

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

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JULY 31, 2009 AND 2008

INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Robert Potter League for Animals, Inc. (the League) as of July 31, 2009 and 2008, and the related statements of activities and change in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the management of the League. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the League's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Robert Potter League for Animals, Inc. as of July 31, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sansiveri, Kimball & McNamee, L.L.P.

October 5, 2009
Newport, Rhode Island

ROBERT POTTER LEAGUE FOR ANIMALS, INC.

STATEMENTS OF FINANCIAL POSITION JULY 31, 2009 AND 2008

	2009	2008
ASSETS:		
Cash and cash equivalents	\$ 344,975	\$ 674,533
Service receivables	20,634	30,633
Investments, at fair value	2,143,652	2,168,737
Unconditional promises to give	350,628	-
Assets restricted to investment in property and equipment:		
Unconditional promises to give	-	475,849
Investments, at fair value	-	135,792
Property and equipment, net	8,648,892	6,732,359
Other assets	48,791	37,901
	<u> </u>	<u> </u>
TOTAL	<u>\$ 11,557,572</u>	<u>\$ 10,255,804</u>
LIABILITIES:		
Note payable - bank	\$ 3,272,834	\$ 1,640,692
Accounts payable and accrued liabilities	293,592	661,051
Total liabilities	<u>3,566,426</u>	<u>2,301,743</u>
NET ASSETS:		
Unrestricted:		
General	225,924	647,063
Investment in property and equipment, net	5,376,058	5,091,667
Board designated - Endowment	1,535,089	1,715,294
Total unrestricted net assets	<u>7,137,071</u>	<u>7,454,024</u>
Temporarily restricted	400,632	46,594
Permanently restricted	453,443	453,443
	<u> </u>	<u> </u>
Total net assets	<u>7,991,146</u>	<u>7,954,061</u>
	<u> </u>	<u> </u>
TOTAL	<u>\$ 11,557,572</u>	<u>\$ 10,255,804</u>

See notes to financial statements.

ROBERT POTTER LEAGUE FOR ANIMALS, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED JULY 31, 2009 AND 2008

	2009				2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:								
Contributions and grants	\$ 887,616	\$ 1,292,723		\$ 2,180,339	\$ 800,244	\$ 1,800,941	\$ 79,114	\$ 2,680,299
Shelter services	223,452			223,452	156,221			156,221
Service contract fees	182,068			182,068	219,480			219,480
Investment income	53,775	2,441		56,216	43,825	72,281		116,106
Net realized and unrealized gains (losses) on investments	(588,342)	(810)		(589,152)	(55,837)	17,612	(13,288)	(51,513)
Sale of pet supplies, net	9,948			9,948	17,823			17,823
Sub-total support and revenue	768,517	1,294,354		2,062,871	1,181,756	1,890,834	65,826	3,138,416
Net assets released from restrictions	940,316	(940,316)			3,760,845	(3,760,845)		
Total support and revenue	1,708,833	354,038		2,062,871	4,942,601	(1,870,011)	65,826	3,138,416
EXPENSES:								
Program services:								
Shelter services	899,352			899,352	572,295			572,295
Education and training services	293,756			293,756	184,306			184,306
Total program services	1,193,108			1,193,108	756,601			756,601
Supporting services:								
Fundraising	538,446			538,446	434,691			434,691
Management and general	294,232			294,232	521,349			521,349
Total supporting services	832,678			832,678	956,040			956,040
Total expenses	2,025,786			2,025,786	1,712,641			1,712,641
CHANGE IN NET ASSETS	(316,953)	354,038		37,085	3,229,960	(1,870,011)	65,826	1,425,775
NET ASSETS, BEGINNING OF THE YEAR	7,454,024	46,594	\$ 453,443	7,954,061	4,224,064	1,916,605	387,617	6,528,286
NET ASSETS, END OF THE YEAR	\$ 7,137,071	\$ 400,632	\$ 453,443	\$ 7,991,146	\$ 7,454,024	\$ 46,594	\$ 453,443	\$ 7,954,061

See notes to financial statements.

