

**ROBERT POTTER LEAGUE
FOR ANIMALS, INC.**

Financial Statements

Year Ended July 31, 2018

(With Independent Auditors' Report Thereon)

ROBERT POTTER LEAGUE FOR ANIMALS, INC.

FINANCIAL STATEMENTS

Year Ended July 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Robert Potter League for Animals, Inc.:

We have audited the accompanying financial statements of Robert Potter League for Animals, Inc. (a not-for-profit organization) (the League), which comprise the statement of financial position as of July 31, 2018, and the related statements of activities, cash flows and functional expenses 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.

Auditors' 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 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 auditor considers internal control relevant to the League'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 League'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 Robert Potter League for Animals, Inc. as of July 31, 2018, 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.

Report on Summarized Comparative Information

We have previously audited the League's July 31, 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2017, is consistent, in all material respects, with the audited financial statements and related notes to the financial statements from which it has been derived.

Kahn, Litwin, Renya & Co., Ltd.

November 5, 2018

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
STATEMENT OF FINANCIAL POSITION
July 31, 2018
(With Comparative Totals at July 31, 2017)



	2018	2017
Assets		
Cash and cash equivalents	\$ 743,160	\$ 895,281
Service receivables	12,542	29,803
Unconditional promises to give	19,033	17,407
Prepaid expenses and other assets	29,168	27,050
Property and equipment, net	5,929,821	6,213,438
Investments, at fair value	4,562,150	4,286,680
	\$ 11,295,874	\$ 11,469,659
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 48,439	\$ 29,494
Accrued expenses	89,078	76,281
Total liabilities	137,517	105,775
Net Assets:		
Unrestricted:		
General	72,458	212,191
Investment in property and equipment, net	5,929,821	6,213,438
Board designated - operating reserve	683,400	639,100
Board designated - building reserve	197,847	170,047
Board designated - long-term investment reserve	2,527,134	2,186,863
Total unrestricted net assets	9,410,660	9,421,639
Temporarily restricted	287,377	481,925
Permanently restricted	1,460,320	1,460,320
Total net assets	11,158,357	11,363,884
Total Liabilities and Net Assets	\$ 11,295,874	\$ 11,469,659

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
STATEMENT OF ACTIVITIES
Year Ended July 31, 2018
(With Comparative Totals for the Year Ended July 31, 2017)



	2018	2017
Changes in unrestricted operating net assets:		
Operating revenue and support:		
Contributions and grants	\$ 695,847	\$ 589,223
Events, net of direct expenses of \$109,676 (Note 2)	136,269	160,122
Shelter services	442,760	331,032
Service contract fees	213,910	223,094
Sale of pet supplies, net	12,543	8,386
Appropriation of endowment and Board designated investment earnings	100,000	50,000
Net assets released from restrictions	450,211	749,785
Transfer from Board designated long-term investment reserve	70,000	-
Total operating revenue and support	2,121,540	2,111,642
Program expenses:		
Shelter services	1,388,071	1,157,131
Education and training services	351,975	325,485
Total program expenses	1,740,046	1,482,616
Supporting services:		
Fundraising	348,030	314,005
Management and general	182,702	205,583
Total supporting services	530,732	519,588
Total operating expenses	2,270,778	2,002,204
Changes in unrestricted net assets from operations	(149,238)	109,438
Non-operating revenue and support:		
Contributions and grants	8,854	65,000
Investment return	249,405	266,770
Appropriation of Board designated investment earnings	(50,000)	-
Transfer to operations	(70,000)	-
Changes in non-operating revenue and support	138,259	331,770
Changes in total unrestricted net assets	(10,979)	441,208
Changes in temporarily restricted net assets:		
Contributions and grants	210,301	315,564
Investment return - endowment	95,362	116,521
Net assets released from restrictions	(450,211)	(749,785)
Appropriation of endowment earnings	(50,000)	(50,000)
Changes in total temporarily restricted net assets	(194,548)	(367,700)
Change in total net assets	(205,527)	73,508
Net Assets, beginning of year	11,363,884	11,290,376
Net Assets, end of year	\$ 11,158,357	\$ 11,363,884

