



INMED PARTNERSHIPS FOR CHILDREN, INC.

Financial Statements

For the Year Ended December 31, 2016



**and
Report Thereon**





Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of INMED Partnerships for Children, Inc. (INMED), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of INMED Partnerships for Children, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
January 19, 2018

INMED PARTNERSHIPS FOR CHILDREN, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS

| | |
|--------------------------------------|------------|
| Cash and cash equivalents | \$ 489,366 |
| Accounts receivable | 129,267 |
| Grants and pledges receivable, net | 3,572,778 |
| Pledged donated inventory receivable | 24,908,940 |
| Donated inventory | 4,649,796 |
| Advances to subcontractors | 317,224 |
| Deferred compensation assets | 3,519 |
| Deposits and other assets | 15,088 |
| Property and equipment, net | 178,934 |

TOTAL ASSETS \$ 34,264,912

LIABILITIES AND NET ASSETS

Liabilities

| | |
|---------------------------------------|------------|
| Accounts payable and accrued expenses | \$ 117,825 |
| Lines of credit | 2,658 |
| Refundable advance | 9,519 |
| Deferred rent | 178,554 |
| Deferred compensation liability | 103,519 |

TOTAL LIABILITIES 412,075

Net Assets

| | |
|------------------------|------------|
| Unrestricted (deficit) | (578,344) |
| Temporarily restricted | 34,431,181 |

TOTAL NET ASSETS 33,852,837

TOTAL LIABILITIES AND NET ASSETS \$ 34,264,912

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, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|----------------------------|-----------------------------------|-----------------------------|
| REVENUE AND SUPPORT | | | |
| Contributions, grants and contracts | \$ 480,717 | \$ 4,093,454 | \$ 4,574,171 |
| Other income | 162,712 | - | 162,712 |
| Donated services | 79,099 | - | 79,099 |
| Foreign exchange transaction gains | 50,102 | - | 50,102 |
| Net assets released from restrictions: | | | |
| Satisfaction of program restrictions | <u>10,548,273</u> | <u>(10,548,273)</u> | <u>-</u> |
| TOTAL REVENUE AND SUPPORT | <u>11,320,903</u> | <u>(6,454,819)</u> | <u>4,866,084</u> |
| EXPENSES AND LOSSES | | | |
| Program Services: | | | |
| Overseas | 10,185,682 | - | 10,185,682 |
| Domestic | <u>844,814</u> | <u>-</u> | <u>844,814</u> |
| Total Program Services | <u>11,030,496</u> | <u>-</u> | <u>11,030,496</u> |
| Supporting Services: | | | |
| General and administration | 62,609 | - | 62,609 |
| Program development | 201,895 | - | 201,895 |
| Fundraising | <u>33,944</u> | <u>-</u> | <u>33,944</u> |
| Total Supporting Services | <u>298,448</u> | <u>-</u> | <u>298,448</u> |
| TOTAL EXPENSES | <u>11,328,944</u> | <u>-</u> | <u>11,328,944</u> |
| CHANGE IN NET ASSETS | (8,041) | (6,454,819) | (6,462,860) |
| NET ASSETS (DEFICIT), BEGINNING OF YEAR | <u>(570,303)</u> | <u>40,886,000</u> | <u>40,315,697</u> |
| NET ASSETS (DEFICIT), END OF YEAR | <u><u>\$ (578,344)</u></u> | <u><u>\$ 34,431,181</u></u> | <u><u>\$ 33,852,837</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, 2016**

