

**CONSOLIDATED FINANCIAL STATEMENTS**

**mothers2mothers International Inc.**

**DECEMBER 31, 2010 AND 2009**

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# JARVIS W. IRVING & COMPANY, LLP

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Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
mothers2mothers International Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of mothers2mothers International Inc. and subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of operations and cash flows for the year ended December 31, 2010 and the period July 1, 2009 (inception) to December 31, 2009. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Mothers2mothers South Africa, Mothers2mothers Malawi, mothers2mothers Zambia, mothers2mothers Swaziland, mothers2mothers Tanzania, mothers2mothers Kenya and mothers2mothers Uganda which statements reflect total assets constituting 88.49 percent and total revenues constituting 82.97 percent of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and accordingly, the amounts included for mothers2mothers South Africa, mothers2mothers Malawi, mothers2mothers Zambia, mothers2mothers Swaziland, mothers2mothers Tanzania, mothers2mothers Kenya and mothers2mothers Uganda, are based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards of 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of mothers2mothers International Inc. and subsidiaries and the results of its operations and cash flows for the period then ended in conformity with generally accepted accounting principles of the United States of America.

New York, New York  
November 9, 2011

*Jarvis W. Irving & Company, LLP*

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**mothers<sup>2</sup>mothers International Inc.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2010 and 2009**

|  | <b>ASSETS</b>              |                            |
|--|----------------------------|----------------------------|
|  | <u>2010</u>                | <u>2009</u>                |
| <b>CURRENT ASSETS</b>                            |                            |                            |
| Cash and cash equivalents (Note 2)               |                            |                            |
| US Office  | \$ 701,285                 | \$ 1,557,034               |
| Africa Offices                                   | 2,835,500                  | 1,734,069                  |
|  | <u>3,536,785</u>           | <u>3,291,103</u>           |
| Total cash and cash equivalents                  |                            |                            |
| Grants & contributions receivable                | 1,695,800                  | 869,116                    |
| Travel advances and other receivables            | 294,834                    | 396,804                    |
| Prepaid expenses                                 | 68,124                     | 24,269                     |
|  | <u>5,595,543</u>           | <u>4,581,292</u>           |
| TOTAL CURRENT ASSETS                             |                            |                            |
| Furniture, equipment, and vehicles, net (Note 6) | 420,473                    | 465,426                    |
|  | <u>420,473</u>             | <u>465,426</u>             |
| <b>TOTAL ASSETS</b>                              | <b><u>\$ 6,016,016</u></b> | <b><u>\$ 5,046,718</u></b> |
| <b>LIABILITIES AND NET ASSETS</b>                |                            |                            |
| <b>CURRENT LIABILITIES</b>                       |                            |                            |
| Accounts payable and accrued expenses            | \$ 1,662,015               | \$ 755,352                 |
| Grants payable                                   | 15,455                     | 15,455                     |
| Deferred revenue                                 | 537,220                    | 2,004,088                  |
|  | <u>2,214,690</u>           | <u>2,774,895</u>           |
| Total liabilities                                |                            |                            |
| <b>NET ASSETS</b>                                |                            |                            |
| Unrestricted                                     | 1,422,361                  | 469,878                    |
| Temporarily restricted (Note 5)                  | 2,378,965                  | 1,801,945                  |
|  | <u>3,801,326</u>           | <u>2,271,823</u>           |
| Total net assets                                 |                            |                            |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>          | <b><u>\$ 6,016,016</u></b> | <b><u>\$ 5,046,718</u></b> |

See accompanying notes to the consolidated financial statements.

## mothers2mothers International Inc.

### CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2010 and for the Six-Month Period Beginning July 1, 2009 (Inception) through December 31, 2009

