ARM IN ARM, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

ARM IN ARM, INC.

YEARS ENDED DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Arm in Arm, Inc.
Trenton, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of ARM IN ARM, INC. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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 previously present fairly, in all material respects, the financial position of Arm in Arm, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2017, on our consideration of Arm in Arm, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arm in Arm, Inc.'s internal control over financial reporting and compliance.

Klatzkin & Company, LLP

KLATZKIN & COMPANY LLP

Hamilton, New Jersey
July 31, 2017

ARM IN ARM, INC.

STATEMENTS OF FINANCIAL POSITION

	December 31, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 420,009	$ 282,257
Promises to Give	44,269	21,000
Grants Receivable	51,291	62,023
Prepaid Expenses	-	11,217
Food Inventory	72,248	95,063
Total Current Assets	587,817	471,560
Property and Equipment at Cost, Less Accumulated Depreciation of $210,839 and $182,529	124,578	147,649
Other Assets		
Investments	1,201,639	1,417,447
Beneficial Interest in Assets Held by a Foundation	269,394	260,541
Security Deposits	12,351	9,786
Credits for Food Purchases	585	200
Total Other Assets	1,483,969	1,687,974
TOTAL ASSETS	$ 2,196,364	$ 2,307,183
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	$ 9,113	$ 26,817
Accrued Expenses	27,127	21,708
Total Current Liabilities	36,240	48,525
Net Assets		
Unrestricted	1,758,495	1,869,378
Temporarily Restricted	151,629	139,280
Permanently Restricted	250,000	250,000
Total Net Assets	2,160,124	2,258,658
TOTAL LIABILITIES AND NET ASSETS	$ 2,196,364	$ 2,307,183

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

ARM IN ARM, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Donations	$ 1,062,853	$ 145,500	$ -	$ 1,208,353
In-Kind Food Donations	597,940	-	-	597,940
Special Events:				
Fall Benefit Revenue	93,900	-	-	93,900
Fall Benefit Direct Expenses	(20,123)	-	-	(20,123)
Grants	421,490	-	-	421,490
Interest and Dividend Income	25,551	373	-	25,924
Realized Gain (Loss) on Investments	7,478	(5,325)	-	2,153
Unrealized Gain (Loss) on Investments	3,205	27,505	-	30,710
Net Assets Released From Restrictions	155,704	(155,704)	-	-
Total Support and Revenues	2,347,998	12,349	-	2,360,347
Expenses				
Program Services	2,122,128	-	-	2,122,128
Management and General	149,349	-	-	149,349
Fundraising and Development	187,404	-	-	187,404
Total Expenses	2,458,881	-	-	2,458,881
Change in Net Assets	(110,883)	12,349	-	(98,534)
Net Assets, Beginning of Year	1,869,378	139,280	250,000	2,258,658
Net Assets, End of Year	$ 1,758,495	$ 151,629	$ 250,000	$ 2,160,124

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

ARM IN ARM, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Donations	$ 894,709	$ 193,680	$ -	$ 1,088,389
In-Kind Food Donations	565,828	-	-	565,828
Special Events:				
Fall Benefit Revenue	56,398	-	-	56,398
Fall Benefit Direct Expenses	(9,798)	-	-	(9,798)
Grants	501,672	-	-	501,672
Interest and Dividend Income	21,908	5,904	-	27,812
Realized Gain (Loss) on Investments	2,759	(4,042)	-	(1,283)
Unrealized Gain (Loss) on Investments	(12,125)	(2,883)	-	(15,008)
Net Assets Released From Restrictions	93,171	(93,171)	-	-
Total Support and Revenues	2,114,522	99,488	-	2,214,010
Expenses				
Program Services	2,076,184	-	-	2,076,184
Management and General	132,057	-	-	132,057
Fundraising and Development	132,378	-	-	132,378
Total Expenses	2,340,619	-	-	2,340,619
Change in Net Assets	(226,097)	99,488	-	(126,609)
Net Assets, Beginning of Year	2,095,475	39,792	250,000	2,385,267
Net Assets, End of Year	$ 1,869,378	$ 139,280	$ 250,000	$ 2,258,658

