



INMED PARTNERSHIPS FOR CHILDREN, INC.

Financial Statements

For the Year Ended December 31, 2011

(With Summarized Financial Information for the Year Ended December 31, 2010)



**and
Report Thereon**



INMED PARTNERSHIPS FOR CHILDREN, INC.

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For the Year Ended December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
INMED Partnerships for Children, Inc.

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

We have audited the accompanying statement of financial position of INMED Partnerships for Children, Inc. (INMED) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of INMED's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from INMED's December 31, 2010 financial statements and, in our report dated July 28, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 INMED'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 financial statements referred to above present fairly, in all material respects, the financial position of INMED as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

RAFFA, P.C.

Washington, D.C.
September 6, 2012

INMED PARTNERSHIPS FOR CHILDREN, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2011
(With Summarized Financial Information as of December 31, 2010)

	2011	2010
ASSETS		
Cash and cash equivalents	\$ 456,193	\$ 762,453
Accounts receivable	180,316	186,219
Grants and pledges receivable	1,069,033	1,324,034
Inventory	15,685,301	10,667,915
Prepaid expenses	7,571	8,948
Intangible asset	54,591	68,239
Property and equipment, net	-	6,269
Deposits	13,402	13,402
	\$ 17,466,407	\$ 13,037,479
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 129,445	\$ 128,210
Lines of credit	5,001	5,001
Notes payable - related parties	32,500	93,500
Deferred revenue	1,812	1,812
Deferred rent	17,124	19,111
	185,882	247,634
Net Assets		
Unrestricted (deficit)	(409,241)	(447,662)
Temporarily restricted	17,689,766	13,237,507
	17,280,525	12,789,845
TOTAL NET ASSETS	17,280,525	12,789,845
TOTAL LIABILITIES AND NET ASSETS	\$ 17,466,407	\$ 13,037,479

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

INMED PARTNERSHIPS FOR CHILDREN, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2011

(With Summarized Financial Information for the Year Ended December 31, 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
REVENUE AND SUPPORT				
Contributions, grants and contracts	\$ 924,809	\$ 1,951,425	\$ 2,876,234	\$ 2,522,684
Donated goods and services	101,610	8,751,420	8,853,030	149,569
Other income	30,371	-	30,371	9,094
Forgiveness of debt	25,000	-	25,000	20,000
Foreign exchange transaction gain (loss)	(2,251)	-	(2,251)	12,358
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>6,250,586</u>	<u>(6,250,586)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>7,330,125</u>	<u>4,452,259</u>	<u>11,782,384</u>	<u>2,713,705</u>
EXPENSES				
Program services:				
Overseas	6,176,475	-	6,176,475	3,629,618
Domestic	<u>846,726</u>	<u>-</u>	<u>846,726</u>	<u>1,277,670</u>
Total Program Services	<u>7,023,201</u>	<u>-</u>	<u>7,023,201</u>	<u>4,907,288</u>
Supporting services:				
General and administration	8,460	-	8,460	15,321
Program development	237,097	-	237,097	226,290
Fundraising	<u>22,946</u>	<u>-</u>	<u>22,946</u>	<u>17,998</u>
Total Supporting Services	<u>268,503</u>	<u>-</u>	<u>268,503</u>	<u>259,609</u>
TOTAL EXPENSES	<u>7,291,704</u>	<u>-</u>	<u>7,291,704</u>	<u>5,166,897</u>
CHANGE IN NET ASSETS	38,421	4,452,259	4,490,680	(2,453,192)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>(447,662)</u>	<u>13,237,507</u>	<u>12,789,845</u>	<u>15,243,037</u>
NET ASSETS (DEFICIT), END OF YEAR	<u><u>\$ (409,241)</u></u>	<u><u>\$ 17,689,766</u></u>	<u><u>\$ 17,280,525</u></u>	<u><u>\$ 12,789,845</u></u>

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

INMED PARTNERSHIPS FOR CHILDREN, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011
(With Summarized Financial Information for the Year Ended December 31, 2010)