|   | 2010              |                           |                     | 2009                |                           |                     |
|---|-------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------|
|   | Unrestricted      | Temporarily<br>Restricted | Total               | Unrestricted        | Temporarily<br>Restricted | Total               |
| REVENUE AND SUPPORT                                     |                   |                           |                     |                     |                           |                     |
| Contributions   | \$ 521,382        | \$ -                      | \$ 521,382          | \$ 1,642,713        | \$ (15,531)               | \$ 1,627,182        |
| Grants (Notes 5 and 9):                                 |                   |                           |                     |                     |                           |                     |
| Government grants                                       | 13,013,334        | -                         | 13,013,334          | 4,835,426           | -                         | 4,835,426           |
| Non-Government grants                                   | 3,885,554         | 3,585,183                 | 7,470,737           | 1,826,462           | 2,350,381                 | 4,176,843           |
| Other income (Note 7)                                   | 23,868            | 40,188                    | 64,056              | 49,363              | (1,208)                   | 48,155              |
| Net assets released from donor restrictions<br>(Note 5) | 3,152,189         | (3,152,189)               | -                   | 2,115,445           | (2,115,445)               | -                   |
| Total revenue and support                               | <u>20,596,327</u> | <u>473,182</u>            | <u>21,069,509</u>   | <u>10,469,409</u>   | <u>218,197</u>            | <u>10,687,606</u>   |
| EXPENSES  |                   |                           |                     |                     |                           |                     |
| Program services  | 17,687,670        | -                         | 17,687,670          | 8,060,437           | -                         | 8,060,437           |
| Supporting Services:                                    |                   |                           |                     |                     |                           |                     |
| Management and General                                  | 1,100,264         | -                         | 1,100,264           | 266,878             | -                         | 266,878             |
| Fundraising   | 894,658           | -                         | 894,658             | 300,054             | -                         | 300,054             |
| Total supporting services                               | <u>1,994,922</u>  | <u>-</u>                  | <u>1,994,922</u>    | <u>566,932</u>      | <u>-</u>                  | <u>566,932</u>      |
| Total expenses  | <u>19,682,592</u> | <u>-</u>                  | <u>19,682,592</u>   | <u>8,627,369</u>    | <u>-</u>                  | <u>8,627,369</u>    |
| Changes in net assets before other items                | 913,735           | 473,182                   | 1,386,917           | 1,842,040           | 218,197                   | 2,060,237           |
| OTHER ITEMS   |                   |                           |                     |                     |                           |                     |
| Foreign exchange gain (loss)                            | 16,850            | -                         | 16,850              | (15,381)            | -                         | (15,381)            |
| CHANGES IN NET ASSETS                                   | <u>\$ 930,585</u> | <u>\$ 473,182</u>         | <u>\$ 1,403,767</u> | <u>\$ 1,826,659</u> | <u>\$ 218,197</u>         | <u>\$ 2,044,856</u> |

See accompanying notes to the consolidated financial statements.

**mothers<sup>2</sup>mothers International Inc.**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2010 and for the Six-Month Period**  
**Beginning July 1, 2009 (Inception) through December 31, 2009**

|  | <u>Unrestricted</u>        | <u>Temporarily<br/>Restricted</u> | <u>Total</u>               |
|--|----------------------------|-----------------------------------|----------------------------|
| Net assets at June 30, 2009            | \$ (1,356,780)             | \$ 1,583,748                      | \$ 226,968                 |
| Change in net assets                   | <u>1,826,658</u>           | <u>218,197</u>                    | <u>2,044,855</u>           |
| <b>Net assets at December 31, 2009</b> | <b>469,878</b>             | <b>1,801,945</b>                  | <b>2,271,823</b>           |
| Change in net assets                   | 930,585                    | 473,182                           | 1,403,767                  |
| Prior period adjustments               | <u>21,898</u>              | <u>103,838</u>                    | <u>125,736</u>             |
| <b>NET ASSETS AT DECEMBER 31, 2010</b> | <b>\$ <u>1,422,361</u></b> | <b>\$ <u>2,378,965</u></b>        | <b>\$ <u>3,801,326</u></b> |

See accompanying notes to the consolidated financial statements.