| | Program Services | | | Supporting Services | | | | Total |
|---|----------------------|-------------------|------------------------|----------------------------|---------------------|------------------|---------------------------|----------------------|
| | Overseas | Domestic | Total Program Services | General and Administration | Program Development | Fundraising | Total Supporting Services | |
| Donated goods distributed | \$ 7,469,184 | \$ - | \$ 7,469,184 | \$ - | \$ - | \$ - | \$ - | \$ 7,469,184 |
| Salaries and benefits | 636,605 | 510,572 | 1,147,177 | 99,749 | 145,821 | 26,620 | 272,190 | 1,419,367 |
| Consultants | 1,028,908 | 19,525 | 1,048,433 | - | 29,400 | - | 29,400 | 1,077,833 |
| Project participant incentive and project materials | 173,530 | 38,404 | 211,934 | 39,821 | 7,602 | - | 47,423 | 259,357 |
| Professional fees | 61,121 | 500 | 61,621 | 183,381 | - | 3,750 | 187,131 | 248,752 |
| Occupancy | 84,968 | 138,942 | 223,910 | 15,705 | 1,215 | - | 16,920 | 240,830 |
| Travel | 184,492 | 15,195 | 199,687 | 5,411 | 9,842 | 46 | 15,299 | 214,986 |
| Taxes and licenses | 101,891 | 53 | 101,944 | 5,230 | - | 2,443 | 7,673 | 109,617 |
| Supplies | 70,410 | 8,839 | 79,249 | 3,399 | 2,486 | 17 | 5,902 | 85,151 |
| Computer costs | 8,613 | 10,257 | 18,870 | 20,215 | 354 | 423 | 20,992 | 39,862 |
| Insurance | 19,684 | 500 | 20,184 | 8,812 | - | - | 8,812 | 28,996 |
| Telephone | 6,063 | 8,348 | 14,411 | 5,512 | 163 | - | 5,675 | 20,086 |
| Utilities | 8,167 | 8,476 | 16,643 | 2,899 | - | - | 2,899 | 19,542 |
| Other costs | 22,060 | 2,984 | 25,044 | 13,373 | 690 | 645 | 14,708 | 39,752 |
| Meetings and conferences | 7,878 | 3,443 | 11,321 | 3,415 | 2,593 | - | 6,008 | 17,329 |
| Depreciation and amortization | - | - | - | 14,393 | - | - | 14,393 | 14,393 |
| Printing and copying | 1,015 | 8,181 | 9,196 | 2,598 | 520 | - | 3,118 | 12,314 |
| Training | 3,052 | 2,431 | 5,483 | 5,365 | 745 | - | 6,110 | 11,593 |
| Allocation of indirect costs | 298,041 | 68,164 | 366,205 | (366,669) | 464 | - | (366,205) | - |
| TOTAL EXPENSES | \$ 10,185,682 | \$ 844,814 | \$ 11,030,496 | \$ 62,609 | \$ 201,895 | \$ 33,944 | \$ 298,448 | \$ 11,328,944 |

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, 2016
Increase (Decrease) in Cash and Cash Equivalents

| | |
|---|------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ (6,462,860) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 14,393 |
| Donated goods distributed | 7,469,184 |
| Changes in assets and liabilities: | |
| Accounts receivable | 3,291 |
| Grants and pledges receivable | (274,767) |
| Advances to subcontractors | (101,816) |
| Deferred compensation assets | 57,000 |
| Deposits and other assets | 34,432 |
| Accounts payable and accrued expenses | 18,666 |
| Refundable advance | (28,556) |
| Deferred rent | 10,928 |
| Deferred compensation liability | <u>(57,000)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>682,895</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Borrowings on lines of credit | 795,000 |
| Principal payments on lines of credit | <u>(995,556)</u> |
| NET CASH USED IN FINANCING ACTIVITIES | <u>(200,556)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 482,339 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>7,027</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u><u>\$ 489,366</u></u> |
| SUPPLEMENTAL INFORMATION | |
| Actual cash payments for interest | <u><u>\$ 6,844</u></u> |
| NONCASH FINANCING ACTIVITIES | |
| Donated goods promised but not yet received | <u><u>\$ 24,908,940</u></u> |
| Donated goods received | <u><u>\$ -</u></u> |
| Donated goods distributed | <u><u>\$ (7,469,184)</u></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, 2016

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 in the United States and has offices in Peru, 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. INMED also works with subcontractors in Brazil to carry out its programs.

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 (GAAP). 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 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 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 the discount is recorded in contribution revenue.

Advances to Subcontractors

Advances to subcontractors consist of advances made by INMED to the subcontractors in Brazil, net of the actual program expenses incurred by the subcontractors through year-end.

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

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2016

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

Property and Equipment and Related Depreciation and Amortization (continued)

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.

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

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 met), 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.

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. Conditional promises to give are not included as grants and contributions until the conditions are substantially met.

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 yet reimbursed, under these grants and contracts are reported as accounts receivable in the accompanying statement of financial position.

Revenue from multi-year funding commitments is recognized in the period in which the support has been committed, while the related expenditures may occur in subsequent accounting periods. This can result in significant variations in net asset changes from year to year, especially when large grants of donated pharmaceuticals are involved.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2016

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

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 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 based on the average price that the generic pharmaceuticals sells for in Peru, the country where the pharmaceuticals will be distributed, based on information published by Peru's Ministry of Health and compared to other market research obtained by INMED. 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 donated inventory, which is reported on the first-in, first-out method of accounting. As of December 31, 2016, donated inventory consists entirely of donated pharmaceuticals that expire on January 1, 2019. Donated pharmaceuticals which had been promised as of year-end, but were not received, are shown as pledged donated inventory receivable in the accompanying statement of financial position.

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 services.

For the year ended December 31, 2016, INMED received donated services with an estimated fair value of \$79,099.

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 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.