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
STATEMENT OF CASH FLOWS
Year Ended July 31, 2018
(With Comparative Totals for the Year Ended July 31, 2017)



	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in total net assets	\$ (205,527)	\$ 73,508
Adjustments to reconcile change in total net assets to net cash provided (used) by operating activities:		
Depreciation	308,090	319,935
Bad debt expense	715	325
Net realized and unrealized gain on investments	(243,650)	(288,624)
Contributions restricted for property and equipment	(3,100)	(2,600)
Changes in operating assets and liabilities:		
Service receivables	16,546	(5,579)
Unconditional promises to give	(1,626)	12,254
Prepaid expenses and other assets	(2,118)	23,321
Accounts payable	18,945	(8,176)
Accrued expenses	12,797	12,448
Net cash (used) provided by operating activities	<u>(98,928)</u>	<u>136,812</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(24,473)	-
Purchases of investments	(424,745)	(214,868)
Proceeds from sale of investments	392,925	66,284
Net cash used by investing activities	<u>(56,293)</u>	<u>(148,584)</u>
Cash Flows from Financing Activities:		
Contributions restricted for property and equipment	3,100	2,600
Net cash provided by financing activities	<u>3,100</u>	<u>2,600</u>
Net Decrease in Cash and Cash Equivalents	(152,121)	(9,172)
Cash and Cash Equivalents, beginning of year	<u>895,281</u>	<u>904,453</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 743,160</u></u>	<u><u>\$ 895,281</u></u>

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended July 31, 2018
(With Comparative Totals for the Year Ended July 31, 2017)



	2018						2017	
	Program Expenses			Supporting Services			Total Expenses	Total Expenses
	Shelter Services	Education & Training Services	Total Program Expenses	Fundraising	Management and General	Total Supporting Services		
Salaries and wages	\$ 639,226	\$ 141,145	\$ 780,371	\$ 203,975	\$ 68,297	\$ 272,272	\$ 1,052,643	\$ 898,035
Professional fees	12,135	2,555	14,690	4,735	5,800	10,535	25,225	23,929
Program supplies	35,536	4,838	40,374	4,080	4,768	8,848	49,222	50,845
Veterinary fees and supplies	178,594	-	178,594	-	-	-	178,594	143,046
Occupancy costs	58,711	17,018	75,729	2,070	8,618	10,688	86,417	76,319
Printing and publications	6,203	15,194	21,397	58,394	1,236	59,630	81,027	40,091
Employee benefits	56,467	18,729	75,196	28,909	9,655	38,564	113,760	90,561
Payroll taxes	60,899	6,022	66,921	16,311	4,208	20,519	87,440	77,047
Fees and other miscellaneous expenses	5,448	1,267	6,715	2,265	12,331	14,596	21,311	58,794
Advertising	2,679	1,401	4,080	-	-	-	4,080	2,021
Postage	1,367	1,145	2,512	3,439	841	4,280	6,792	12,349
Insurance	20,188	5,453	25,641	4,280	6,342	10,622	36,263	32,462
Food costs	11,704	-	11,704	-	-	-	11,704	13,008
Repairs and maintenance	51,150	14,827	65,977	-	7,126	7,126	73,103	43,514
Computer expenses	9,696	9,955	19,651	9,572	10,865	20,437	40,088	39,576
Training and strategic planning	4,319	759	5,078	3,784	10,812	14,596	19,674	10,890
Shelter expenses	2,215	27,894	30,109	-	-	-	30,109	30,366
Contracted labor	-	21,098	21,098	-	-	-	21,098	20,175
Telephone	2,269	972	3,241	1,296	1,945	3,241	6,482	7,057
Transport fees and travel expenses	15,827	155	15,982	929	30	959	16,941	11,859
Bad debt expense	715	-	715	-	-	-	715	325
Total expenses before depreciation	1,175,348	290,427	1,465,775	344,039	152,874	496,913	1,962,688	1,682,269
Depreciation	212,723	61,548	274,271	3,991	29,828	33,819	308,090	319,935
Total operating expenses	\$ 1,388,071	\$ 351,975	\$ 1,740,046	\$ 348,030	\$ 182,702	\$ 530,732	\$ 2,270,778	\$ 2,002,204

See accompanying notes to the financial statements and independent auditors' report.