**mothers2mothers International Inc.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2010

| Expense Description                   | PROGRAM SERVICES    |                   |                   |                   |                     |                   |                   |                     |                   |
|---------------------------------------|---------------------|-------------------|-------------------|-------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
|                                       | South Africa        | Swaziland         | Lesotho           | Malawi            | Zambia              | Tanzania          | Rwanda            | Kenya               | Uganda            |
| Grants, contracts & direct assistance | \$ -                | \$ -              | \$ -              | \$ -              | \$ -                | \$ -              | \$ 509,432        | \$ 933,807          | \$ -              |
| Sub-total grants & awards             | -                   | -                 | -                 | -                 | -                   | -                 | 509,432           | 933,807             | -                 |
| Salaries & wages                      | 7,189,524           | 482,972           | 501,912           | 419,241           | 615,790             | 78,186            | 105,334           | 349,448             | 147,976           |
| Fringe benefits                       | 49,691              | 70,752            | 52,199            | 14,623            | 75,965              | 7,358             | 5,765             | 33,556              | 19,106            |
| Sub-total personnel                   | 7,239,215           | 553,724           | 554,111           | 433,864           | 691,755             | 85,544            | 111,099           | 383,004             | 167,082           |
| Professional fees                     | 403,105             | 21,439            | 10,589            | 23,325            | 50,584              | 20,528            | 3,319             | 27,392              | 15,130            |
| Equipment                             | 23,577              | 3,512             | 294               | 965               | 13,539              | -                 | 204               | 37,107              | -                 |
| Supplies                              | 405,016             | 26,853            | 112,317           | 69,542            | 44,063              | 5,335             | 50                | 21,039              | 6                 |
| Communication expenses                | 125,538             | 14,404            | 19,130            | 27,278            | 18,995              | 1,344             | 509               | 7,156               | 2,319             |
| Occupancy expenses                    | 85,285              | 12,308            | 12,582            | 14,851            | 25,055              | 15,248            | 8                 | 12,586              | 15                |
| Computer maintenance                  | 66,575              | 453               | 982               | 1,660             | 3,058               | 4                 | 11                | 3,979               | 4                 |
| Printing & duplicating                | 50,277              | 5,400             | 791               | 3,505             | 17,602              | 19                | -                 | 1,963               | 15                |
| Travel                                | 683,327             | 97,798            | 124,917           | 127,566           | 145,282             | 30,406            | 30,381            | 88,593              | 16,427            |
| Conferences, conventions & meetings   | 88,931              | 5,121             | 11,377            | 1,285             | 17,864              | 53                | -                 | 16,723              | -                 |
| Interest expense                      | (34)                | 73                | 1                 | -                 | 987                 | 9                 | -                 | 768                 | 829               |
| Depreciation                          | -                   | 7,368             | 8,988             | -                 | -                   | 211               | -                 | 370                 | 121               |
| Insurance                             | 4,109               | 2,878             | 954               | -                 | 1,926               | -                 | -                 | -                   | -                 |
| Learning and development              | 28,458              | (8)               | 834               | 398               | 1,928               | 2                 | (3)               | 1,323               | -                 |
| Other expenses                        | 74,842              | 69,549            | 8,327             | 15,662            | 35,828              | 2,612             | 45,177            | (10,047)            | (1,540)           |
| Sub-total other expenses              | 2,039,006           | 267,148           | 312,083           | 286,037           | 376,711             | 75,771            | 79,656            | 208,952             | 33,326            |
| <b>TOTAL EXPENSES</b>                 | <b>\$ 9,278,221</b> | <b>\$ 820,871</b> | <b>\$ 866,192</b> | <b>\$ 719,900</b> | <b>\$ 1,068,469</b> | <b>\$ 161,314</b> | <b>\$ 700,188</b> | <b>\$ 1,525,764</b> | <b>\$ 200,409</b> |

See accompanying notes to the consolidated financial statements.

**mothers<sup>2</sup>mothers International Inc.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2010**  
**(Continued)**

