

**MOTHERS2MOTHERS INTERNATIONAL INC.
and SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

MOTHERS2MOTHERS INTERNATIONAL, INC. and SUBSIDIARIES

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JARVIS W. IRVING & COMPANY, LLP

Certified Public Accountants

The Board of Trustees
Mothers2Mothers International Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Mothers2Mothers International Inc. and subsidiaries as of December 31, 2009 and the related consolidated statements of operations and cash flows for 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, and Mothers2Mothers Swaziland, which statements reflect total assets and revenues constituting 57.87 percent and 71.67 percent, respectively, 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, and Mothers2Mothers Swaziland, 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.

Jarvis W. Irving & Company LLP

New York, New York
October 21, 2010

MOTHERS2MOTHERS INTERNATIONAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2009

ASSETS

Current assets:

Cash and cash equivalents	\$ 3,006,543
Accounts receivable	116,918
Contributions receivable	85,956
Other receivables	88,583
Prepaid expenses	<u>4,807</u>
 Total current assets	 3,302,807

Property, plant & equipment

Building and leasehold improvements	1,361
Computer equipment	211,895
Software	225,062
Equipment, furniture and fixtures	150,206
Automobiles	<u>117,548</u>
	706,072
 Less accumulated depreciation	 <u>330,006</u>
	<u>376,066</u>

Other assets

Refundable deposits	<u>17,397</u>
	\$ <u><u>3,696,270</u></u>

See Accompanying Notes to Consolidated Financial Statements

MOTHERS2MOTHERS INTERNATIONAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2009

LIABILITIES

Current liabilities:

Accounts payable and accrued expenses	\$ 389,822
Grants payable	15,455
Refundable deposits	335,508
Deferred rent	10,017
Deferred revenue	<u>692,155</u>
 Total liabilities	 1,442,957

NET ASSETS

Temporarily restricted	1,271,780
Unrestricted	<u>981,533</u>
	<u>2,253,313</u>
	<u><u>\$ 3,696,270</u></u>

See Accompanying Notes to Consolidated Financial Statements

MOTHERS2MOTHERS INTERNATIONAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND NET ASSETS
For the Six-Month Period July 1, 2009 (Inception) through December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Government grants	\$ -	\$ 5,804,741	\$ 5,804,741
Individual contributions	184,189	-	184,189
Corporate grants	90,286	538,126	628,412
Foundation grants	1,651,137	626,605	2,277,742
Multilateral grants	40,012	196,309	236,321
Miscellaneous income	7,628	-	7,628
Investment income	34,290	-	34,290
	<u>2,007,542</u>	<u>7,165,781</u>	<u>9,173,323</u>
Expenses:			
Program expenses	491,272	7,143,036	7,634,308
General & administrative expenses	236,981	19,091	256,072
Fundraising expenses	297,756	2,298	300,054
	<u>1,026,009</u>	<u>7,164,425</u>	<u>8,190,434</u>
Increase (decrease) in unrestricted net assets	981,533	1,356	982,889
Net assets, beginning of period	<u>-</u>	<u>1,270,424</u>	<u>1,270,424</u>
Net assets, end of period	<u>\$ 981,533</u>	<u>\$ 1,271,780</u>	<u>\$ 2,253,313</u>

See Accompanying Notes to Consolidated Financial Statements

MOTHERS2MOTHERS INTERNATIONAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROGRAM, GENERAL & ADMINISTRATIVE EXPENSES
For the Six-Month Period July 1, 2009 (Inception) through December 31, 2009

Program expenses:

Salaries, taxes and benefits	\$ 4,203,317
Organizational contributions	67,053
Program costs	195,118
Travel	635,262
Supplies	24,185
Small equipment	17,851
Automobile expense	651
Contractual fees	1,321,933
Other direct costs	220,750
Indirect costs	948,188
	<u>\$ 7,634,308</u>

General & administrative expenses:

Salaries, taxes and benefits	\$ 105,864
Program costs	2,426
Travel	90,681
Supplies	1,875
Small equipment	2,566
Automobile expense	2,206
Contractual fees	9,982
Other direct costs	47,841
Foreign exchange (gains)/losses	(7,369)
	<u>\$ 256,072</u>

Fundraising expenses:

Program salaries	\$ 180,031
Payroll taxes and benefits	13,802
Organizational contributions	40,560
Travel	5,035
Supplies	44
Contractual fees	44,560
Other direct costs	16,022
	<u>\$ 300,054</u>

See Accompanying Notes to Consolidated Financial Statements

MOTHERS2MOTHERS INTERNATIONAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Six-Month Period July 1, 2009 (Inception) through December 31, 2009

Cash Flows From Operating Activities

Change in net assets	\$	982,889
Adjustments to reconcile change in net assets to net cash provide (used) by operating activities:		
Non-cash item: depreciation expense		330,006
(Increase) decrease in assets:		
Accounts receivable		(116,918)
Contributions receivable		(85,956)
Other receivables		(88,583)
Prepaid expenses		(4,807)
Refundable deposits		(17,397)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses		389,822
Grants payable		15,455
Refundable deposits		335,508
Deferred rent		10,017
Deferred revenue		692,155
		<u>2,442,191</u>

Cash Flows From Investing Activities

Purchase of equipment		(706,072)
Net changes in intercompany accounts		194,155
Reinvestment of dividends		(13,307)
		<u>(525,224)</u>

Net increase (decrease) in cash and cash equivalents		1,916,967
Cash and cash equivalents, beginning of year		1,089,576
Cash and cash equivalents, end of year	\$	3,006,543

Supplemental Disclosure

Cash paid for:		
Income taxes paid & filing fees	\$	-

See Accompanying Notes to Consolidated Financial Statements

MOTHERS2MOTHERS INTERNATIONAL INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Nature of Activities**

Mothers2Mothers International Inc. was organized in November 2008 in the State of Delaware as non-profit corporation 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 Lesotho, Mothers2mothers Malawi, Mothers2mothers Mozambique, Mothers2mothers South Africa, Mothers2mothers Swaziland, Mothers2mothers Tanzania, and Mothers2mothers Zambia. All significant intercompany investments, accounts and transactions have been eliminated.

2. **Summary of Significant Accounting Policies**

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 Equivalents - For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments - Generally, investments are stated at estimated fair value, using quoted market prices. Net realized and unrealized gains and losses are included in the accompanying consolidated statement of activities and changes in net assets. Investments received by donation are recorded at estimated fair value at date of donation. Interest and dividend income are recorded when earned. Dividends are reinvested in the investment pool.

Income Taxes - The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities.

MOTHERS2MOTHERS INTERNATIONAL INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. **Summary of Significant Accounting Policies (continued)**

Building and equipment - Building and equipment are stated at cost if purchased or, if donated, estimated fair value. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, general three to seven years for furniture, equipment and software and 39 years for buildings. Leasehold improvements are amortized over the shorter of the useful life of the improvements or the lease term.

Grants and Grants Payable - Grants payable represent amounts committed by the Organization and approved by the Board of directors to be distributed to various nonprofit organizations.

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.

Fair Value of Financial Instruments - As of December 31, 2009, the estimated fair value of the Organization's financial instruments not measured at fair value on a recurring basis (including accounts receivable, contributions receivable, notes receivable, accounts payable, grants payable, and notes payable) approximates their carrying values due to their short length to maturity.

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.

3. **Leases**

The Organization leases certain buildings and equipment for use in its operations. As of December 31, 2009, minimum rental commitments under the operating leases for the next five years are as follows:

December 31, 2010	\$ 217,508
December 31, 2011	235,038
December 31, 2012	254,275
December 31, 2013	275,389
December 31, 2014	298,564

Total rent expense for the six-month period ending December 31, 2009 was \$116,721.