	Program Services		Supporting Services				Total Supporting Services	2011 Total	2010 Total
	Overseas	Domestic	Total Program Services	General and Administration	Program Development	Fundraising			
Donated goods consumed	\$ 3,734,034	\$ -	\$ 3,734,034	\$ -	\$ -	\$ -	\$ -	\$ 3,734,034	\$ 1,449,892
Consultants	1,218,535	2,112	1,220,647	2,515	61,419	-	63,934	1,284,581	1,100,767
Salaries	106,849	420,842	527,691	292,216	242,869	4,717	539,802	1,067,493	1,111,648
Fringe benefits and payroll taxes	30,216	98,100	128,316	65,896	58,886	1,144	125,926	254,242	467,170
Occupancy	55,648	62,204	117,852	79,890	6,605	-	86,495	204,347	199,113
Travel	168,395	20,124	188,519	1,011	12,821	-	13,832	202,351	272,343
Supplies	63,524	15,040	78,564	10,588	7,094	610	18,292	96,856	106,508
Project participant incentive and project materials	76,971	3,001	79,972	177	2,529	-	2,706	82,678	131,795
Computer costs	10,089	5,021	15,110	55,728	2,154	-	57,882	72,992	58,607
Professional fees	4,534	1,620	6,154	62,876	1,834	-	64,710	70,864	58,497
Meetings and conferences	4,582	5,984	10,566	14,613	7,736	7,200	29,549	40,115	23,300
Telephone	19,441	5,638	25,079	11,093	1,810	-	12,903	37,982	58,302
Interest and other unallowed costs	17,429	34	17,463	12,326	810	-	13,136	30,599	23,129
Insurance	-	3,157	3,157	21,307	-	-	21,307	24,464	18,666
Depreciation and amortization	-	-	-	19,917	-	-	19,917	19,917	12,541
Taxes and licenses	1,586	-	1,586	8,415	49	7,060	15,524	17,110	5,500
Dues and subscriptions	31	5,279	5,310	4,165	4,100	-	8,265	13,575	10,951
Printing and copying	396	3,015	3,411	5,866	1,112	-	6,978	10,389	17,454
Utilities	2,326	7,876	10,202	-	158	-	158	10,360	9,465
Postage and delivery	1,166	499	1,665	3,592	584	-	4,176	5,841	8,321
Repairs and maintenance	1,356	2,030	3,386	70	708	-	778	4,164	7,001
Other costs	321	2,700	3,021	45	15	-	60	3,081	6,811
Training	108	2,131	2,239	-	46	-	46	2,285	7,761
Advertising and promotion	-	-	-	-	1,384	-	1,384	1,384	1,355
Allocation of indirect costs	658,938	180,319	839,257	(663,846)	(177,626)	2,215	(839,257)	-	-
TOTAL EXPENSES	\$ 6,176,475	\$ 846,726	\$ 7,023,201	\$ 8,460	\$ 237,097	\$ 22,946	\$ 268,503	\$ 7,291,704	\$ 5,166,897

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

INMED PARTNERSHIPS FOR CHILDREN, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2011

(With Summarized Financial Information for the Year Ended December 31, 2010)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,490,680	\$ (2,453,192)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,917	12,541
Forgiveness of debt	(25,000)	(20,000)
Donated goods promised, but not yet received	-	9,846,000
Donated goods received	(8,751,420)	(9,846,000)
Donated goods distributed	3,734,034	1,449,892
Donated intangible asset	-	(68,239)
Changes in assets and liabilities:		
Accounts receivable	5,903	14,680
Grants and pledges receivable	255,001	1,628,182
Prepaid expenses	1,377	11,719
Accounts payable and accrued expenses	1,235	(42,571)
Deferred rent	(1,987)	440
	<u>(270,260)</u>	<u>533,452</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(36,000)	(36,000)
Borrowings on lines of credit	-	200,000
Principal payments on lines of credit	-	(285,000)
	<u>(36,000)</u>	<u>(121,000)</u>
NET CASH USED IN FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(306,260)	412,452
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>762,453</u>	<u>350,001</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 456,193</u>	<u>\$ 762,453</u>
SUPPLEMENTAL INFORMATION		
Actual cash payments for interest	<u>\$ 6,663</u>	<u>\$ 1,413</u>
NONCASH FINANCING ACTIVITIES		
Forgiveness of debt	<u>\$ 25,000</u>	<u>\$ 20,000</u>
Donated goods received	<u>\$ 8,751,420</u>	<u>\$ 9,846,000</u>
Donated goods distributed	<u>\$ (3,734,034)</u>	<u>\$ (1,449,892)</u>