| Expense Description                   | PROGRAM SERVICES |                     |                        | SUPPORTING SERVICES    |                   |                           | TOTAL EXPENSES       |
|---------------------------------------|------------------|---------------------|------------------------|------------------------|-------------------|---------------------------|----------------------|
|                                       | Mozambique       | Core                | Total Program Services | Management and General | Fundraising       | Total Supporting Services |                      |
| Grants, contracts & direct assistance | \$ -             | \$ -                | \$ 1,443,240           | \$ -                   | \$ -              | \$ -                      | \$ 1,443,240         |
| Sub-total grants & awards             | -                | -                   | 1,443,240              | -                      | -                 | -                         | 1,443,240            |
| Salaries & wages                      | 21,061           | 1,202,836           | 11,114,278             | 230,646                | 546,284           | 776,930                   | 11,891,209           |
| Fringe benefits                       | 47               | 376,952             | 706,016                | 120,418                | 85,818            | 206,237                   | 912,252              |
| Sub-total personnel                   | 21,108           | 1,579,788           | 11,820,294             | 351,064                | 632,102           | 983,167                   | 12,803,461           |
| Professional fees                     | 4,354            | 291,870             | 871,636                | 201,429                | 86,913            | 288,342                   | 1,159,978            |
| Equipment                             | 1                | 8,593               | 87,792                 | 6,875                  | 7,921             | 14,796                    | 102,588              |
| Supplies                              | 10               | (112,613)           | 571,618                | 27,801                 | 13,695            | 41,497                    | 613,115              |
| Communication expenses                | 163              | 102,026             | 318,861                | 21,032                 | 16,375            | 37,408                    | 356,269              |
| Occupancy expenses                    | 15               | 74,574              | 252,526                | 10,824                 | 12,945            | 23,769                    | 276,295              |
| Computer maintenance                  | 14               | 19,890              | 96,630                 | 30,950                 | 2,562             | 33,512                    | 130,142              |
| Printing & duplicating                | 10               | 13,247              | 92,830                 | 8,182                  | 5,042             | 13,224                    | 106,054              |
| Travel                                | 4,899            | 350,756             | 1,700,353              | 126,731                | 96,483            | 223,214                   | 1,923,567            |
| Conferences, conventions & meetings   | -                | 21,403              | 162,757                | 75,080                 | 12,826            | 87,906                    | 250,663              |
| Interest expense                      | -                | 41                  | 2,674                  | 1,098                  | -                 | 1,098                     | 3,772                |
| Depreciation                          | 103              | (571)               | 16,590                 | 229,115                | -                 | 229,115                   | 245,705              |
| Insurance                             | -                | 29,535              | 39,402                 | -                      | 1,217             | 1,217                     | 40,619               |
| Learning and development              | -                | 32,508              | 65,441                 | 2,108                  | 5,061             | 7,169                     | 72,610               |
| Other expenses                        | (3,898)          | (91,485)            | 145,026                | 7,974                  | 1,514             | 9,488                     | 154,514              |
| Sub-total other expenses              | 5,671            | 739,774             | 4,424,136              | 749,199                | 262,554           | 1,011,755                 | 5,435,891            |
| <b>TOTAL EXPENSES</b>                 | <b>\$ 26,779</b> | <b>\$ 2,319,562</b> | <b>\$ 17,687,670</b>   | <b>\$ 1,100,263</b>    | <b>\$ 894,656</b> | <b>\$ 1,994,922</b>       | <b>\$ 19,682,592</b> |

See accompanying notes to the consolidated financial statements.



## mothers2mothers International Inc.

### CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Six-Month Period Beginning July 1, 2009 (Inception) through December 31, 2009

| Expense Description                   | PROGRAM SERVICES    |                   |                   |                   |                  |                  |                   |             |             |
|---------------------------------------|---------------------|-------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------|-------------|
|                                       | South Africa        | Swaziland         | Lesotho           | Malawi            | Zambia           | Tanzania         | Rwanda            | Kenya       | Uganda      |
| Grants, contracts & direct assistance | \$ -                | \$ -              | \$ -              | \$ -              | \$ 2,431         | \$ -             | \$ 217,416        | \$ -        | \$ -        |
| Sub-total grants & awards             | -                   | -                 | -                 | -                 | 2,431            | -                | 217,416           | -           | -           |
| Salaries & wages                      | 2,900,353           | 257,463           | 282,986           | 303,410           | 51,758           | 10,138           | 114,106           | -           | -           |
| Fringe benefits                       | 76,551              | 7,793             | 7,292             | 12,050            | 1,532            | 378              | 5,761             | -           | -           |
| Sub-total personnel                   | 2,976,904           | 265,256           | 290,278           | 315,460           | 53,290           | 10,516           | 119,867           | -           | -           |
| Professional fees                     | 464,156             | 32,545            | 32,339            | 50,753            | 10,034           | 629              | 20,695            | -           | -           |
| Equipment                             | 66,662              | 4,620             | 4,582             | 11,557            | 254              | 88               | 2,325             | -           | -           |
| Supplies                              | 139,408             | 8,002             | 36,089            | 37,450            | 79               | 91               | 2,420             | -           | -           |
| Communication expenses                | 127,257             | 12,715            | 16,973            | 28,327            | 631              | 175              | 5,603             | -           | -           |
| Occupancy expenses                    | 112,844             | 9,284             | 15,956            | 19,908            | 396              | 159              | 4,332             | -           | -           |
| Computer maintenance                  | 23,704              | 2,579             | 2,469             | 4,923             | 168              | 47               | 1,234             | -           | -           |
| Printing & duplicating                | 41,979              | 6,831             | 2,908             | 10,326            | 831              | 19               | 1,836             | -           | -           |
| Travel                                | 429,343             | 41,761            | 72,105            | 72,531            | 14,901           | 8,204            | 18,225            | -           | -           |
| Conferences, conventions & meetings   | 65,938              | 17,728            | 12,157            | 8,176             | 13               | 8                | 792               | -           | -           |
| Interest expense                      | (20)                | -                 | (1)               | (3)               | -                | -                | (1)               | -           | -           |
| Depreciation                          | -                   | -                 | -                 | -                 | 11,180           | -                | -                 | -           | -           |
| Insurance                             | 2,312               | 141               | 151               | 3,334             | -                | 7                | 169               | -           | -           |
| Learning and development              | 12,894              | 866               | 953               | 2,038             | -                | 15               | 574               | -           | -           |
| Other expenses                        | 26,318              | 27,684            | (25,767)          | 26,037            | (267)            | (4,341)          | (3,387)           | -           | -           |
| Sub-total other expenses              | 1,512,795           | 164,756           | 170,914           | 275,357           | 38,220           | 5,101            | 54,817            | -           | -           |
| <b>TOTAL EXPENSES</b>                 | <b>\$ 4,489,699</b> | <b>\$ 430,012</b> | <b>\$ 461,192</b> | <b>\$ 590,817</b> | <b>\$ 93,941</b> | <b>\$ 15,617</b> | <b>\$ 392,100</b> | <b>\$ -</b> | <b>\$ -</b> |