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended July 31, 2018

1. Nature of Operations

Robert Potter League for Animals, Inc. (the League), a not-for-profit organization, originally founded in 1929, is dedicated to the prevention of inhumane treatment towards animals. The League provides care and shelter for lost or unwanted animals and, through the education of the public, helps secure their future.

2. Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist the reader in understanding the League's financial statements. The financial statements and notes are representations of the League's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Presentation

The financial statements of the League have been prepared on the accrual basis of accounting and, in accordance with authoritative guidance, report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

In addition, the Board of Directors (the Board) has designated various amounts within unrestricted net assets into reserves in accordance with the guidelines of the United Way and other not-for-profit watchdog agencies. The following reserves have been established:

Operating Reserve – A reserve equal to approximately 120 days of projected operating expenditures, excluding depreciation, has been designated to provide for operations in the event of an unanticipated interruption or other operating contingency.

Building Reserve – Since the completion of the new shelter, the League has been growing a building reserve fund to provide for major repairs and improvements. The Board annually transfers funds to the reserve from operations, and will continue to do so as outlined in the 20-year reserve requirement study prepared by the Nonprofit Finance Fund.

Long-term Investment Reserve – The Board has set aside certain unrestricted, non-operating funds for long-term purposes. Those funds have been invested to provide for the long-term growth of the League.

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended July 31, 2018

Performance Indicator

In the accompanying statement of activities, the primary indicator of the League's results is "changes in unrestricted net assets from operations," which includes revenue and support and expenses related to the ongoing operations of the League. Transactions such as investment return, bequests, unrestricted contributions and grants related to real property and net assets released from restrictions related to the collection of unconditional promises to give are included as a component of non-operating revenue and support on the statement of activities.

Summarized Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information without accompanying note disclosure. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America due to the lack of comparative note disclosures. Accordingly, such information should be read in conjunction with the League's financial statements and related notes to the financial statements for the year ended July 31, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits with financial institutions, and all liquid debt instruments purchased with an original maturity of three months or less, that have not been restricted by the donor or Board for long-term purposes.

Service Receivables

The League carries its receivables at anticipated net realizable value. Doubtful accounts are provided for on the basis of anticipated collection losses. The estimated losses are determined from historical collection experience and a review of outstanding receivables. A receivable is considered past due if the League has not received payment within stated terms. After all attempts to collect a receivable have failed, the receivable is written off against the allowance for doubtful accounts. Management believes that all receivables are collectible as of July 31, 2018.

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are discounted and recorded at the net present value of the estimated future cash flows, when the discount is material. Conditional promises to give are not included in support until such time as the conditions are substantially met.

The League uses the allowance method to reflect uncollectible promises to give. The allowance is based on prior years' collection experience and management's analysis of the specific promises to give at the end of the year. At year end, management has deemed that an allowance is not necessary.

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended July 31, 2018

Property and Equipment

Property and equipment are stated at cost or, if donated, at the fair market value at the date of the gift. Renewals and betterments over \$5,000 that materially extend the life of the assets are capitalized. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 30 years.

Investments and Fair Value Measurements

Authoritative guidance defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the League has the ability to access.

Level 2 inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own judgment about the assumptions that market participants would use in pricing the asset or liability. The unobservable inputs are developed based on the best information available in the circumstances and may include the League's own data.

The League reports investments at fair value on a recurring basis. These investments are classified as level 1 within the fair value hierarchy.

Level 1 investments owned by the League and listed on a National Securities Exchange are valued at the last recorded sales price as of the financial statement reporting date, or in the absence of recorded sales, at the last quoted bid price reported as of the financial statement reporting date.

It is the League's policy to deduct its investment management fees from investment return.

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended July 31, 2018

Revenue Recognition

Revenue is substantially derived from private contributions and grants. The League recognizes contributions and grants in the fiscal year in which the contribution is made. Contributions and grants are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor imposed restrictions. The League recognizes revenue for events when the event takes place.

The League recognizes shelter service and service contract fees when services to clients have been rendered and/or contractual obligations have been met. The League recognizes sales of pet supplies when the sale takes place.

