

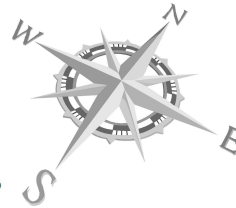
ARM IN ARM, INC.
FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2017

ARM IN ARM, INC.

SIX MONTHS ENDED JUNE 30, 2017

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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 statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the six months 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 June 30, 2017, and the changes in its net assets and its cash flows for the six months 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 January 8, 2018, 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
January 8, 2018

ARM IN ARM, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

ASSETS

Current Assets

Cash and Cash Equivalents.....	\$ 132,685
Promises to Give.....	25,100
Grants Receivable.....	58,531
Food Inventory.....	<u>4,941</u>

Total Current Assets..... 221,257

Property and Equipment at Cost, Less Accumulated

Depreciation of \$222,495.....	<u>116,332</u>
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Other Assets

Investments.....	1,226,304
Beneficial Interest in Assets Held by a Foundation.....	274,469
Security Deposits.....	9,651
Credits for Food Purchases.....	<u>9,384</u>

Total Other Assets..... 1,519,808

TOTAL ASSETS..... \$ 1,857,397

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable.....	\$ 7,972
Accrued Expenses.....	<u>42,413</u>

Total Current Liabilities..... 50,385

Net Assets

Unrestricted.....	1,444,847
Temporarily Restricted.....	112,165
Permanently Restricted.....	<u>250,000</u>

Total Net Assets..... 1,807,012

TOTAL LIABILITIES AND NET ASSETS..... \$ 1,857,397

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

ARM IN ARM, INC.

STATEMENT OF ACTIVITIES

SIX MONTHS ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Support and Revenues</u>				
Donations.....	\$ 289,929	\$ 62,000	\$ -	\$ 351,929
In-Kind Food Donations.....	203,294	-	-	203,294
Grants.....	217,793	-	-	217,793
Interest and Dividend Income.....	13,151	(908)	-	12,243
Realized Gain (Loss) on Investments.....	-	1,517	-	1,517
Unrealized Gain (Loss) on Investments.....	12,656	17,767	-	30,423
Net Assets Released From Restrictions.....	<u>119,840</u>	<u>(119,840)</u>	<u>-</u>	<u>-</u>
Total Support and Revenues.....	<u>856,663</u>	<u>(39,464)</u>	<u>-</u>	<u>817,199</u>
<u>Expenses</u>				
Program Services.....	992,379	-	-	992,379
Management and General.....	71,789	-	-	71,789
Fundraising and Development.....	<u>106,143</u>	<u>-</u>	<u>-</u>	<u>106,143</u>
Total Expenses.....	<u>1,170,311</u>	<u>-</u>	<u>-</u>	<u>1,170,311</u>
Change in Net Assets.....	(313,648)	(39,464)	-	(353,112)
Net Assets, Beginning of Period.....	<u>1,758,495</u>	<u>151,629</u>	<u>250,000</u>	<u>2,160,124</u>
Net Assets, End of Period.....	<u>\$ 1,444,847</u>	<u>\$ 112,165</u>	<u>\$ 250,000</u>	<u>\$ 1,807,012</u>

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

ARM IN ARM, INC.