See accompanying notes to the consolidated financial statements.

## mothers<sup>2</sup>mothers International Inc.

### CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Six-Month Period Beginning July 1, 2009 (Inception) through December 31, 2009

(Continued)

| Expense Description                   | PROGRAM SERVICES |                     |                        | SUPPORTING SERVICES    |                   |                           | TOTAL EXPENSES      |
|---------------------------------------|------------------|---------------------|------------------------|------------------------|-------------------|---------------------------|---------------------|
|                                       | Mozambique       | Core                | Total Program Services | Management and General | Fundraising       | Total Supporting Services |                     |
| Grants, contracts & direct assistance | \$ -             | \$ 942,946          | \$ 1,162,793           | \$ -                   | \$ -              | \$ -                      | \$ 1,162,793        |
| Sub-total grants & awards             | -                | 942,946             | 1,162,793              | -                      | -                 | -                         | 1,162,793           |
| Salaries & wages                      | 29,103           | 638,310             | 4,587,627              | 87,652                 | 172,436           | 260,088                   | 4,847,715           |
| Fringe benefits                       | 777              | 49,538              | 161,672                | 6,823                  | 21,397            | 28,220                    | 189,892             |
| Sub-total personnel                   | 29,880           | 687,848             | 4,749,299              | 94,475                 | 193,833           | 288,308                   | 5,037,607           |
| Professional fees                     | 1,930            | (46,972)            | 566,109                | (95,984)               | 44,835            | (51,149)                  | 514,960             |
| Equipment                             | 256              | (3,481)             | 86,863                 | 2,544                  | 44                | 2,588                     | 89,451              |
| Supplies                              | 264              | (48,057)            | 175,746                | 1,707                  | 5,035             | 6,742                     | 182,488             |
| Communication expenses                | 657              | 6,529               | 198,867                | (40,609)               | 4,511             | (36,098)                  | 162,769             |
| Occupancy expenses                    | 484              | (23,432)            | 139,931                | 7,452                  | 4,203             | 11,655                    | 151,586             |
| Computer maintenance                  | 145              | (14,338)            | 20,931                 | 1,475                  | -                 | 1,475                     | 22,406              |
| Printing & duplicating                | 39               | (21,499)            | 43,270                 | 109                    | -                 | 109                       | 43,379              |
| Travel                                | 5,739            | 71,295              | 734,104                | 84,359                 | 39,902            | 124,261                   | 858,365             |
| Conferences, conventions & meetings   | 362              | (3,825)             | 101,349                | 2,378                  | -                 | 2,378                     | 103,727             |
| Interest expense                      | -                | 107                 | 82                     | 76                     | -                 | 76                        | 158                 |
| Depreciation                          | -                | -                   | 11,180                 | 190,258                | -                 | 190,258                   | 201,438             |
| Insurance                             | 21               | 9,260               | 15,395                 | 2,206                  | 3,530             | 5,736                     | 21,131              |
| Learning and development              | 81               | 7,954               | 25,375                 | 6,407                  | -                 | 6,407                     | 31,782              |
| Other expenses                        | 16,009           | (33,142)            | 29,144                 | 10,026                 | 4,159             | 14,185                    | 43,329              |
| Sub-total other expenses              | 25,987           | (99,601)            | 2,148,346              | 172,404                | 106,219           | 278,623                   | 2,426,969           |
| <b>TOTAL EXPENSES</b>                 | <b>\$ 55,867</b> | <b>\$ 1,531,193</b> | <b>\$ 8,060,438</b>    | <b>\$ 266,879</b>      | <b>\$ 300,052</b> | <b>\$ 566,931</b>         | <b>\$ 8,627,369</b> |