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

ARM IN ARM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services	Management and General	Fundraising and Development	Total
Personnel:				
Payroll	$ 509,910	$ 62,016	$ 117,142	$ 689,068
Payroll Taxes	38,899	4,731	8,936	52,566
Payroll Service Fee	4,087	497	939	5,523
Employee Benefits	118,762	14,444	27,283	160,489
Other Personnel Costs	5,072	617	1,165	6,854
Total Personnel Expenses	676,730	82,305	155,465	914,500
Direct Assistance:				
Food	709,272	-	-	709,272
Rent	159,074	-	-	159,074
Mortgage	3,297	-	-	3,297
Security Deposits	100,352	-	-	100,352
Housing Stability and Case Management	76,420	-	-	76,420
Utilities	52,686	-	-	52,686
Other	29,082	-	-	29,082
Total Direct Assistance	1,130,183	-	-	1,130,183
Other Operating Costs:				
Insurance	34,855	4,808	400	40,063
Fundraising Expenses	-	-	28,484	28,484
Program Expense	2,275	-	-	2,275
Conference and Training	2,335	-	-	2,335
Professional Fees	38,318	5,285	441	44,044
Audit	-	23,200	-	23,200
Maintenance and Supplies	39,388	5,433	452	45,273
Office	14,781	3,305	76	18,162
Postage	1,979	273	23	2,275
Rent	106,279	14,659	1,222	122,160
Staff and Volunteer Support	1,911	-	-	1,911
Telephone	15,269	2,106	175	17,550
Transportation	10,022	1,382	116	11,520
Utilities	23,173	3,196	267	26,636
Depreciation	24,630	3,397	283	28,310
Total Operating Costs	315,215	67,044	31,939	414,198
Total Expenses	$ 2,122,128	$ 149,349	$ 187,404	$ 2,458,881

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

ARM IN ARM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015

	Program Services	Management and General	Fundraising and Development	Total
Personnel:				
Payroll	$ 486,205	$ 56,101	$ 81,034	$ 623,340
Payroll Taxes	37,023	4,272	6,170	47,465
Payroll Service Fee	4,026	465	671	5,162
Employee Benefits	132,775	15,320	22,129	170,224
Other Personnel Costs	4,658	537	777	5,972
Total Personnel Expenses	664,687	76,695	110,781	852,163
Direct Assistance:				
Food	580,548	-	-	580,548
Rent	229,633	-	-	229,633
Mortgage	3,453	-	-	3,453
Security Deposits	89,722	-	-	89,722
Housing Stability and Case Management	85,253	-	-	85,253
Utilities	98,159	-	-	98,159
Other	26,303	-	-	26,303
Total Direct Assistance	1,113,071	-	-	1,113,071
Other Operating Costs:				
Insurance	13,812	1,905	159	15,876
Fundraising Expenses	-	-	18,385	18,385
Conference and Training	4,201	-	-	4,201
Professional Fees	39,175	5,403	451	45,029
Audit	-	14,400	-	14,400
Maintenance and Supplies	39,194	5,406	451	45,051
Office	13,264	3,103	56	16,423
Postage	1,750	241	20	2,011
Rent	103,586	14,288	1,190	119,064
Staff and Volunteer Support	6,480	-	-	6,480
Telephone	16,528	2,280	190	18,998
Transportation	11,747	1,620	135	13,502
Utilities	20,015	2,761	230	23,006
Depreciation	28,674	3,955	330	32,959
Total Operating Costs	298,426	55,362	21,597	375,385
Total Expenses	$ 2,076,184	$ 132,057	$ 132,378	$ 2,340,619

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

ARM IN ARM, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2016	Years Ended December 31, 2015
Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities:		
Cash Received from Grants and Donors	$ 1,617,306	$ 1,554,993
Cash Received from Special Events	93,900	56,398
Cash Paid To Suppliers and Employees	(1,813,834)	(1,835,694)
Cash Paid for Special Events	(20,123)	(9,798)
Investment Income Received	2,042	2,380
Interest Paid	-	-
Income Taxes Paid	-	-
Net Cash Provided by (Used in) Operating Activities	(120,709)	(231,721)
Cash Flows from Investing Activities		
Proceeds from Sales of Investments	263,700	89,000
Purchases of Equipment	(5,239)	(6,963)
Net Cash Provided by (Used in) Investing Activities	258,461	82,037
Increase (Decrease) in Cash and Cash Equivalents	137,752	(149,684)
Cash and Cash Equivalents at Beginning of Year	282,257	431,941
Cash and Cash Equivalents at End of Year	$ 420,009	$ 282,257