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

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

1. Organization and Summary of Significant Accounting Policies

Organization

INMED Partnerships for Children, Inc. (INMED) is a nonprofit corporation organized to rescue children from the imminent and irreversible harm of disease, hunger, abuse, neglect or violence and to prepare them to shape a brighter future for themselves and the next generation. Through a broad range of health, social, education, violence prevention and community development programs, INMED creates opportunities that inspire hope, build self-reliance and encourage community collaboration to sustain positive change. INMED's principal support comes from corporate, foundation and government grants.

INMED operates offices in Brazil, Peru, Trinidad and Tobago, Jamaica, and South Africa, which are registered under local laws so INMED can conduct its programs in these countries. The activities in these countries are reported as part of INMED's activities.

Basis of Accounting and Presentation

The accompanying financial statements of INMED have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents

INMED considers cash in operating bank accounts, cash on hand, certificates of deposit and highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Grants and Pledges Receivable

Grants and pledges receivable include unconditional promises made by donors wherein the donor has unconditionally promised to contribute funds to INMED in future periods. An unconditional promise that is expected to be collected within one year is recorded as grant and revenue and a receivable at net realizable value. An unconditional promise that is expected to be collected in future years is recorded as grant revenue and a receivable at the present value of expected future cash flows. Discounts on the amounts due in more than one year are computed using risk-free, interest rates that are applicable to the years in which the promises are received. The amortization of discounts is recorded in contribution revenue. Discounts on receivables that are due in one to five years were not recorded, due to the immateriality of the impact on the financial statements taken as a whole.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

1. Organization and Summary of Significant Accounting Policies (continued)

Property and Equipment and Related Depreciation and Amortization

All acquisitions of furniture, equipment and software that are greater than \$5,000 are capitalized at cost and are being depreciated and amortized using the straight-line method over the estimated useful lives of the assets (generally from three to five years) with no salvage value. Leasehold improvements are amortized using the straight-line method over the remaining term of the lease or the estimated useful lives of the improvements. Expenses for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred.

INMED records expenses related to an internally developed intangible asset that is expected to generate revenue for INMED beyond a period of one year as an intangible asset in the accompanying statement of financial position. INMED amortizes the cost of the intangible asset over the period of time in which the intangible asset is expected to benefit INMED, which is currently estimated as 60 months.

Classification of Net Assets

The net assets of INMED are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of INMED's operations.
- Temporarily restricted net assets represent funds that are specifically restricted by donors or grantors for various programs or for use in future periods.

Revenue Recognition

Except for cost-reimbursable grants and contracts described later in this note, INMED reports gifts and grants of cash and other assets as unrestricted support and available for general operations, unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in temporarily restricted net assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. Revenue recognized for contributions, grants, and contracts that have been committed to INMED, but have not been received, is reflected as grants and pledges receivable in the accompanying statement of financial position.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Unconditional promises to give that are expected to be collected within one year are reflected as grants and pledges receivable at their net realizable value in the period in which INMED is notified by the donor of his or her commitment to make a contribution. Unconditional promises to give that are expected to be collected in future years are reflected as grants and pledges receivable and are recorded at their present value using a risk-adjusted rate that is applicable to the period in which the unconditional promise to give was received.