See accompanying notes to the consolidated financial statements.

**mothers<sup>2</sup>mothers International Inc.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2010 and for the Six-Month Period**  
**Beginning July 1, 2009 (Inception) through December 31, 2009**

|   | 2010                | 2009                |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                     |
| Changes in net assets   | \$ 1,403,767        | \$ 2,044,855        |
| Adjustments to reconcile changes in net assets<br>net cash provided (used) by operating activities: |                     |                     |
| Depreciation and amortization   | 245,705             | 201,439             |
| Prior period adjustment   | 125,736             | (333,316)           |
| Net (gain)/loss on sales of property  | 55,405              | 73,035              |
| (Increase) decrease in:   |                     |                     |
| Accounts receivable   | 78,143              | (100,558)           |
| Grants receivable   | (826,684)           | (869,116)           |
| Travel advances and other receivables   | 23,827              | (48,758)            |
| Prepaid expenses  | (43,856)            | (7,056)             |
| Increase (decrease) in:   |                     |                     |
| Accounts payable and accrued expenses   | 906,663             | (643,290)           |
| Grants payable  | -                   | 15,455              |
| Deferred revenue  | (1,466,868)         | 1,750,647           |
| Net cash provided (used) by operating activities  | 501,838             | 2,083,337           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |                     |
| Purchase of furniture, equipment, vehicles and leasehold<br>improvements                            | (256,156)           | (192,079)           |
| Net cash used by investing activities   | (256,156)           | (192,079)           |
| Net increase (decrease) in cash and cash  | 245,682             | 1,891,258           |
| Cash and cash equivalents at beginning of year  | 3,291,103           | 1,399,845           |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | <b>\$ 3,536,785</b> | <b>\$ 3,291,103</b> |

See accompanying notes to the consolidated financial statements.

**mothers2mothers International Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization -

**mothers2mothers** International, Inc. is a non-profit, non-governmental, non-religious organization incorporated in November 2008 under the laws of the State of Delaware pursuant to Section 501(c)(3) of the Internal Revenue Code and commenced operations in July 2009.

**mothers2mothers** is an innovative mentoring program offering comprehensive support for HIV-positive pregnant women and new mothers. The consolidated financial statements include all accounts and results of activities of **mothers2mothers** International, Inc. and its local chapters **mothers2mothers** South Africa, **mothers2mothers** Lesotho, **mothers2mothers** Swaziland, **mothers2mothers** Malawi, **mothers2mothers** Mozambique, **mothers2mothers** Zambia, **mothers2mothers** Tanzania, **mothers2mothers** Kenya and **mothers2mothers** Uganda. All significant intercompany investments, accounts and transactions have been eliminated.

Basis of presentation -

The accompanying financial statements have been prepared on the accrual basis of accounting following the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements Of Not-For-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

*Unrestricted net assets* – Net assets that are not subject to any donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Organization or the passage of time.

*Permanently restricted net assets* – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Organization. Generally, the donors permit the Organization to use all or part of the income earned for either general or donor-specified purposes.

Cash and cash equivalents -

**mothers2mothers** considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Property, Furniture, equipment, vehicles and leasehold improvements -

Property, furniture, equipment, vehicles and leasehold improvements with costs in excess of \$700 are capitalized and stated at cost less accumulated depreciation.

