Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Half the Sky Foundation and Subsidiaries

December 31, 2008 and 2007

Contents

Grant Thornton

Audit • Tax • Advisory

Grant Thornton LLP
One California Street, Suite 2300
San Francisco, CA 94111-5424

T 415.986.3900
F 415.986.3916
www.GrantThornton.com

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated statement of financial position of Half the Sky Foundation and Subsidiaries (the "Foundation"), as of December 31, 2008, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Half the Sky Foundation and Subsidiaries as of and for the year ended December 31, 2007 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated July 11, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Half the Sky Foundation and Subsidiaries as of December 31, 2008, and the results of their activities and changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

San Francisco, California
August 12, 2009

Half the Sky Foundation and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

	2008	2007
ASSETS		
Asssets:		
Cash and cash equivalents	$ 3,665,618	$ 1,613,628
Pledges receivable, net	425,906	1,572,431
Other receivables	28,885	253,053
Investments	718,042	815,085
Prepaid program expenses	68,482	6,773
Inventory	89,545	101,001
Property and equipment, net	31,174	18,521
Deposits	29,762	24,191
Total assets	$ 5,057,414	$ 4,404,683
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 87,392	$ 66,949
Accrued expenses	60,445	3,420
Total liabilities	147,837	70,369
Commitments (Note 9)		
Net assets:		
Unrestricted	936,763	1,443,397
Designated by the Board for endowment	259,394	209,394
Total unrestricted net assets	1,196,157	1,652,791
Temporarily restricted	3,115,407	2,106,354
Permanently restricted	598,013	575,169
Total net assets	4,909,577	4,334,314
Total liabilities and net assets	$ 5,057,414	$ 4,404,683

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

Half the Sky Foundation and Subsidiaries

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Contributions	$ 3,350,391	$ 5,034,636	$ 22,844	$ 8,407,871	$ 2,175,622	$ 1,855,933	$ 40,606	$ 4,072,161
Contributed services and materials	471,093	-	-	471,093	157,537	-	-	157,537
Merchandise sales	40,418	-	-	40,418	46,725	-	-	46,725
Interest and dividend income on investment	41,902	-	-	41,902	93,309	-	-	93,309
Other interest income	42,697	-	-	42,697	-	-	-	-
Net assets released from restrictions	3,425,199	(3,425,199)	-	-	2,182,247	(2,182,247)	-	-
Total revenues, gains and other support	7,371,700	1,609,437	22,844	9,003,981	4,655,440	(326,314)	40,606	4,369,732
Expenses:								
Program services	6,171,816	-	-	6,171,816	3,483,917	-	-	3,483,917
Fundraising	942,390	-	-	942,390	335,571	-	-	335,571
Merchandise costs	11,456	-	-	11,456	40,304	-	-	40,304
Management and general	442,715	-	-	442,715	407,203	-	-	407,203
Total expenses	7,568,377	-	-	7,568,377	4,266,995	-	-	4,266,995
Net realized and unrealized gain (loss) on investments	(240,262)	-	-	(240,262)	2,638	-	-	2,638
Bad debt loss	19,695	600,384	-	620,079	-	-	-	-
Change in net assets	(456,634)	1,009,053	22,844	575,263	391,083	(326,314)	40,606	105,375
Net assets, beginning of year	1,652,791	2,106,354	575,169	4,334,314	1,261,708	2,432,668	534,563	4,228,939
Net assets, end of year	$ 1,196,157	$ 3,115,407	$ 598,013	$ 4,909,577	$ 1,652,791	$ 2,106,354	$ 575,169	$ 4,334,314