ROBERT POTTER LEAGUE FOR ANIMALS, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JULY 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 37,085	\$ 1,425,775
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	255,911	53,108
Realized losses (gains) on investments, net	304,705	(20,177)
Unrealized losses on investments, net	284,447	80,874
Loss on disposal of property and equipment	26,403	212,774
Assets restricted for long-term purposes:		
Investment in endowment	-	(65,541)
Investment in property and equipment	(1,285,546)	(1,876,736)
Changes in operating assets and liabilities:		
Service receivables	9,999	(14,656)
Unconditional promises to give	125,221	-
Other assets	(10,890)	6,294
Accounts payable and accrued liabilities	(367,459)	480,756
NET CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(620,124)</u>	<u>282,471</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of:		
Property and equipment	(2,198,847)	(5,785,417)
Investments	(1,869,947)	(1,286,052)
Proceeds from sales of investments	1,441,672	2,951,314
NET CASH FLOWS USED BY INVESTING ACTIVITIES	<u>(2,627,122)</u>	<u>(4,120,155)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for:		
Investment in property and equipment	1,285,546	2,444,950
Investment in endowment	-	79,114
Proceeds from line of credit	1,632,142	1,640,692
Other financing activities -		
Investment income restricted for reinvestment	-	62,222
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>2,917,688</u>	<u>4,226,978</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(329,558)	389,294
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>674,533</u>	<u>285,239</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 344,975</u>	<u>\$ 674,533</u>

See notes to financial statements.

ROBERT POTTER LEAGUE FOR ANIMALS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JULY 31, 2009 AND 2008

	2009						
	Program Services			Supporting Services			
	Shelter Services	Education & Training Services	Total	Fundraising	Management and General	Total	Total Expenses
Salaries and wages	\$ 354,796	\$ 111,621	\$ 466,417	\$ 169,296	\$ 44,806	\$ 214,102	\$ 680,519
Professional fees	12,131	2,868	14,999	100,575	74,275	174,850	189,849
Supplies	17,803	2,684	20,487	75,840	34,276	110,116	130,603
Veterinary fees and supplies	95,982		95,982			-	95,982
Occupancy costs	45,828	25,729	71,557	883	22,391	23,274	94,831
Printing and publications	4,253	14,740	18,993	54,003	10,773	64,776	83,769
Fringe benefits	40,963	10,035	50,998	23,984	6,653	30,637	81,635
Interest Expense	53,582	17,336	70,918	1,576	6,304	7,880	78,798
Payroll taxes	27,089	9,102	36,191	11,954	8,667	20,621	56,812
Miscellaneous	9,208	4,186	13,394	22,673	15,935	38,608	52,002
Advertising	4,976	15,911	20,887	18,419	801	19,220	40,107
Postage	1,646	586	2,232	28,268	1,112	29,380	31,612
Insurance	12,409	4,086	16,495	1,928	5,853	7,781	24,276
Food costs	5,995		5,995	18,133		18,133	24,128
Repairs and maintenance	13,175	3,819	16,994		1,446	1,446	18,440
Computer expenses	990	4,250	5,240		7,658	7,658	12,898
Staff training	7,178	554	7,732		3,968	3,968	11,700
Shelter expenses	10,104		10,104			-	10,104
Contracted labor		8,040	8,040		1,813	1,813	9,853
Telephone	2,545	1,909	4,454	4,422		4,422	8,876
Auto and travel expenses	3,827		3,827	1,374	624	1,998	5,825
Bad debt expense	853		853			-	853
Total expenses before depreciation and amortization and loss on disposal of property and equipment	725,333	237,456	962,789	533,328	247,355	780,683	1,743,472
Loss on disposal of property and equipment						26,403	26,403
Depreciation and amortization	174,019	56,300	230,319	5,118	20,474	25,592	255,911
Total	\$ 899,352	\$ 293,756	\$ 1,193,108	\$ 538,446	\$ 294,232	\$ 832,678	\$ 2,025,786

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ROBERT POTTER LEAGUE FOR ANIMALS, INC.
 STATEMENTS OF FUNCTIONAL EXPENSES, ETC.