Depreciation and amortization of property, equipment and furniture is computed using the straight-line method over the estimated useful lives of the assets as follows:

| <b><u>Class of Property</u></b> | <b><u>Average useful life</u></b> |
|---------------------------------|-----------------------------------|
| Property                        | 3 – 5 years                       |
| Motor Vehicles                  | 5 years                           |
| Office and Computer Equipment   | 3 – 5 years                       |
| Furniture and fixtures          | 3 – 7 years                       |
| Containers                      | 3 year                            |

**mothers2mothers International Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
**(Continued)**

Income taxes -

**mothers2mothers** International is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. Accordingly, no provision for income taxes has been made in the accompanying financial statements. **mothers2mothers** has been classified by the Internal Revenue Service as a public charity under section 170(b)(1)(A)(vi) of the Internal Revenue Code and is not considered a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, Income Taxes, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2010, **mothers2mothers** has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of **mothers2mothers** and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of **mothers2mothers** and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Revenue Recognition -

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

The Organization reports contributions in the temporarily or permanently restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the consolidated statement of activities. Donor-restricted contributions are initially reported in the temporarily restricted net asset class, even if it is anticipated such restrictions will be met in the current reporting period.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**mothers2mothers International Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
**(Continued)**

Grants receivable -

Amounts to be received in the future are recorded as grants receivable in the Statements of Financial Position. All grants receivable are considered to be collectible within one year unless otherwise stated by the donor.

Foreign currency translation -

The U.S. dollar ("dollars") is the functional currency for **mothers2mothers's** operations worldwide. Transactions in currencies other than U.S. dollars are translated into dollars at the rates of exchange in effect during the month of the transaction.

Current assets, current liabilities and temporarily restricted net assets denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the Statements of Financial Position. Currency gains and losses from translation are recorded in other items in the accompanying Statements of Activities.

Donated goods and services -

**mothers2mothers** receives significant in-kind donations of vehicles, materials and supplies in support of its programs. Donations are received from UNICEF and various other international organizations. All in-kind donations are recorded at their fair value on the date of donation (Note 7).

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**2. CONCENTRATION OF CREDIT RISK**

At times during the year, **mothers2mothers** maintains cash balances at financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits. Management believes the risk in these situations to be minimal.

**mothers2mothers** maintains cash balances at financial institutions in foreign countries. The majority of funds in foreign countries are uninsured.

**mothers2mothers International Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**3. TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2010, temporarily restricted net assets consisted of the following:

|                                   | <u>2010</u>                | <u>2009</u>                |
|-----------------------------------|----------------------------|----------------------------|
| Johnson & Johnson                 | \$ 782,548                 | \$ 210,311                 |
| Elton John Aids Foundation        | 612,555                    | 388,969                    |
| ELMA Foundation                   | 507,247                    | -                          |
| Comic Relief (South Africa)       | 212,665                    | -                          |
| Department of Health - Mpumalanga | -                          | 133,237                    |
| MAC Foundation                    | 77,075                     | 69,921                     |
| IZUMI Foundation                  | 64,005                     | 85,000                     |
| Ford Foundation                   | -                          | 90,022                     |
| Clinton Foundation                | 46,768                     | 361,713                    |
| Merck                             | 36,758                     | 16,569                     |
| Vitol Charitable Foundation       | 30,679                     | 16,637                     |
| LGT Group Foundation              | (5,780)                    | 385,360                    |
| Other corporates and foundations: | 14,445                     | 44,206                     |
| <b>TOTAL</b>                      | <b>\$ <u>2,378,965</u></b> | <b>\$ <u>1,801,945</u></b> |

**4. GRANTS**

**mothers2mothers** International receives grants from the U.S. Government and various other donors. The following is a summary of the grants received during 2010 and 2009:

|                                 | <u>2010</u>                 | <u>2009</u>                |
|---------------------------------|-----------------------------|----------------------------|
| <b>Government grants</b>        |                             |                            |
| United States government grants | \$ 12,453,204               | \$ 4,614,334               |
| Other government grants         | 560,130                     | 221,091                    |
| Sub-total government grants     | <u>13,013,334</u>           | <u>4,835,426</u>           |
| <b>Non- government grants</b>   |                             |                            |
| Malawi                          | 802,600                     | 384,017                    |
| South Africa                    | 4,470,081                   | 2,523,647                  |
| Tanzania                        | 188,573                     | 5,129                      |
| Kenya                           | 7,067                       | -                          |
| Zambia                          | 333,003                     | 13,765                     |
| Lesotho                         | 1,154,662                   | 863,234                    |
| Swaziland                       | 514,751                     | 387,051                    |
| Sub-total non-government grants | <u>7,470,737</u>            | <u>4,176,843</u>           |
| <b>TOTAL GRANTS</b>             | <b>\$ <u>20,484,071</u></b> | <b>\$ <u>9,012,269</u></b> |