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

ARM IN ARM, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2016	2015
Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Change in Net Assets	$ (98,534)	$ (126,609)
Adjustments to Reconcile Change in Net Assets to Cash Provided by (Used in) Operating Activities:		
Depreciation	28,310	32,959
Investment Interest and Dividends Reinvested	(23,882)	(25,432)
Net Realized and Unrealized (Gain) Loss on Investments	(32,863)	16,291
(Increase) Decrease in Operating Assets:		
Promises to Give	(23,269)	(13,500)
Grants Receivable	10,732	(21,568)
Prepaid Expenses	11,217	(11,217)
Food Inventory	22,815	(90,122)
Security Deposit	(2,565)	-
Credit for Food Purchases	(385)	200
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(17,704)	4,640
Accrued Expenses	5,419	2,637
Net Cash Provided by (Used in) Operating Activities	$ (120,709)	$ (231,721)

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

Note 1. Summary of Significant Accounting Policies

Organization, Nature of Activities, and Geographic Concentrations:

Arm in Arm, Inc. (formerly The Crisis Ministry of Mercer County, Inc.) is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The mission of Arm in Arm, Inc. is to partner with the community to achieve stability for neighbors in need. The program focuses on hunger prevention, homelessness prevention, and workforce development for low-income individuals and families in Mercer County, New Jersey. Core programs include the operation of two food pantries, financial assistance for rent, mortgage and utilities, as well as job training and job search assistance.

The Crisis Ministry was founded in 1980 by the lay and clergy leaders of Princeton's Nassau Presbyterian Church and Trinity Church as an active response to the recession of the time. In 1992, the Crisis Ministry and its sister program, the Trenton After School Program, were organized under the 501(c)(3) nonprofit corporation Princeton Outreach Projects, Inc. (POPI), in order to streamline administrative operations. Later, Trenton Children's Chorus and Housing Initiatives of Princeton also joined POPI. All of the fellow programs have since spun-off, and in the spring of 2012, the Crisis Ministry assumed the 501(c)(3) designation as a free-standing nonprofit organization. In the fall of 2016, the Organization changed its name to Arm in Arm, Inc. The new name reflects the collaborative spirit of the Organization in supporting their neighbors in need. Support by a diverse community network of individual volunteers, schools and colleges, congregations, businesses, foundations, civic groups, public entities, and fellow nonprofit agencies empowers the Organization to support low-income individuals and families across Mercer County in their efforts to achieve food security and housing and employment stability.

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

> Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

Note 1. Summary of Significant Accounting Policies (Cont'd)

Basis of Accounting (Cont'd):

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization 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 restriction.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Contributions:

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. 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.

Management's Use of Estimates and Assumptions:

Management uses estimates and assumptions in preparing its financial statements. 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.

Cash and Cash Equivalents:

For the purposes of the Statements of Cash Flows, cash includes unrestricted time deposits, certificates of deposit, money markets, and highly liquid debt instruments purchased with an original maturity of three months or less.

Note 1. Summary of Significant Accounting Policies (Cont'd)

Promises to Give:

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable values. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Uncollectible promises are expected to be insignificant. No allowance for doubtful accounts has been recorded. All promises to give are expected to be collected in less than one year.

Investments:

Investments are in mutual funds, investing in intermediate-term, investment-grade corporate bonds, stocks, and money market funds. Investments are carried at fair market value using quoted market prices in active markets. Realized gains and losses are determined using the average cost method. Mutual funds and money market accounts are not insured by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of the investment at $1 per share, it is possible for the value to fall below $1 per share.

Property, Equipment and Depreciation:

Property and equipment are stated at cost. Significant additions in excess of $500 are capitalized, while expenditures for maintenance and repairs are expensed as incurred. The cost of property and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation accounts are relieved, and any gain or loss is included in the Statements of Activities.