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

Half the Sky Foundation and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2008	2007
Cash flows from operating activities:		
Change in net assets	$ 575,263	$ 105,375
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,059	9,379
Net realized and unrealized losses (gains) on investments	240,262	(2,638)
Decrease (increase) in assets:		
Pledges receivable, net	1,146,525	570,452
Other receivables	224,168	(252,696)
Prepaid program expenses	(61,709)	27,620
Inventory	11,456	40,304
Deposits	(5,571)	(9,682)
Accounts payable	20,443	38,306
Accrued expenses	57,025	(10,532)
Net cash provided by operating activities	2,217,921	515,888
Cash flows from investing activities:		
Acquisition of property and equipment	(22,712)	(14,318)
Purchases of investments	(445,219)	(370,589)
Proceeds from sale of investments	302,000	103,259
Net cash used in investing activities	(165,931)	(281,648)
Increase in cash and cash equivalents	2,051,990	234,240
Cash and cash equivalents, beginning of year	1,613,628	1,379,388
Cash and cash equivalents, end of year	$ 3,665,618	$ 1,613,628

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

NOTE 1 – ORGANIZATION AND OPERATIONS

Half the Sky Foundation (the "Foundation"), a non-profit public benefit corporation, was incorporated in November 1998 with its corporate office located in Berkeley, California.

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 (USA) formed a Beijing Representative Office in June 2008. Half the Sky Foundation (UK) Limited ("UK Ltd."), another supporting organization of the Foundation, was incorporated in England and Wales in April 2008 but had no activities in 2008. Half the Sky Foundation also qualifies in the Netherlands as a charitable fund ("ANBI") effective retroactively as of January 1, 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 38 state-run welfare institutions in 17 provinces and municipalities in China and offers four primary programs:

<u>The Baby Sisters Infant Nurture Program</u> - 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.

<u>The Little Sisters Preschool Program</u> - 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.

<u>The Big Sisters Program</u> - 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.

<u>The Family Village Program</u> - 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.

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, 2008 and 2007. Translation gains and losses were not material to the financial statements taken as a whole and are not reflected separately in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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.

Financial statement presentation follows the guidance of the Financial Accounting Standards Board ("FASB") in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations* ("SFAS No. 117). Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to 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 temporary 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 restriced 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 market value.

The Foundation was unable to maintain a Chinese bank account under its name before Beijing Ltd. registered. Accordingly, it set up two accounts maintained by the managing director of programs. The balance in these accounts was $17,102 and $6,916 at December 31, 2008 and 2007, respectively. Overseas program operations, such as employee salaries, are funded through wire transfers from the Foundation's Berkeley office.

Credit Risk

The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. Cash balances may exceed the Federal Deposit Insurance Corporation ("FDIC") limits from time to time. The Foundation's investments have been placed with high quality financial institutions. The Foundation monitors these investments and has not experienced significant credit losses. The credit risk in pledges receivable is addressed as the Foundation evaluates the collectability of pledges based on knowledge and available information about the donors. Additionally, any pledges that are expected to be collected after one year have been discounted and are reflected in the consolidated financial statements at their net present value.

Pledges Receivable

The Foundation evaluates the collectability of its pledges receivable on an ongoing basis and records a reserve for potential uncollectible pledges receivable.

Other Receivables

Other receivables include interest and stock sale settlements.

Investments

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

Property and Equipment, Net

Acquisitions of property and equipment in excess of $500 are capitalized. Purchased property and equipment are stated at cost. Significant donated property and equipment are recorded at their estimated fair value on the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to ten years.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 SFAS No. 116, *Accounting for Contributions Received and Contributions Made* ("SFAS No. 116").

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 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 online store sales upon the sale of merchandise.

Contributed Services and Materials

Contributed services and materials are recognized in accordance with SFAS No. 116. The Foundation received and recorded contributed pro-bono legal services for the years ended December 31, 2008 and 2007, with estimated fair market values of $189,723 and $53,714, respectively. The Foundation received contributed services for a director of development in Hong Kong at an estimated fair market value of $100,000 for each of the years ended December 31, 2008 and 2007.

