - net of \$21,910 and \$38,185 in costs of sales in 2004 and 2003, respectively	18,934	-	18,934	19,117
Interest	1,257	-	1,257	5,038
Investment gains (losses)	4,373	-	4,373	(553)
Miscellaneous income	-	-	-	45
Net assets released from restrictions	<u>90,866</u>	<u>(90,866)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,671,355</u>	<u>(8,825)</u>	<u>1,662,530</u>	<u>975,965</u>
EXPENSES				
Program Services	1,069,374	-	1,069,374	918,350
Management and general	131,880	-	131,880	90,367
Fundraising	<u>155,845</u>	<u>-</u>	<u>155,845</u>	<u>122,669</u>
Total expenses	<u>1,357,099</u>	<u>-</u>	<u>1,357,099</u>	<u>1,131,386</u>
INCREASE (DECREASE) IN NET ASSETS	314,256	(8,825)	305,431	(155,421)
NET ASSETS				
Beginning of the year	<u>422,715</u>	<u>63,108</u>	<u>485,823</u>	<u>641,244</u>
End of the year	<u>\$ 736,971</u>	<u>\$ 54,283</u>	<u>\$ 791,254</u>	<u>\$ 485,823</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, 2004
(With Comparative Totals for December 31, 2003)

	Program Services	Management & General	Fund Raising	Total (Summarized)	
				2004	2003
Salaries	\$ 95,774	\$ 61,552	\$ 74,052	\$ 231,378	\$ 228,602
Payroll taxes	9,968	6,570	6,116	22,654	16,655
Personnel - China	559,659	-	-	559,659	367,494
Education and documentation	66,523	-	-	66,523	67,354
Teacher training	20,595	-	-	20,595	79,873
Professional fees	-	3,350	-	3,350	32,980
Bank and credit card fees	-	-	18,234	18,234	12,030
Conferences and meetings	170	-	-	170	10,311
Development expense	-	-	19,572	19,572	14,670
Design and printing	-	-	2,426	2,426	6,202
Equipment and construction materials	101,897	-	-	101,897	73,471
Insurance	-	12,605	14,514	27,119	15,226
Office expense	-	1,296	-	1,296	1,653
Occupancy	11,433	4,225	9,197	24,855	11,000
Postage and delivery	4,527	4,657	5,546	14,730	8,970
Special projects	52,381	-	1,366	53,747	23,740
Supplies	34,149	30,431	-	64,580	59,703
Telephone	1,261	466	1,015	2,742	386
Travel	106,304	-	-	106,304	76,165
Depreciation	4,733	1,748	3,807	10,288	6,261
Miscellaneous	-	4,980	-	4,980	18,640
Total	\$ 1,069,374	\$ 131,880	\$ 155,845	\$ 1,357,099	\$ 1,131,386

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, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 305,431	\$ (155,421)
Adjustments to reconcile the increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	10,288	6,261
Donated securities	(341,578)	(21,418)
Realized gain on investments	(746)	553
Unrealized gain on investments	(3,627)	-
(Increase) decrease in:		
Grants and other receivables	(9,241)	(8,718)
Prepaid expenses	(52,383)	(46,073)
Increase (decrease) in:		
Accounts payable	(3,558)	899
Accrued expenses	<u>(16,516)</u>	<u>21,113</u>
Net cash used by operating activities	<u>(111,930)</u>	<u>(202,804)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Lease payments	<u>(3,516)</u>	<u>-</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Asset acquisitions	(8,630)	(23,263)
Proceeds from sales of investments	<u>150,514</u>	<u>16,694</u>
Net cash provided (used) in investing activities	<u>141,884</u>	<u>(6,569)</u>
NET INCREASE (DECREASE) IN CASH	26,438	(209,373)
CASH		
Beginning of year	<u>268,250</u>	<u>477,623</u>
End of year	<u>\$ 294,688</u>	<u>\$ 268,250</u>

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

HALF THE SKY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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 provisions, 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, 2004

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 did not exist in the years ended December 31, 2004 and 2003, respectively.

HALF THE SKY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

December 31, 2004

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

During the fiscal years ended December 31, 2004 and 2003 approximately 95% of the Organization's support was from individual and foundation donations.

NOTE C - INVESTMENTS

Investments at December 31, 2004 are as follows:

	<u>Fair Value</u>	<u>Cost</u>
Equity securities	\$ <u>203,675</u>	\$ <u>200,048</u>

The following schedule summarizes the investment return for the year ended December 31, 2004:

Realized gains on sales	\$ 746
Unrealized Gains	<u>3,627</u>
Total	\$ <u>4,373</u>

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.

HALF THE SKY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE E - TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are as follows:

	<u>2004</u>	<u>2003</u>
Wu Zhou Orphanage	\$ -0-	\$ 43,108
Chengdu Child Welfare Institution	-0-	15,000
Yangdong Orphanage Project	-0-	-0-
Computer program	-0-	5,000
Nanchang Orphanage Project	23,000	-0-
Chengzhou Orphanage Project	<u>31,283</u>	<u>-0-</u>
Total	\$ <u>54,283</u>	\$ <u>63,108</u>

NOTE F - 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, 2004 is \$12,581.

NOTE G - LEASE COMMITMENTS

The organization has a lease agreement to rent the current office space in Berkeley. The term of the lease begins on February 1, 2004 and expires on January 31, 2007. Total rent paid in the year 2004 is \$11,916. The future lease payments are summarized as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2005	\$ 18,495
2006	19,035
2007	<u>1,590</u>
Total	\$ <u>39,120</u>