Inventories:

Inventories, which consist primarily of food items donated by community partners, are valued at the average cost per pound of food. The Organization uses industry data as provided by Feeding America to determine the cost per pound.

Concentrations of Credit Risk:

The Organization's cash and cash equivalent accounts and interest bearing deposits in banks and other financial institutions may at times exceed the federally insured limits. The Organization has not experienced any losses in these accounts. Management believes that the Organization is not exposed to any significant risk on these deposits.

Note 1. Summary of Significant Accounting Policies (Cont'd)

Contributed Services and Goods:

The Organization receives the free use of office space from Nassau Presbyterian Church. No amounts have been reflected in these financial statements for use of these facilities. The Organization also receives a substantial amount of donated goods through community partners. The revenue and corresponding expense have been recorded for the donated goods, which are valued based on industry standards.

Food donations received from individuals, businesses and government agencies are vital to the Organization's mission, enabling it to provide food to those in need. During the years ended December 31, 2016 and 2015, food donations with a value of $597,940 and $565,828, respectively, were received. This amount is included as in-kind food donations in the Statements of Activities. Food donations from private sources were valued at $1.67 and $1.70 per pound in accordance with Feeding America's standard valuation for the years ended December 31, 2016 and 2015, respectively. Food received from government agencies is valued at wholesale cost as provided by the respective agencies. The majority of the donated food received was distributed to individuals and families in need. Food with an estimated value of $72,248 and $95,063 remained in inventory at December 31, 2016 and 2015, respectively.

Concentrations of Contributions or Grants:

Approximately 9% during 2016 and 11% during 2015 of the Organization's total support and revenues is provided from grants from Mercer County, which passes through federal funds to be used for social services for the homeless (SSH). Any major decrease in funding from the awarding agency would have a significant impact on the Organization. The Organization does not expect that the support and revenues from the awarding agency will be lost in the near term. The contract with Mercer County (SSH) is renewed bi-annually. There were no grants receivable from Mercer County (SSH) at December 31, 2016 and 2015.

Functional Allocation of Expenses:

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

Note 1. Summary of Significant Accounting Policies (Cont'd)

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.

The Organization is subject to routine audits by taxing jurisdictions. There are currently no such audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examination for years prior to 2013.

The Organization's policy is to classify income tax related interest and penalties, if any, in interest expense and miscellaneous operating costs, respectively.

Compensated Absences:

Employees of the Organization are entitled to paid vacations, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the cost of compensated absences when actually paid to employees.

Date of Management Evaluation of Subsequent Events:

Management has evaluated subsequent events through July 31, 2017, the date on which the financial statements were available to be issued.

Recent Accounting Pronouncement:

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Organization's financial statements, it is not expected to alter the Organization's reported financial position.

Note 2. Investments

Investments as of December 31, 2016 are summarized as follows:

	Cost	Fair value	Unrealized gain (loss)
Vanguard Intermediate Term Investment - Grade Fund Admiral Shares	$ 660,547	$ 641,349	$(19,198)
Vanguard Admiral Treasury Money Market Fund	451,914	451,914	-
Vanguard Wellesley Income Fund	104,298	108,376	4,078
Total	$1,216,759	$1,201,639	$(15,120)

Investments as of December 31, 2015 are summarized as follows:

	Cost	Fair value	Unrealized gain (loss)
Vanguard Intermediate Term Investment - Grade Fund Admiral Shares	$ 635,586	$ 617,103	$(18,483)
Vanguard Prime Money Market Fund	250,807	250,807	-
Vanguard Admiral Treasury Money Market Fund	549,537	549,537	-
Total	$1,435,930	$1,417,447	$(18,483)

The fair value of investments is based on quoted market prices available on an active market.

Note 3. Property and Equipment

The following is a summary of property and equipment:

	Estimated useful lives in years	2016	2015
Computers and office equipment	3 - 5	$115,395	$110,156
Leasehold improvements	10 - 40	141,408	141,408
Vehicles	5	78,614	78,614
		335,417	330,178
Accumulated depreciation		210,839	182,529
		$124,578	$147,649

Depreciation expense charged to operations was $28,310 and $32,959 for the years ended December 31, 2016 and 2015, respectively.