Contributed goods are recorded at estimated fair value at the date of receipt and amounted to $181,370 and $3,823 for the years ended December 31, 2008 and 2007, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expense Allocations

The costs of providing the various program and supporting services have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Accordingly, certain expenses have been allocated among program services and supporting services based on estimates made by management.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, pledges receivable, and accrued expenses are reasonable estimates of the fair values of these financial instruments. Investments are measured and reported at fair value.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("Interpretation No. 48"). Interpretation No. 48, which clarifies Statement No. 109, *Accounting for Income Taxes,* establishes the criterion that an individual tax position has to meet for some or all of the benefits of that position to be recognized in the Foundation's financial statements. On initial application, Interpretation 48 will be applied to all tax positions for which the statute of limitations remains open. Only tax positions that meet the more-likely-than-not recognition threshold at the adoption date will be recognized or continue to be recognized. The cumulative effect of applying Interpretation 48 will be reported as an adjustment to retained earnings at the beginning of the period in which it is adopted.

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position ("FSP") FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises.* FSP FIN 48-3 permits an entity within its scope to defer the effective date for FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes*, to its annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected to defer the application of Interpretation 48 for the year ending December 31, 2008. The Foundation does not expect the adoption of FIN 48 to have a significant impact on its consolidated financial statements.

In August 2008, the FASB issued FASB Staff Position ("FSP") 117-1, *Endowments of Not-For-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP 117-1 is effective for fiscal years ending after December 15, 2008. FSP 117-1 addresses the net asset classification of donor restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In addition, the FSP requires new disclosures about an organization's donor-restricted and board-designated endowment funds. The Foundation has adopted the provisions of FSP 117-1 in fiscal 2008 and has added the required disclosures (see Note 7).

NOTE 3 – PLEDGES RECEIVABLE, NET

Pledges receivable represent unconditional promises to give by donors and are recorded at net realizable value. Pledges that are expected to be collected after one year have been discounted at 5% in 2008 and 2007, and are reflected in the financial statements at their net present value. Pledges receivable are due as follows:

Years ending December 31,	2008	2007
Less than one year	$ 311,963	$ 901,979
One to five years	125,900	765,860
	437,863	1,667,839
Less: discount on receivables due in more than one year	11,957	95,408
Total	$ 425,906	$ 1,572,431

The Foundation has received notification of various conditional pledges. These pledges are not included as revenues until the conditions are substantially met 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, 2008 and 2007. There were conditional promises to give of $2,822,860 and $2,603,335 as of the years ended December 31, 2008 and 2007, respectively.

NOTE 4 – INVESTMENTS

Investments are carried at fair value and consist of the following as of December 31,:

	2008	2007
Marketable equity securities – mutual funds	$ 341,999	$ 771,241
Certificates of deposit	25,319	24,564
United States bonds	18,579	19,280
Fixed income mutual funds	332,145	-
Total	$ 718,042	$ 815,085

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

The majority of the Foundation's assets are invested in equity funds, which are listed on national exchanges; treasury bonds of the U.S. government; and funds of investment grade corporate bonds for which active trading markets exist. Net realized and unrealized gains and losses on investments are reflected in the statements of activities and changes in net assets.

NOTE 4 – INVESTMENTS (continued)

For the years ended December 31, the following schedule summarizes the investment returns:

	2008	2007
Unrealized gains (losses)	$ (237,018)	$ 12,057
Realized gains (losses)	2,706	(2,271)
Net realized and unrealized gains (losses)	$ (234,312)	$ 9,786
Investment related expenses	(5,950)	(7,148)
	$ (240,262)	$ 2,638
Interest and dividend income on investment	$ 41,902	$ 93,309

As of December 31, 2008 and 2007, the Board has designated approximately $259,000 and $209,000, respectively, for re-investment in the endowment.

NOTE 5 – VALUATION OF INVESTMENTS - SFAS 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), which is effective for the Foundation's fiscal year beginning January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction as prescribed by SFAS No. 157. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of an asset or liability as of the measurement date.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level I – Quoted prices are available in active markets for identical investments as of the reporting date.
- Level II – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The Foundation's cash equivalents, marketable equity securities and fixed income mutual funds are valued using Level 1 inputs. The Foundation's certificates of deposit and United States bonds are valued using Level 2 inputs.