	2008						
	Program Services			Supporting Services			Total Expenses
	Shelter Services	Education & Training Services	Total	Fundraising	Management and General	Total	
Salaries and wages	\$ 322,145	\$ 103,263	\$ 425,408	\$ 181,255	\$ 28,645	\$ 209,900	\$ 635,308
Professional fees			-	71,867	39,387	111,254	111,254
Supplies	20,061	1,013	21,074	57,869	18,207	76,076	97,150
Fringe benefits	48,349	15,168	63,517	26,545	4,740	31,285	94,802
Veterinary fees and supplies	72,681		72,681			-	72,681
Occupancy costs		13,644	13,644		57,185	57,185	70,829
Printing and publications	2,712	21,379	24,091	29,372	14,843	44,215	68,306
Payroll taxes	34,972	7,780	42,752	2,549	7,496	10,045	52,797
Miscellaneous	9,917	2,059	11,976	6,098	22,530	28,628	40,604
Advertising	5,299	3,287	8,586	22,251	700	22,951	31,537
Postage	1,174	707	1,881	25,129	1,720	26,849	28,730
Shelter expenses	21,759		21,759			-	21,759
Insurance	54		54		21,637	21,637	21,691
Contracted labor		7,260	7,260		11,538	11,538	18,798
Staff training	14,283	1,057	15,340		3,453	3,453	18,793
Computer expenses	2,342	7,531	9,873		8,234	8,234	18,107
Food costs	3,480		3,480	11,194		11,194	14,674
Repairs and maintenance			-		14,353	14,353	14,353
Auto and travel expenses	4,701	158	4,859	562	799	1,361	6,220
Telephone	4,441		4,441			-	4,441
Interest expense	3,925		3,925			-	3,925
Total expenses before depreciation and amortization and loss on disposal of property and equipment	572,295	184,306	756,601	434,691	255,467	690,158	1,446,759
Loss on disposal of property and equipment			-		212,774	212,774	212,774
Depreciation and amortization			-		53,108	53,108	53,108
Total	\$ 572,295	\$ 184,306	\$ 756,601	\$ 434,691	\$ 521,349	\$ 956,040	\$ 1,712,641

See notes to financial statements.

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ROBERT POTTER LEAGUE FOR ANIMALS, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Basis of Financial Reporting

The accompanying financial statements of the League have been prepared on the accrual basis of accounting.

Basis of Presentation

To ensure the observance of limitations and restrictions placed on the use of resources available to the League, the accounts are classified into three classes of net assets as follows:

- Unrestricted net asset group includes funds which management and the Board of Directors of the League retain full control to use in achieving any of their organizational purposes. This group also includes board-designated net assets which represent unrestricted net assets that the Board of Directors has voluntarily placed limits on.
- Temporarily restricted net asset group includes funds restricted by outside sources, which may only be utilized in accordance with purposes and/or time periods established by the donor of such funds.
- Permanently restricted net asset group includes funds permanently restricted by outside sources, which require that the principal be invested in perpetuity and only the income be utilized by the League. Income may be utilized for unrestricted purposes or temporarily restricted purposes as established by the donor.

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 for long-term purposes.

Service Receivables

The League carries its service receivables at cost less an allowance for doubtful accounts. The League provides appropriate provisions for doubtful accounts based upon factors surrounding the credit risk and activity of specific customers, historical trends, and other information.

The League does not accrue interest on service receivables. Such receivables are written off when the League has determined that there is no likelihood of collection.

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 recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using the League's internal borrowing rate applicable to the year in which the promise is received. The League's internal borrowing rate was approximately 2% for the year ended July 31, 2009.

Inventories

Inventories are stated at the lower of cost as determined on the first-in, first-out method, or market. Inventories consist primarily of various animal related products sold at the shelter.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the fair market value at the date of the gift.

Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets. The League capitalizes any property or equipment purchases with a cost greater than \$1,000 and estimated useful life of more than one year.

Investments

The League accounts for investments in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Under U.S. GAAP, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values. The fair values in short term investments, equity

securities and corporate and government bonds have been determined by the quoted market price on the last day of the League's fiscal year. Cash equivalents are reported at their cash value, which approximates fair value. Unrealized gains and losses are included in the change in net assets.