STATEMENT OF FUNCTIONAL EXPENSES

SIX MONTHS ENDED JUNE 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising and Development</u>	<u>Total</u>
Personnel:				
Payroll.....	\$ 270,974	\$ 29,696	\$ 70,527	\$ 371,197
Payroll Taxes.....	20,015	2,193	5,210	27,418
Payroll Service Fee.....	2,023	222	526	2,771
Employee Benefits.....	62,496	6,849	16,266	85,611
Other Personnel Costs.....	<u>1,445</u>	<u>158</u>	<u>376</u>	<u>1,979</u>
Total Personnel Expenses.....	<u>356,953</u>	<u>39,118</u>	<u>92,905</u>	<u>488,976</u>
Direct Assistance:				
Food.....	325,313	-	-	325,313
Rent.....	70,909	-	-	70,909
Mortgage.....	1,293	-	-	1,293
Security Deposits.....	22,564	-	-	22,564
Housing Stability and Case Management..	34,453	-	-	34,453
Utilities.....	25,677	-	-	25,677
Other.....	<u>13,887</u>	<u>-</u>	<u>-</u>	<u>13,887</u>
Total Direct Assistance.....	<u>494,096</u>	<u>-</u>	<u>-</u>	<u>494,096</u>
Other Operating Costs:				
Insurance.....	17,413	2,402	200	20,015
Fundraising Expenses.....	-	-	11,658	11,658
Program Expense.....	1,039	-	-	1,039
Conference and Training.....	145	-	-	145
Professional Fees.....	13,959	1,925	161	16,045
Audit.....	-	12,500	-	12,500
Maintenance and Supplies.....	16,428	2,266	189	18,883
Office.....	7,481	1,972	63	9,516
Postage.....	606	84	7	697
Rent.....	51,597	7,117	593	59,307
Staff and Volunteer Support.....	726	-	-	726
Telephone.....	8,248	1,138	95	9,481
Transportation.....	3,038	419	35	3,492
Utilities.....	10,509	1,449	121	12,079
Depreciation.....	<u>10,141</u>	<u>1,399</u>	<u>116</u>	<u>11,656</u>
Total Operating Costs.....	<u>141,330</u>	<u>32,671</u>	<u>13,238</u>	<u>187,239</u>
Total Expenses.....	<u>\$ 992,379</u>	<u>\$ 71,789</u>	<u>\$ 106,143</u>	<u>\$ 1,170,311</u>

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

ARM IN ARM, INC.

STATEMENT OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2017

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Grants and Donors.....	\$ 581,651
Cash Paid To Suppliers and Employees.....	(880,008)
Investment Income Received.....	1,143
Interest Paid.....	-
Income Taxes Paid.....	<u>-</u>

Net Cash Provided by (Used in)

Operating Activities..... (297,214)

Cash Flows from Investing Activities

Proceeds from Sales of Investments.....	163,300
Purchases of Investments.....	(150,000)
Purchases of Equipment.....	<u>(3,410)</u>

Net Cash Provided by (Used in)

Investing Activities..... 9,890

Decrease in Cash and Cash Equivalents..... (287,324)

Cash and Cash Equivalents at Beginning of Period..... 420,009

Cash and Cash Equivalents at End of Period..... \$ 132,685

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

ARM IN ARM, INC.

STATEMENT OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2017

**Reconciliation of Change in Net Assets to Net
Cash Provided by (Used in) Operating Activities**

Change in Net Assets..... \$ (353,112)

**Adjustments to Reconcile Change in Net Assets to
Cash Provided by (Used in) Operating Activities:**

Depreciation.....	11,656
Investment Interest and Dividends Reinvested.....	(11,100)
Net Realized and Unrealized (Gain) Loss on Investments.....	(31,940)
(Increase) Decrease in Operating Assets:	
Promises to Give.....	19,169
Grants Receivable.....	(7,240)
Food Inventory.....	67,307
Security Deposits.....	2,700
Credits for Food Purchases.....	(8,799)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable.....	(1,141)
Accrued Expenses.....	<u>15,286</u>

**Net Cash Provided by (Used in)
Operating Activities..... \$ (297,214)**

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

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2017

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 three 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.

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

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 Statement 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 Statement 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 Statement 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.

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

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 Statement 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.

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

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 as it is impractical to reasonably estimate the value. 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 six months ended June 30, 2017, food donations with a value of \$203,294 were received. This amount is included as in-kind food donations in the Statement of Activities. Food donations from private sources were valued at \$1.67 per pound for the six months ended June 30, 2017, in accordance with Feeding America's 2016 product valuation study. 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 \$4,941 remained in inventory at June 30, 2017.

Concentrations of Contributions or Grants:

For the six months ended June 30, 2017, approximately 13% of the Organization's total support and revenues was 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 June 30, 2017.

Functional Allocation of Expenses:

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

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

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 examinations 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.

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.

Change in Accounting Period:

In June 2017, the Board of Trustees approved a change in the financial year end of the Organization from December 31 to June 30. A six-month fiscal transition period from January 1, 2017 to June 30, 2017 precedes the start of the new fiscal year cycle.