NOTE 6 – PROPERTY AND EQUIPMENT, NET

At December 31, property and equipment consisted of the following:

	2008	2007
Equipment	$ 76,218	$ 55,847
Furniture and fixtures	19,336	16,995
Total	95,554	72,842
Less: accumulated depreciation	(64,380)	(54,321)
Total	$ 31,174	$ 18,521

NOTE 7 – ENDOWMENT

The Foundation's endowment consists of a few individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Uniform Management of Institutional Funds Act ("UMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, 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 if that portion's use by the Foundation is limited in accordance with temporary donor-imposed stipulations or as unrestricted net assets if there are no donor-imposed restrictions. Endowment net asset composition by type of fund as of December 31, 2008 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 598,013	$ 598,013
Accumulated losses on donor-restricted endowment funds	(41,786)	-	-	(41,786)
Board-designated endowment funds	259,394	-	-	259,394
Accumulated losses on board-designated endowment funds	(22,076)	-	-	(22,076)
Total funds	$ 195,532	$ -	$ 598,013	$ 793,545

NOTE 7 – ENDOWMENT (continued)

Interpretation of Relevant Law (continued)

Endowment net asset composition by type of fund as of December 31, 2007 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 575,169	$ 575,169
Accumulated losses on donor-restricted endowment funds	-	-	-	-
Board-designated endowment funds	209,394	-	-	209,394
Accumulated earnings on board-designated endowment funds	-	-	-	-
Total funds	$ 209,394	$ -	$ 575,169	$ 784,563

Changes in endowment net assets for the fiscal year ended December 31, 2008 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 209,394	$ -	$ 575,169	$ 784,563
Investment return:				
Investment income	-	-	-	-
Net depreciation (realized and unrealized)	(63,862)	-	-	(63,862)
Total investment return	(63,862)	-	-	(63,862)
Contributions	50,000	-	22,844	72,844
Appropriation of endowment assets for expenditure	-	-	-	-
Other changes:				
Transfers	-	-	-	-
Endowment net assets, end of year	$ 195,532	$ -	$ 598,013	$ 793,545

Changes in endowment net assets for the fiscal year ended December 31, 2007 was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 150,000	$ -	$ 534,563	$ 684,563
Investment return:				
Investment income	-	-	-	-
Net depreciation (realized and unrealized)	-	-	-	-
Total investment return	-	-	-	-
Contributions	59,394	-	40,606	100,000
Appropriation of endowment assets for expenditure	-	-	-	-
Other changes:				
Transfers	-	-	-	-
Endowment net assets, end of year	$ 209,394	$ -	$ 575,169	$ 784,563

NOTE 7 – ENDOWMENT (continued)

Interpretation of Relevant Law (continued)

Description of amounts classified as permanently restricted net assets (endowment only) was as follows:

	2008	2007
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently by donor stipulation or law	$ 598,013	$ 575,169
Total endowment funds classified as permanently restricted net assets	$ 598,013	$ 575,169

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $41,786 at December 31, 2008. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. There were no such deficiencies at December 31, 2007.

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. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that grow the fund until it reaches at least one million dollars before making any distributions of earnings. The Foundation expects its endowment funds, over time, to provide an average return of approximately 7 to 9 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year up to 5 percent of the endowment fund's average fair value over the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow 4% 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.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