Revenue Recognition

Revenue is substantially derived from private contributions and grants. All contributions are considered to be available for use by the various programs and general operations of the League unless specifically restricted by the donor. 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.

Donated Services

The League is provided with specialized services, primarily veterinary services and advertising, donated by professionals. The fair value of these contributed services has been recognized in the financial statements as unrestricted revenues and expenses and were approximately \$204,000 and \$187,000 for the years ended July 31, 2009 and 2008, respectively.

Employee Retirement Plan

The League maintains a defined contribution plan (the Plan) which qualifies as a 403(b) plan under the Internal Revenue Code. The Plan covers all employees who meet certain eligibility requirements. Employees may elect to defer a percentage of their compensation into the Plan. Under the Plan, the League may contribute a voluntary matching contribution and/or a discretionary contribution. For the year ended July 31, 2008, the League made a voluntary matching contribution equal to 50% of the first 6% deferred by an employee. The League's matching contributions were suspended during the year ended July 31, 2009. The League's contributions to the Plan were approximately \$2,800 and \$13,200 for the years ended July 31, 2009 and 2008, respectively.

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 has not been determined and is not included in the League's statement of functional expenses.

Advertising Expense

The League expenses advertising costs as they are incurred. Such advertising consists primarily of newspaper advertisements promoting animals available for adoption and any

of the League's special events. As of July 31, 2009 and 2008, advertising expenses were approximately \$40,000 and \$32,000, respectively.

Allocation of Indirect Costs

The League's policy is to allocate indirect costs of administrative salaries and benefits to the League's programs based on the estimated time administrative staff work on each program. The League also allocates occupancy costs to the League's programs based on square footage.

Income Tax Status

The League qualifies as a tax-exempt organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code. As such, the League is exempt from Federal and state income taxes.

Endowment Funds

Effective July 1, 2008, the League adopted FASB Staff Position (FSP) FAS 117-1, "*Endowments of Not-for-Profit Organizations*" (FSP 117-1), which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). In addition, the FSP 117-1 improves disclosures about the League's endowment funds (both donor-restricted endowment funds and board-designated endowment funds). Effective June 30, 2009, the League was subject to the newly enacted Rhode Island UPMIFA law.

Fair Value Measurements

Effective July 1, 2008, the League adopted Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*" (SFAS No. 157). SFAS No. 157 defines fair value and establishes a framework for measuring fair value. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and an entity's own assumptions. The fair value measurement should consider adjustment for risk, such as risk inherent in a valuation technique or its input. The fair value hierarchy assigns priorities to the inputs to valuation techniques into three broad levels as follows:

- Level 1 – Generally quoted prices in active markets for identical assets or liabilities.
- Level 2 – Generally quoted prices for identical assets and liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by correlation or other means. If the asset or liability has a specific term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Generally are unobservable and allow for situations in which there is little if any, market activity.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Actual results could differ from those estimates.

Subsequent events

Management has evaluated subsequent events through October 14, 2009, which is the date the financial statements were available to be issued.

Reclassifications

Certain amounts reported in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

2. INVESTMENTS

Investments are recorded at fair value in the accompanying financial statements. The cost and approximate fair value of the League's investments as of July 31, 2009 and 2008 are as follows:

	2009		
	Gross		
	Unrealized		
	Gain (Loss),		
	Cost	net	Fair Value
Cash equivalents	\$ 90,547		\$ 90,547
Short-term investments	425,000	\$ (356)	424,644
Government bonds	606,334	(905)	605,429
Corporate bonds	868,029	14,769	882,798
Equity securities	99,473	40,761	140,234
Total investments	\$ 2,089,383	\$ 54,269	\$ 2,143,652

	2008		
	Cost	Gross Unrealized Gain (Loss), net	Fair Value
Cash equivalents	\$ 213,527		\$ 213,527
Short-term investments	130,060	\$ (11,160)	118,900
Government bonds	293,819	13,404	307,223
Corporate bonds	351,683	1,600	353,283
Equity securities	976,724	334,872	1,311,596
Total	\$ 1,965,813	\$ 338,716	2,304,529
Less amounts restricted to investment in property and equipment			<u>(135,792)</u>
Total unrestricted investments			<u>\$ 2,168,737</u>

Investment management fees for the years ended July 31, 2009 and 2008 were approximately \$18,400 and \$22,500, respectively.