INMED has cost-reimbursable grants and contracts with the U.S. government, state and local agencies, and private organizations. Revenue from these grants and contracts is recognized as costs are incurred on the basis of direct costs plus allowable indirect costs at a provisional rate. Direct and indirect expenses incurred, but not reimbursed, under these grants and contracts are reported as accounts receivable in the accompanying statement of financial position.

Revenue from multiyear funding commitments is recognized in the period in which the support has been committed, while the related expenditures may occur in subsequent accounting period(s). This can result in significant variations in net asset changes from year to year, especially when large grants of donated pharmaceuticals are involved. This must be considered when comparing trends and changes in net assets from one year to the next. In 2011, INMED received \$8,751,420 of pharmaceuticals to be distributed during 2011 and 2012. This resulted in a large positive total change in net assets for 2011 compared with a negative total change in net assets in 2010.

Donated Goods and Services and Inventory

INMED receives a substantial amount of donated pharmaceuticals for distribution overseas, which are recorded at their estimated fair value as of the date of donation and are reflected as inventory and temporarily restricted donated goods and services revenue in the accompanying statement of activities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of the donated pharmaceuticals is determined based on the prices the product sells for in the countries in which the pharmaceuticals are used. As the donated pharmaceuticals are used, they are released from inventory and reported as program expenses in the accompanying statement of activities. The corresponding amount is also released from temporarily restricted net assets and is shown as net assets released from restrictions in the accompanying statement of activities. At the end of the year, unused donated pharmaceuticals are reflected in the accompanying statement of financial position as inventory, which is reported on the first-in, first-out method of accounting.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

1. Organization and Summary of Significant Accounting Policies (continued)

Donated Goods and Services and Inventory (continued)

Contributions of services are recognized in the financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically be purchased, if not provided by donation. These services are recorded at their estimated fair value at the date of donation and are recognized in the accompanying financial statements as donated goods and services. For the year ended December 31, 2011, INMED received donated services, goods and travel with an estimated fair value of \$101,610.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. INMED allocates salaries to various programs and supporting services based upon the actual amount of time worked in each area. Fringe benefit costs are allocated to program services and supporting services based on total labor dollars. Indirect costs are allocated to program services and supporting services based on each category's share of total salaries, consultants, and project participant incentives and project material costs.

Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

2. Grants and Pledges Receivable

Grants and pledges receivable consist of amounts due from foundations and are due as follows as of December 31, 2011:

Receivable due in less than one year	\$ 619,011
Receivable due in one to five years	<u>450,022</u>
Total Grants and Pledges Receivable	<u>\$ 1,069,033</u>

All amounts are considered fully collectible. Grants and pledges receivable due in one to five years have not been discounted to their present value, as required by GAAP, as the discount was considered immaterial to the financial statements taken as a whole.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

3. Property and Equipment

Property and equipment consists of the following as of December 31, 2011:

Computer equipment and furniture	\$ 108,745
Software	<u>31,339</u>
Total Property and Equipment	140,084
Less: Accumulated Depreciation and Amortization	<u>(140,084)</u>
Property and Equipment, Net	<u>\$ -</u>

Depreciation and amortization expense on property and equipment was \$6,269 for the year ended December 31, 2011, and is included in depreciation and amortization in the accompanying statement of functional expenses.

4. Intangible Asset

In 2010, INMED recorded an intangible asset that represents INMED's investment in the development of a unique technology that is targeted at families and small farmers. This technology can be used to address food security and income generation in the face of climate change and diminishing water supplies worldwide. The cost of the intangible asset includes consulting expenses and materials purchased to develop and test a prototype aquaponic system; the cost of travel and tuition for various aquaponics trainings; and the cost of development of scalability plans and related training materials. The intangible asset's book value was \$54,591, net of accumulated amortization of \$13,648, as of December 31, 2011. Amortization expense was \$13,648 for the year ended December 31, 2011, which is included in depreciation and amortization in the accompanying statement of functional expenses.