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

	2008	2007
Guangzhou and Shenzhen	$ 25,783	$ 655,172
Tianjin and Guangzhou center and 8 additional Foster Villages	532,015	650,223
Qingdao (previously Hangzhou)	224,778	150,000
Shaoguan	91,555	112,238
Maonan	58,417	77,184
Jia Fellowship	-	74,973
Chengdu	-	59,401
Blue Sky	307,799	48,544
Lianyungang	25,657	44,951
Sponsorships	-	43,146
Changzhou	-	37,874
Fuzhou	29,777	31,581
Maoming	-	27,955
Wuhan	12,271	23,438
Chenzhou	16,023	20,413
Chongqing	-	20,372
Yiyang	3,693	14,816
Yueyang	13,365	8,205
Nanning	6,790	5,214
Xiangtan	-	654
Luoyang	100,000	-
Qingyuan	55,280	-
Guilin	10,569	-
Haikou	240,277	-
Xinyang	34,090	-
LMEF	248,591	-
CEF	1,077,160	-
Other	1,517	-
Total temporarily restricted net assets	$ 3,115,407	$ 2,106,354

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS (continued)

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, 2008:

	2008
Changzhou	$ 90,348
Chenzhou	62,964
Chongqing	30,422
Guangzhou and Shenzhen	56,234
2 HTS center & 8 additional FV projects	118,208
Sponsorship	43,146
Jia Fellowship	99,973
Lianyungang	169,369
Nanning	92,129
Maoming	111,075
Maonan	38,917
Shaoguan	20,908
Yibin	20,110
Fuzhou	44,410
Yueyang	26,966
Yiyang	30,393
Nanjing (All but FV program)	26,352
Beihai	43,875
Wuzhou	78,228
Hefei	26,855
Gaoyou	16,200
Guilin	72,921
Haikou	59,723
Nanchang	19,260
Chengdu	60,122
Wuhan	126,397
Blue Sky	373,550
Shaoyang	12,632
Chuzhou	7,475
Guiyang	122,515
Harbin	100,480
Qingdao (previously Hangzhou)	75,222
Others	6,896
LMEF	436,002
CEF	704,922
Total net assets released from restrictions	$ 3,425,199

NOTE 9 – COMMITMENTS

The Foundation leases an office facility 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 February 2010. Rent paid under these leases was approximately $76,000 and $57,000 for the years ended December 31, 2008 and 2007, respectively.

Years ending December 31,	
2009	$ 102,200
2010	2,640
Total	$ 104,840

NOTE 10 – EMPLOYEE BENEFIT PLANS

In 2008, the Foundation had a 403(b) retirement plan for its employees. Pension plan expense for the year ended December 31, 2008 was $12,616.

In January 1, 2009, the Foundation transferred all assets to a 401(k) plan, covering all employees who have met certain eligbility 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 Foudnation, 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. The Foundation did not make any contributions to the 401(k) plan for the year ended December, 31, 2008.

NOTE 11 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2008 and 2007, 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 $124,267 and $182,937, respectively.

NOTE 12 – AFFILIATED PARTIES

Half the Sky Foundation Canada (Foundation HTS du Canada) is an independent charitable entity, registered with the Canadian government, which raises funds and makes unrestricted donations to the Foundation.

NOTE 13 – MAJOR CONTRIBUTIONS

For the year ended December 31, 2008, the Foundation had no donors with 10% or more of contributions and one donor accounted for 5% of contributions for the year ended December 31, 2007.

NOTE 14 – COOPERATION AGREEMENT

In early 2008, the Foundation entered into a cooperation agreement with the Ministry of Civil Affairs of the PRC ("MCA") known as the "Blue Sky Plan." Under this agreement, the Foundation works with the MCA to establish cooperative model centers and to develop relevant care and education programs in each of the provinces in the PRC. During the year ended December 31, 2008, the Foundation received a designated grant of $632,805 to implement this program, which is recorded in contributions revenue on the accompanying statements of activities and changes in net assets.

NOTE 15 – SUBSEQUENT EVENT

In early 2009, the Board of Directors approved an alliance with China Care Foundation. By taking on China Care's high quality medical care program as its own fifth program - The China Care Program, Half the Sky Foundation, in cooperation with China Care and the Ministry of Civil Affairs, created a government-sanctioned interim care home for orphaned babies who will undergo life-saving surgeries.