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

2. Grants and Pledges Receivable

Grants and pledges receivable consist of amounts due from foundations and corporations, which are due as follows as of December 31, 2016:

| | |
|---|---------------------|
| Receivables due in less than one year | \$ 1,949,880 |
| Receivables due in one to five years | <u>1,677,414</u> |
| Total Grants and Pledges Receivable | 3,627,294 |
| Less: Discount to Net Present Value (3.25%) | <u>(54,516)</u> |
| Grants and Pledges Receivable, Net | <u>\$ 3,572,778</u> |

INMED has not recorded an allowance for uncollectible accounts, as management believes all amounts are fully collectible.

3. Pledged Donated Inventory Receivable

During the year ended December 31, 2014, INMED received a commitment from a donor totaling \$38,160,000 of donated pharmaceuticals. INMED received the first shipment of pharmaceuticals with an estimated value of \$13,251,060 in 2014. During the year ended December 31, 2016, INMED distributed \$7,469,184 of the donated pharmaceuticals. As of December 31, 2016, donated pharmaceuticals yet to be distributed totaled \$4,649,796, which is reflected as donated inventory in the accompanying statement of financial position. The remaining pledged donated inventory receivable of \$24,980,940 is expected to be received at various times in 2017 and 2018 and is considered fully collectible.

4. 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 8.75% as of December 31, 2016. As of December 31, 2016, \$2,658 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, 2016, the rate on this line of credit was 4%. The line 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. The line of credit is renewable annually on October 25. As of December 31, 2016, there was no balance outstanding on this line of credit. INMED amended the line of credit agreement with the bank on February 16, 2017 and increased the borrowing limit up to \$750,000. All other terms of the line of credit remain the same.

Interest expense under both lines of credit was \$6,844 for the year ended December 31, 2016.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2016

5. Deferred Compensation Plan

During the year ended December 31, 2014, INMED established a deferred compensation plan on behalf of its Chief Executive Officer (the CEO) in accordance with Section 457(f) of the Internal Revenue Code (the IRC). The Board of Directors approved funding 100% of the 457(f) plan in 2014, however, the CEO vests in specified amounts over the period March 31, 2015 through March 31, 2017. During the year ended December 31, 2016, the CEO vested in \$70,000 of the 457(f) plan's assets, which were paid out to the CEO upon vesting. Until paid or made available to the participant or beneficiary, all deferred amounts, investment earnings related to deferred amounts and property and rights purchased with these amounts are solely the property and rights of INMED. Deferred compensation plan investments are reflected as deferred compensation assets in the accompanying statement of financial position and represent the amount that has been funded by INMED but not vested or distributed. The deferred compensation liability represents the amounts obligated by the Board over time that have not vested or been paid out. During the year ended December 31, 2016, the Board approved funding of \$100,000 to the 457(f) plan to vest in specified amounts over the period March 31, 2017 through March 31, 2019. During the year ended December 31, 2016, the CEO forfeited \$90,000 of the deferred compensation balance, and the amount is included in other income in the accompanying statement of activities. Deferred compensation assets are invested in stocks and mutual funds that are publicly traded and therefore reflect the estimated fair value.

6. 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 non-elective contributions. Matching contributions will be equal to a discretionary percentage of salary, which will be determined each year. For the year ended December 31, 2016, INMED matched 50% of employee contributions up to 6% of salaries. INMED's contribution to the retirement plan was \$21,416 for the year ended December 31, 2016.

7. Operating Lease

INMED entered into a non-cancelable operating lease for its headquarters location in June 2014. The lease term is for a period of 15 years beginning October 1, 2014. The lease provides space for the headquarters' offices and INMED's Loudoun County Family and Youth Opportunity Center program. This lease provides for fixed increases to the future minimum rental payments. In May 2017, INMED signed a new three-year lease with the landlord for additional office space for its headquarters' offices starting June 1, 2017. Under GAAP, all rental payments, including fixed rent increases, are recognized on a straight-line basis over the term of the lease. 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.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

7. Operating Lease (continued)

INMED's foreign affiliates do not have long-term office lease commitments.

The future minimum rental payments for both leases, excluding operating costs that are required under these operating leases, are as follows:

| For the Year Ending December 31, | |
|--------------------------------------|---------------------|
| 2017 | \$ 132,523 |
| 2018 | 158,524 |
| 2019 | 162,873 |
| 2020 | 146,366 |
| 2021 | 135,388 |
| Thereafter | <u>1,182,963</u> |
| Total Future Minimum Rental Payments | <u>\$ 1,918,637</u> |

Total rent expense, including foreign affiliates' offices, was approximately \$229,000 for the year ended December 31, 2016.

8. Temporarily Restricted Net Assets

As of December 31, 2016, temporarily restricted net assets are available for the following programs:

| | |
|---|---------------------|
| Healthy Futures | \$ 4,872,445 |
| Donated pharmaceuticals | <u>29,558,736</u> |
| Total Temporarily Restricted Net Assets | <u>\$34,431,181</u> |

9. Risks and Contingencies

Foreign Operations

INMED has field offices in Peru, Jamaica and South Africa and maintains cash accounts in these countries. INMED also maintains a cash 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, 2016, INMED had cash in these foreign accounts that totaled approximately \$124,700. In addition, all of INMED's donated pharmaceutical inventory is held in Peru as of December 31, 2016.