5. Lines of Credit

INMED has a \$100,000 unsecured revolving line of credit available with a bank that automatically renews annually on January 1, unless it is terminated by INMED or the bank. The interest rate on the line of credit is 1.5% above *The Wall Street Journal's* Prime Rate of 3.25%, which was determined by the bank to be 4.75% as of December 31, 2011. As of December 31, 2011, \$5,001 was outstanding on this line of credit.

INMED also has a secured line of credit with another bank for \$400,000 to provide short-term working capital. The interest rate on the line of credit is *The Wall Street Journal's* Prime Rate with a floor of 4%. As of December 31, 2011, the rate on this line of credit was 4%. The line

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

5. Lines of Credit (continued)

of credit is secured by all of the assets INMED currently owns or hereafter will acquire. Under the terms of the line of credit, INMED is required to fully repay the bank all amounts outstanding on the line of credit for a period of 30 consecutive days annually, prior to December 15. INMED is also required to comply with certain financial covenants. The line of credit is renewable annually on August 24. At December 31, 2011, there was no outstanding balance on this line of credit and INMED was in compliance with certain financial covenants.

Interest expense was \$6,663 under both lines of credit for the year ended December 31, 2011.

6. Notes Payable – Related Parties

In June 2002, INMED received a loan from two officers. The loan totaled \$494,156. Interest accrues on the outstanding principal balance at 7.5% per year. Effective July 1, 2002, the two officers converted the loan into a noninterest-bearing loan. In addition, during 2004, INMED received additional noninterest-bearing loans from the two officers that totaled \$30,000.

In December 2003, the officers agreed to a repayment schedule that required monthly principal payments of \$3,000 beginning January 2004 through January 2010, at which time the entire outstanding balance was due. In December 2008, the officers amended the loans to extend the repayment terms by an additional five years, through January 2015. All other terms of the loans remain the same. The officers have forgiven portions of the debt in previous years and forgave \$25,000 of the debt during the year ended December 31, 2011. As of December 31, 2011, \$32,500 was outstanding related to these notes payable.

Future payments of the loans are as follows:

For the Year Ending December 31,	
2012	\$ 11,000
2013	<u>21,500</u>
Total Future Principal Payments	<u>\$ 32,500</u>

Management has not imputed interest expense on these loans, as the amount was considered immaterial to the financial statements taken as a whole.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

7. Retirement Plan

INMED sponsors a 401(k) retirement plan for employees with at least three months of service who were employed after June 1, 2003. Under this plan, in addition to employee salary deferrals, INMED may contribute either matching contributions, profit-sharing contributions, or qualified nonelective contributions. Matching contributions will be equal to a discretionary percentage of salary, which will be determined each year. For the year ended December 31, 2011, INMED matched 50% of employee contributions up to 6% of salaries. INMED's contribution to the retirement plan was \$18,149 for the year ended December 31, 2011.

8. Operating Leases

Virginia – INMED entered into a noncancelable operating lease for its headquarters location, which expires on April 30, 2015. This lease provides for fixed increases to the future minimum rental payments. Additionally, under the terms of this lease, the landlord gave INMED three months' rent abatement of monthly rent payments, which began on August 1, 2008. Under GAAP, all rental payments, including fixed rent increases, are recognized on a straight-line basis over the term of the lease. Rent abatements are amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between the GAAP rent expense and the required lease payment is reflected as deferred rent in the accompanying statement of financial position. In addition to the basic monthly rent, INMED is responsible for its proportionate share of the building's operating expenses and real estate taxes.

The future minimum rental payments, excluding operating costs, that are required under the operating lease are as follows:

For the Year Ending <u>December 31,</u>	
2012	\$ 85,788
2013	88,370
2014	91,036
2015	<u>30,645</u>
Total Future Minimum Rental Payments	<u>\$ 295,839</u>

California – On January 1, 2011, INMED entered into a month-to-month agreement with the lessor at a rate of \$1,811 per month. In July 2011, INMED signed a one-year lease with monthly payments of \$1,992.