Contributed Goods and Services

The League receives support in the form of non-cash contributions from various businesses and individuals to support its program mission. Contributions of non-cash assets are recorded at their fair market values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills and are provided by individuals possessing such skills, such as veterinary services, are recorded at their fair values in the period received.

The fair value of these contributed goods and services is included in contributions and grants in the statement of activities, except for those amounts benefiting fundraising events of the League, which are included in events, net in the statement of activities. For the year ended July 31, 2018, the value of contributed goods and services was \$76,137, of which approximately \$53,000 benefited events.

Income Taxes

The League is exempt from income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Management believes that the League operates in a manner consistent with their tax-exempt status at both a state and federal level.

The League annually files IRS Form 990 – *Return of Organization Exempt From Income Tax* reporting various information that the IRS uses to monitor the activities of tax-exempt entities. These tax returns are subject to review by the taxing authorities, generally for a period of three years after they were filed. The League currently has no tax examinations in progress.

Allocation of Indirect Costs

Certain costs of the League benefit more than one program and/or support service. Accordingly, these costs have been allocated in a systematic and rational manner among the programs benefited. Allocation factors used are space, burden on IT system and full-time employees.

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended July 31, 2018

Occupancy Expenses

The League's animal shelter is located on land owned by the State of Rhode Island. The League leases the land from the State of Rhode Island for one dollar per year under a lease agreement, which expires December 31, 2053. The fair value of this lease cannot be determined at this time and is not included in the League's statement of activities.

Advertising Costs

The League expenses advertising costs as they are incurred. Such advertising consists primarily of media advertisements promoting animals available for adoption and any of the League's special events. For the year ended July 31, 2018, advertising expense was approximately \$24,500, of which, approximately \$19,700 was donated in-kind. Of the total advertising expense, approximately \$19,700 is included in events, net in the statement of activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The standard is intended to simplify and improve how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Upon adoption net assets will be reduced to two classes (with and without donor restriction). The standard is effective for annual periods beginning after December 15, 2017, with early adoption permitted and will be applied retrospectively to all periods presented upon adoption. The standard will be effective for the League's year ending July 31, 2019. The League is currently in the process of evaluating the impact of adoption on the financial statements.

Subsequent Events

Management of the League has evaluated subsequent events through November 5, 2018, which is the date these financial statements were available to be issued.

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended July 31, 2018



3. Unconditional Promises to Give

Unconditional promises to give consist of promises to give from contributors over the next several years to support the League's charitable mission. The promised contributions due are as follows:

Within one year	\$ 15,123
One to five years	<u>3,910</u>
Unconditional promises to give	<u><u>\$ 19,033</u></u>

The League has been named as a beneficiary of several other bequests. Partial proceeds have been received for some of these bequests. Due to the uncertainty of the final settlements, no pledges have been recorded relating to the bequests. All amounts received have been included as part of non-operating or restricted contributions and grants.

4. Property and Equipment

Property and equipment consisted of the following:

Building and building improvements	\$ 8,754,061
Office equipment and software	272,197
Vehicles	<u>50,437</u>
	9,076,695
Less accumulated depreciation	<u><u>3,146,874</u></u>
Property and equipment, net	<u><u>\$ 5,929,821</u></u>

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended July 31, 2018



5. Investments

The League's investments measured at fair value on a recurring basis are all considered Level 1 investments and consist of the following:

Cash and Short-term Investments	\$	41,108
Equities:		
Basic materials		34,806
Financial		58,508
Consumer goods		60,457
Services		47,771
Technology		49,457
Industrial goods		28,270
Other equities		6,922
Total equities		286,191
Mutual Funds:		
Mid-cap blend		51,704
Small blend		49,266
Large blend		2,965,767
Small value		68,979
Short-term bond		27,483
Foreign large blend		82,665
Nontraditional bond		118,155
Multisector bond		120,830
Diversified emerging markets		44,012
Precious metals		27,142
Financial		47,771
Conservative allocation funds		108,512
Intermediate term funds		111,452
Technology		38,418
Other EFTs		47,658
Other mutual funds		118,647
Total mutual funds		4,028,461
Corporate Bonds		206,390
Total investments	\$	4,562,150