Note 4. Endowment Investment and Spending Policies

The Organization's endowment consists of contributions that donors designated for the operation of the Princeton office. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

During 2011, the Organization established an endowment fund with the Princeton Area Community Foundation (PACF), an unaffiliated organization, with a $250,000 contribution received in 2010. The Foundation has full authority and discretion as to the investment of the assets of the fund.

The endowment fund of Arm in Arm, Inc. was created by the Board of Trustees to help secure the Organization's future by establishing a base of financial security and providing a flow of investment income to complement annual fundraising. The endowment fund currently includes donor restricted funds.

Note 4. Endowment Investment and Spending Policies (Cont'd)

The endowment fund consists of pooled separate accounts with the Princeton Area Community Foundation. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. In June 2009, the State of New Jersey enacted a version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") which replaced the prior Uniform Management of Institutional Funds Act ("UMIFA"). The Board interpreted this act as allowing the Organization the powers to manage and invest the funds in good faith and with the care an ordinarily prudent person, in a like position, would exercise under similar circumstances. The Board also interpreted UPMIFA as requiring the assets in an endowment fund to be donor-restricted assets until appropriated for expenditure by the Board, unless stated otherwise in the gift instrument. The original value of all gifts donated to the endowment fund will be classified as permanently restricted net assets, with endowment earnings classified as temporarily restricted net assets.

The Organization has adopted investment policies that seek long term capital growth, current income, and growth of income, consistent with prudent, conservative and risk-averse investments for its endowment. For the years ended December 31, 2016 and 2015, the endowment funds were invested with the PACF, which investments are comprised of domestic and international equity funds, corporate bond funds, limited partnerships, alternative investments and cash.

To satisfy its long term objectives, the Organization relies on the total return strategy adopted by PACF. Investments at PACF are invested in a manner that is intended to produce results that match or exceed a blended benchmark of domestic and international equities, corporate bonds and limited partnerships, while assuming a moderate level of investment risk.

The Organization can receive annual payments of up to 5% of the endowment fund's fair value of the prior calendar year-end. The payments can be used for operating expenses of Arm in Arm, Inc.

Endowment net asset composition is as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
December 31, 2016 - Balance	$ -	$ 19,394	$250,000	$269,394
December 31, 2015 - Balance	$ -	$ 10,541	$250,000	$260,541

Note 4. Endowment Investment and Spending Policies (Cont'd)

The endowment fund is classified as a beneficial interest in assets held by a foundation on the Statements of Financial Position.

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ -	$ 10,541	$250,000	$260,541
Contributions	-	-	-	-
Appropriated for expenditures	-	(13,700)	-	(13,700)
Interest and dividends	-	2,413	-	2,413
Realized gain (loss)	-	(5,325)	-	(5,325)
Unrealized gain (loss)	-	27,505	-	27,505
Bank fees	-	(2,040)	-	(2,040)
Endowment net assets, end of year	$ -	$ 19,394	$250,000	$269,394

Note 4. Endowment Investment and Spending Policies (Cont'd)

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ -	$ 25,562	$250,000	$275,562
Contributions	-	-	-	-
Appropriated for expenditures	-	(14,000)	-	(14,000)
Interest and dividends	-	8,282	-	8,282
Realized gain (loss)	-	(4,042)	-	(4,042)
Unrealized gain (loss)	-	(2,883)	-	(2,883)
Bank fees	-	(2,378)	-	(2,378)
Endowment net assets, end of year	$ -	$ 10,541	$250,000	$260,541

Note 5. Fair Value Measurements

Assets measured at fair value on a recurring basis at December 31, 2016 were as follows:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mutual funds:				
Intermediate bond funds.....	$ 641,349	$ 641,349	$ -	$ -
Income funds.....................	108,376	108,376	-	-
Money market funds...........	451,914	451,914	-	-
Beneficial interest in assets held by Foundation.............	269,394	-	-	269,394
Food inventory.....................	72,248	-	-	72,248
Total	$1,543,281	$1,201,639	$ -	$ 341,642

Assets measured at fair value on a recurring basis at December 31, 2015 were as follows:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mutual funds:				
Intermediate bond funds.....	$ 617,103	$ 617,103	$ -	$ -
Money market funds...........	800,344	800,344	-	-
Beneficial interest in assets held by Foundation.............	260,541	-	-	260,541
Food inventory.....................	95,063	-	-	95,063
Total	$1,773,051	$1,417,447	$ -	$ 355,604

Note 5. Fair Value Measurements (Cont'd)

Valuation techniques used to measure fair value are prioritized into the following hierarchy:

Level 1 - Determined using quoted market prices in active markets for identical assets.