Concentration of Revenue Risk

For the year ended December 31, 2016, INMED recognized revenue of approximately \$2,973,000 from one donor, which represents 61% of INMED's total revenue and support. As of December 31, 2016, this same grantor owed INMED approximately \$2,080,000, which represents 44% of INMED's total assets net of pledged donated inventory receivable and donated inventory.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2016

10. Unrestricted Net Assets (Deficit)

INMED had a deficit balance in unrestricted net assets for 2016. The deficit is a result of the Board of Directors' and management's approval to continue making strategic investments designed to increase and diversify INMED's funding base and position it for long-term growth. Strategic investments made in the past few years resulted in \$3 million of new multi-year funding in 2016.

As of January 19, 2018, INMED also has secured approximately \$1.1 million in new funding from the InterAmerican Development Bank and Caribbean Development Bank for expansion of INMED's adaptive agriculture program (AAP) in Jamaica. Regional and international multilateral agencies represent a promising new funding stream for INMED, as INMED's AAP fits well with these organizations' development goals and priorities. Moreover, the participation of multilaterals is attracting additional local and regional governmental and quasi-government interest and support. The Jamaica AAP will scale INMED's aquaponics technology and expertise across Jamaica, while building capacity and positioning the program for expansion to other geographic markets through the development of an online training program and providing access to financing and markets for participating farmers.

Also during fiscal year 2017, INMED received a written commitment from the Peruvian government to provide support and communications to help raise international support for INMED's current deworming program in that country, and a verbal commitment from a donor for five years of pharmaceuticals and operating expenses to expand the program nationally, with the goal of eradicating intestinal parasites in Peru by 2022. Meanwhile, INMED's Family and Youth Opportunity Center in Loudoun County, Virginia, is expanding its program offerings and making inroads with individual donors and corporate funders from the nearby technology corridor.

INMED continues to take actions to strengthen its financial condition by reducing costs and increasing organizational effectiveness, including outsourcing its human resources and payroll functions, implementing a new accounting system, and transferring human resource administration and employment-related insurance coverage and risk to a professional employee organization (PEO). INMED is also pursuing innovative new sources of non-profit funding. Management currently is in discussions with a number of social investment and impact funding organizations, and is preparing to develop a prospectus to be offered to interested funders/investors.

In addition to these efforts, strategic investments continue to be made. In the meantime, INMED intends to use unrestricted donations and bank financing to meet working capital needs. In February 2017, INMED increased its borrowing limit to \$750,000 with one of the financial institutions. Along with another line of credit of \$100,000, INMED has a total of \$850,000 in lines of credit to provide working capital if/as needed.

11. Related Party Transactions

In 2016, INMED received donated services of \$45,430 provided by a member of INMED's Board of Directors who is related to INMED's President and CEO.

Continued

INMED PARTNERSHIPS FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS For the Year Ended December 31, 2016

11. Related Party Transactions (continued)

During the year ended December 31, 2016, one of INMED's overseas subcontractors received advances of approximately \$794,500 to implement programs on behalf of INMED U.S. in Brazil. As of December 31, 2016, \$317,224 of those advances had not been expended on the programs, and this amount is included in advances to subcontractors in the accompanying statement of financial position. In October 2017, INMED terminated its relationship with the subcontractor and transferred implementation to another entity in Brazil effective November 1, 2017.

12. Change in Reporting Entity

During the year ended December 31, 2016, management of INMED changed its consolidation policy due to the change in the level of control over one of its foreign affiliates. The effect of this change is to decrease cash and increase advances to subcontractors as of December 31, 2015 by \$162,512.

13. Income Taxes

Under Section 501(c)(3) of the IRC, INMED is exempt from federal taxes on income other than net unrelated business income. For the year ended December 31, 2016, no provision for income taxes was required, as INMED had no net unrelated business income.

INMED has adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board Accounting Standards Codification Topic 740, *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 evaluated its uncertainty in income taxes for the year ended December 31, 2016, 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, 2016, the statute of limitations for tax years 2013 through 2015 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 uncertainty in income taxes, if any, in income tax expense.

14. Subsequent Events

In preparation of these financial statements, INMED has evaluated transactions and events for potential recognition or disclosure through January 19, 2018, the date the financial statements were available to be issued. Except for the line of credit amendment in Notes 4 and 10, the new office lease as disclosed in Note 7, and the termination of the relationship with INMED Brasil in Note 11, there were no subsequent events that require recognition or disclosure in the financial statements.