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended July 31, 2018



The composition of the total return on investments is as follows:

Interest and dividends	\$	119,060
Net realized and unrealized gains		243,650
Investment fees		(17,943)

Total investment return	\$	344,767

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

Restricted due to time, for general operations	\$	24,689
Animal care		21,856
CoyoteSmarts		2,424
TLC (Training, Leadership, Coaching) Fund		22,176
Building maintenance		17,629
Wellness clinics		15,500
Summer camps		1,000
Appreciation of donor restricted endowment funds (Note 7)		182,103

Total temporarily restricted net assets	\$	287,377

Of the amounts restricted due to time, approximately \$20,800 is expected to be released within one year.

7. Endowment and Permanently Restricted Net Assets

The League's endowment consists of various donor-restricted funds established to prevent inhumane treatment towards animals, provide care and shelter for lost or unwanted animals and provide education to the public. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are reported in the financial statements based on the existence or absence of donor-imposed restrictions.

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO THE FINANCIAL STATEMENTS
Year Ended July 31, 2018

Interpretation of Relevant Law - The Rhode Island Uniform Prudent Management of Institutional Funds Act (RI UPMIFA) requires the preservation of the fair value of the original gift as of the gift date of the donor-imposed endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the League classifies as permanently restricted (a) the original value of the gift donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the League in a manner consistent with the standard of prudence prescribed by RI UPMIFA.

Endowment net asset composition by type of fund at year end is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Animal care, food and sheltering	\$ 22,236	\$ 178,312	\$ 200,548
General purposes	159,867	1,282,008	1,441,875
Total endowment funds	\$ 182,103	\$ 1,460,320	\$ 1,642,423

Changes in endowment net assets for the year ended July 31, 2018 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 136,741	\$ 1,460,320	\$ 1,597,061
Investment return:			
Interest and dividends, net	45,596	-	45,596
Net realized and unrealized gains	49,766	-	49,766
Total investment return	95,362	-	95,362
Appropriation of endowment earnings	(50,000)	-	(50,000)
Endowment net assets, end of year	\$ 182,103	\$ 1,460,320	\$ 1,642,423

ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO THE FINANCIAL STATEMENTS
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Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or RI UPMIFA requires the League to retain as a fund of perpetual duration. There were no such deficiencies at July 31, 2018.

Return Objective and Risk Parameters - The League has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The League expects its endowment funds, over time, to provide an average rate of return of at least 5% annually. Actual results in any given year may vary from this amount.

Spending Policy - The League has a policy of appropriating for expenditure each year up to 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year end proceeding the fiscal year in which the expenditure is planned. However, this spending policy is adjusted annually based on current economic and operational needs with approval of the Board. In establishing this policy, the League considers the long-term expected return on its endowment. Accordingly, over the long-term, the League expects the current spending policy to allow its endowment to grow at a rate that preserves the purchasing power of the original investment.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate of return objectives, the League relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The League's goal is to have a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

8. Employee Benefit Plans

On January 1, 2014, the League established a SIMPLE IRA plan (IRA) established under section 408(p) of the Internal Revenue Code. The Plan covers all employees who receive at least \$5,000 in compensation annually. Employees may elect to defer a percentage of their compensation into the IRA. Under the IRA, the League will contribute a matching contribution equal to the employee contribution up to 3% of compensation. The League contributed \$23,966 to the IRA for the year ended July 31, 2018.

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9. Concentrations of Credit Risk

Financial instruments that potentially subject the League to concentrations of credit risk consist principally of cash and cash equivalents and investments.

The League maintains its operating accounts in three local financial institutions insured by the Federal Deposit Insurance Corporation up to specified limits. The account balances, at times, may exceed the insured limits, but management believes the League is not exposed to any significant credit risk related to these accounts.

Investment securities are exposed to various risks, such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in values of investment securities could occur in the near term and that such change could materially affect investment balances and activity included in the financial statements. The League's investments are maintained in a diversified portfolio in an attempt to minimize potential risk associated with marketable securities to the extent possible. At year end, management does not believe that significant credit risk exists relative to the investments.