Date of Management Evaluation of Subsequent Events:

Management has evaluated subsequent events through January 8, 2018, the date on which the financial statements were available to be issued.

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

Note 2. Investments

Investments as of June 30, 2017 are summarized as follows:

	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized gain (loss)</u>
Vanguard Intermediate Term Investment - Grade Fund Admiral Shares	\$ 406,089	\$ 396,242	\$ (9,847)
Vanguard Admiral Treasury Money Market Fund	716,740	716,740	-
Vanguard Wellesley Income Fund	105,877	113,300	7,423
Vanguard Federal Money Market Fund.....	<u>22</u>	<u>22</u>	<u>-</u>
Total	<u>\$1,228,728</u>	<u>\$1,226,304</u>	<u>\$ (2,424)</u>

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:

	<u>Estimated useful lives in years</u>	
Computers and office equipment	5 - 7	\$115,394
Leasehold improvements	7 - 40	144,819
Vehicles	5	<u>78,614</u>
		338,827
Accumulated depreciation.....		<u>222,495</u>
		<u>\$116,332</u>

Depreciation expense charged to operations was \$11,656 for the six months ended June 30, 2017.

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

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.

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 six months ended June 30, 2017, 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.

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

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

Endowment net asset composition is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
June 30, 2017 - Balance	\$ <u>-</u>	\$ <u>24,469</u>	\$ <u>250,000</u>	\$ <u>274,469</u>

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

Changes in endowment net assets for the six months ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of period.....	\$ -	\$ 19,394	\$ 250,000	\$ 269,394
Contributions	-	-	-	-
Appropriated for expenditures	-	(13,300)	-	(13,300)
Interest and dividends	-	186	-	186
Realized gain (loss).....	-	1,517	-	1,517
Unrealized gain (loss).....	-	17,767	-	17,767
Bank fees	<u>-</u>	<u>(1,095)</u>	<u>-</u>	<u>(1,095)</u>
Endowment net assets, end of period	\$ <u>-</u>	\$ <u>24,469</u>	\$ <u>250,000</u>	\$ <u>274,469</u>

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

Note 5. Fair Value Measurements

Assets measured at fair value on a recurring basis at June 30, 2017 were as follows:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Mutual funds:				
Intermediate bond funds.....	\$ 396,242	\$ 396,242	\$ -	\$ -
Income funds.....	113,300	113,300	-	-
Money market funds.....	716,762	716,762	-	-
Beneficial interest in assets held by Foundation.....	274,469	-	-	274,469
Food inventory.....	<u>4,941</u>	<u>-</u>	<u>-</u>	<u>4,941</u>
Total	<u>\$1,505,714</u>	<u>\$1,226,304</u>	<u>\$ -</u>	<u>\$ 279,410</u>

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.

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

Note 5. Fair Value Measurements (Cont'd)

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

Beginning balance	\$ 72,248
Donations	203,294
Food distributed	<u>(270,601)</u>
Ending balance	<u>\$ 4,941</u>

Note 6. Restrictions on Net Assets

Temporarily restricted net assets at June 30, 2017 are available for the following purposes:

Hunger Prevention Program	\$ 42,072
Homelessness Prevention Program.....	40,624
Capital purchases	5,000
Princeton Office and Pantry	<u>24,469</u>
	<u>\$112,165</u>

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

Note 7. Retirement Plan

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 six months ended June 30, 2017, the retirement plan expense incurred by the Organization was \$9,325.

ARM IN ARM, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

FOR THE SIX MONTHS ENDED JUNE 30, 2017

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 \$7,201 per month for 2017 and increase 2% each year.

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 June 30, 2017 for each of the next five years and in the aggregate are:

<u>Year ended June 30,</u>	<u>Amount</u>
2018.....	\$118,056
2019.....	74,850
2020.....	17,955
2021.....	-
2022 and thereafter.....	<u>-</u>
Total minimum future rental payments	<u>\$210,861</u>

Rental expense under all operating leases aggregated \$59,307 for the six months ended June 30, 2017.

**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**

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 June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the six months then ended, and the related notes to the financial statements, and have issued our report thereon dated January 8, 2018.

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
January 8, 2018