**mothers2mothers International Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**5. NET ASSETS RELEASED FROM RESTRICTIONS**

The following is a summary of net assets which were released from donor restrictions by incurring expenses, which satisfied the donor-specified restrictions:

|              | <u>2010</u>                | <u>2009</u>                |
|--------------|----------------------------|----------------------------|
| Malawi       | \$ 352,765                 | \$ 185,957                 |
| Lesotho      | 708,375                    | 429,262                    |
| South Africa | 1,226,372                  | 348,055                    |
| Swaziland    | 383,617                    | 1,152,171                  |
| Tanzania     | 146,136                    | -                          |
| Zambia       | 335,023                    | -                          |
| <b>TOTAL</b> | <b>\$ <u>3,152,289</u></b> | <b>\$ <u>2,115,445</u></b> |

**6. FURNITURE, EQUIPMENT, VEHICLES AND LEASEHOLD IMPROVEMENTS**

Furniture & fittings, equipment and vehicles consist of the following at December 31, 2010 and 2009:

|   | <u>2010</u>              | <u>2009</u>              |
|---|--------------------------|--------------------------|
| Computer Hardware                               | \$ 328,710               | \$ 280,863               |
| Software  | 192,385                  | 222,404                  |
| Containers                                      | 58,521                   | 51,471                   |
| Vehicles  | 163,391                  | 124,279                  |
| Office equipment                                | 98,762                   | 13,904                   |
| Furniture & fittings                            | 104,840                  | 126,414                  |
|   | <u>946,609</u>           | <u>819,335</u>           |
| Less: Accumulated depreciation and amortization | <u>(526,137)</u>         | <u>(353,909)</u>         |
| <b>TOTAL</b>                                    | <b>\$ <u>420,473</u></b> | <b>\$ <u>465,426</u></b> |

Depreciation and amortization expense totaled \$245,705 and \$201,439, for the year ended December 31, 2010 and six months ending December 31, 2009, respectively.



**mothers2mothers International Inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**7. OTHER INCOME**

Other income consisted of the following at December 31, 2010 and 2009:

|                              | <b>2010</b>      | <b>2009</b>      |
|------------------------------|------------------|------------------|
| In-kind donations            | \$ 79,941        | \$ 6,237         |
| Interest                     | 15,783           | 34,289           |
| Other income (program sales) | (31,668)         | 7,629            |
| <b>TOTAL</b>                 | <b>\$ 64,056</b> | <b>\$ 48,155</b> |

**8. COMMITMENTS**

The rental expense for the year ended December 31, 2010 and six months ended December 31, 2009 was \$232,415 and \$129,281, respectively.

Future minimum payments required under the amended lease agreement are as follows:

|                   |            |
|-------------------|------------|
| December 31, 2011 | \$ 235,038 |
| December 31, 2012 | 254,275    |
| December 31, 2013 | 275,389    |
| December 31, 2014 | 298,564    |
| December 31, 2015 | 324,004    |

**mothers2mothers** International also leases office space in numerous foreign countries under short-term lease agreements.

**9. CONTINGENCIES**

U.S. Government awards –

The grants **mothers2mothers** receives from the United States Government are subject to audit under the provisions of ADS 303 (Mandatory Standard Provisions for Non-US Non-governmental Organizations). The ultimate determination of amounts received under the U.S. Government grants is based upon the allowance of costs reported to and accepted by the U.S. Government as a result of the audits. Audits in accordance with the provisions of ADS 303 have been completed for all required fiscal years through 2010. Until such audits have been accepted by the U.S. Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Foreign operations –

**mothers2mothers** provides health programs through its field offices in foreign countries. The future results of those programs could be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate. As of December 31, 2010 and 2009, **mothers2mothers** had cash, property and equipment and receivables in various countries in Africa, totaling approximately \$6.016 million and \$ 5.047 million which represents approximately 88% and 69% of **mothers2mothers** 's total assets as of December 31, 2010 and 2009.

**10. SUBSEQUENT EVENTS**

In preparing these financial statements, **mothers2mothers** has evaluated events and transactions for potential recognition or disclosure through November 2011, the date the financial statements were issued.