Level 2 - Determined using other observable inputs such as quoted market prices in active markets for similar assets. There were no assets valued using level 2 measurements.

Level 3 - The fair value of the beneficial interest in assets held by a community foundation is measured using the fair value of the assets held in the foundation's managed investment pool. The Organization considers the measurement of its beneficial interest in the community foundation to be a level 3 measurement within the fair value hierarchy because even though that measurement is based on the fair values of the assets in the foundation's managed investment pool as reported by the foundation, the Organization will never receive those assets or have the ability to direct the foundation to redeem them. The fair value of the food inventory is determined using industry data for the average cost per pound of food.

The table in Note 4 presents information about the fair value of the beneficial interest in assets held by a foundation. The table below presents information about fair value measurements of the food inventory:

Food inventory	2016	2015
Beginning balance	$ 95,063	$ 4,941
Donations	597,940	565,828
Food distributed	(620,755)	(475,706)
Ending balance	$ 72,248	$ 95,063

Note 6. Restrictions on Net Assets

Temporarily restricted net assets at December 31, 2016 and 2015 are available for the following purposes:

	2016	2015
Hunger Prevention Program	$107,427	$ 69,832
Homelessness Prevention Program	19,808	51,407
Capital purchases	5,000	-
Branding (Bonner)	-	7,500
Princeton Office and Pantry	19,394	10,541
	$151,629	$139,280

In addition, $250,000 is permanently restricted for the Princeton location.

Note 7. Retirement Plan

During 2015, the Organization participated in the retirement benefit plan of the Presbyterian Church (U.S.A.). Contributions were 11% of salary for all employees who worked more than 20 hours per week. Beginning in 2016, the Organization has a SIMPLE IRA plan for employees. The Organization matches 100% of employees' contributions up to a limit of 3% of compensation. During the years ended December 31, 2016 and 2015, the expense incurred by the Organization under these arrangements was $18,862 and $47,337, respectively.

Note 8. Operating Lease Agreements and Commitments

The Organization leases space for its Trenton, New Jersey food pantry under the terms of an operating lease which can be cancelled with twelve months written notice. The term of the lease is for five years and expires December 2018. Payments were $7,060 per month for 2016 and increase 2% each year thereafter.

The Organization leased a second food pantry location in Trenton, New Jersey under the terms of a two year lease which expired December 31, 2016. Rent during 2016 was $3,120 per month.

Note 8. Operating Lease Agreements and Commitments (Cont'd)

On November 4, 2016, the Organization signed a lease for a new food pantry location. The lease term began on February 1, 2017 and expires on January 31, 2020. Rent during the initial term is $2,565 per month. The Organization has an option to extend the lease for an additional three year term.

Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year as of December 31, 2016 for each of the next five years and in the aggregate are:

Year ended December 31,	Amount
2017	$114,627
2018	118,920
2019	30,780
2020	2,565
2021 and thereafter	-
Total minimum future rental payments	$266,892

Rental expense under all operating leases aggregated $122,160 and $119,064 for the years ended December 31, 2016 and 2015, respectively.

Note 9. Financial Statement Presentation

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. Such reclassifications have no effect on the previously reported change in net assets.

<u>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*</u>

To the Board of Trustees of
Arm in Arm, Inc.
Trenton, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of ARM IN ARM, INC. (a nonprofit organization), 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, and have issued our report thereon dated July 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Arm in Arm, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arm in Arm, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Arm in Arm, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arm in Arm, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Klatzkin & Company, LLP

KLATZKIN & COMPANY LLP

Hamilton, New Jersey
July 31, 2017