Total rent expense was \$204,347 for the year ended December 31, 2011.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

9. Temporarily Restricted Net Assets

As of December 31, 2011, temporarily restricted net assets are available for the following programs:

Domestic:	
Family and Youth Services	\$ <u>141,355</u>
Overseas:	
Healthy Futures	1,863,110
Donated pharmaceuticals	<u>15,685,301</u>
Total Overseas	<u>17,548,411</u>
Total Temporarily Restricted Net Assets	<u>\$ 17,689,766</u>

10. Risks and Contingencies

Office of Management and Budget Circular A-133

INMED has instructed its independent auditors to audit its applicable federal programs for the year ended December 31, 2011, in compliance with Circular A-133 issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the reviews by the federal agencies of the independent auditor's reports for fiscal year 2011 will not have a material effect on INMED's financial position as of December 31, 2011, or its results of operations for the year then ended.

Provisional Indirect Cost Rates

Billings under cost-reimbursable government grants and contracts are calculated using provisional rates that permit recovery of indirect costs. These rates are subject to audit by the United States Agency for International Development (USAID), INMED's cognizant agency. The audit results in the negotiation and determination of the final indirect cost rates, which may create a liability for indirect cost recovery for amounts billed in excess of the actual rates, or may allow for additional billings for unbilled indirect costs.

USAID audits the costs related to U.S. government contracts and grants, in accordance with Circular A-122, issued by the OMB. USAID has yet to audit the costs and indirect cost rates for the year ended December 31, 2011. Management believes that cost disallowances, if any, arising from USAID's audits will not have a material effect on INMED's financial position as of December 31, 2011, or the results of operations for the year then ended.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

10. Risks and Contingencies (continued)

Foreign Operations

INMED has field offices in Brazil, Peru, Trinidad and Tobago, Jamaica, and South Africa. INMED maintains cash accounts in four countries (Brazil, Peru, Jamaica, and South Africa) and an account in Trinidad and Tobago. The future of the programs in these countries can be adversely affected by a number of potential factors, such as currency devaluations and political unrest. As of December 31, 2011, INMED had cash in these foreign accounts that totaled \$79,655.

11. Unrestricted Net Assets (Deficit)

INMED has a deficit balance in unrestricted net assets for 2010 and 2011. The deficit is a result of the Board of Directors' and management's approval to incur deficits in order to make certain strategic investments.

INMED reduced the deficit balance in unrestricted net assets by approximately \$38,000, or 9%, in 2011. Management expects further reductions to continue and the deficit to be eliminated in future years as INMED continues to build on the investments made in recent years in development, communications, fundraising, strategic partnerships and digital/social media marketing. In the meantime, INMED intends to use unrestricted donations, related party loans and bank financing to meet working capital needs.

12. Related Party Transactions

As discussed in Note 6, there is a total outstanding balance of \$32,500 on notes payable from two of INMED's officers.

In 2011, INMED made consulting payments of \$38,025 to a member of INMED's Board of Directors who is also related to INMED's President and Chief Executive Officer. The consultant also donated services and materials to INMED totaling \$59,085 and contributed \$12,500 in debt forgiveness to INMED.

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

13. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, INMED is exempt from federal taxes on income other than net unrelated business income. For the year ended December 31, 2011, no provision for income taxes was required, as INMED had no net unrelated business income.

INMED follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board Accounting Standards Codification Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. INMED performed an evaluation of uncertain tax positions for the year ended December 31, 2011, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of December 31, 2011, the statute of limitations for tax years 2008 through 2010 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which INMED files tax returns. It is INMED's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2011, INMED had no accruals for interest and/or penalties.

14. Prior Year Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with INMED's audited financial statements for the year ended December 31, 2010, from which the summarized information was prepared.

15. Reclassification

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

16. Subsequent Events

In preparing the financial statements, INMED has evaluated events and transactions for potential recognition or disclosure through September 6, 2012, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.