The fair value measurement information for the investments at July 31, 2009 and 2008 is considered level 1 as the fair value is derived from quoted prices in the active markets.

3. UNCONDITIONAL PROMISES TO GIVE

As of July 31, 2009 and 2008, unconditional promises to give consist of the following:

	2009	2008
Amounts of gross unconditional promises to give due in:		
Less than one year	\$ 277,519	\$ 328,161
One to five years	75,109	143,688
More than five years	-	10,000
Total unconditional promises to give	352,628	481,849
Discount to net present value	<u>(2,000)</u>	<u>(6,000)</u>
Net unconditional promises to give at year end	<u>\$ 350,628</u>	<u>\$ 475,849</u>

4. PROPERTY AND EQUIPMENT

As of July 31, 2009 and 2008, property and equipment consisted of the following:

	2009	2008
Animal shelter and improvements	\$ 8,695,729	\$ 469,987
Furniture, equipment, and software	259,893	140,429
Vehicles	14,283	14,283
Construction in progress	-	6,660,161
Total property and equipment	8,969,905	7,284,860
Less accumulated depreciation and amortization	321,013	552,501
Property and equipment, net	<u>\$ 8,648,892</u>	<u>\$ 6,732,359</u>

5. SHORT-TERM FINANCING ARRANGEMENT

The League has a \$3.3 million bridge line-of-credit agreement with a bank to finance, as needed, the construction of the new shelter. The line of credit is secured by certain investments and unconditional promises to give for the capital campaign. Interest is calculated based on the one-month Federal Home Loan Bank of Boston Classic Regular Advance Rate plus 1.75%, as defined by the agreement. As of July 31, 2009, the effective interest rate was 2.08%. Such agreement expires January 31, 2011, at which time all amounts are due. Outstanding borrowings on this line-of-credit were approximately \$3.3 million and \$1.7 million as of July 31, 2009 and 2008, respectively.

6. NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of July 31, 2009 and 2008:

	2009	2008
Restricted due to time	\$ 361,073	\$ -
Restricted due to purpose - animal care	39,559	46,594
Total temporarily restricted net assets	<u>\$ 400,632</u>	<u>\$ 46,594</u>

Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes as of July 31, 2009 and 2008:

Animal care and Spay and neutering	\$	178,312
General purposes of the League		<u>275,131</u>
Total permanently restricted net assets	\$	<u>453,443</u>

Net Assets Released from Restrictions

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors for the years ended July 31, 2009 and 2008 as follows:

	<u>2009</u>	<u>2008</u>
Restricted due to purpose	\$ 815,095	\$ 3,760,845
Restricted due to time	<u>125,221</u>	<u>-</u>
Net assets released from restrictions	<u>\$ 940,316</u>	<u>\$ 3,760,845</u>

7. ENDOWMENT

The League's endowment consists of various funds established to prevent inhumane treatment towards animals, provide care and shelter for lost or unwanted animals and provides education of the public. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment. As required by U.S. GAAP, net assets associated with endowment funds, including Board designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors have interpreted the recently enacted UPMIFA law that the Board of Directors to exercise prudence when appropriating for expenditure or accumulation of endowment fund and consider the uses, benefits, purposes and duration for which the endowment fund is established. As a result of this interpretation, the League classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, plus (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified according to the wishes of the donor or as established by the Board of Directors. When the donor has directed a specified use for

investment earnings, the remaining portion of the endowment fund is classified as temporarily restricted net assets until funds are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the League, in making a determination to appropriate or accumulate, shall act in good faith, with the care that an ordinary prudent person in a like position would exercise under similar circumstances and consider, if relevant, the following factors:

- The duration and preservation of the endowment fund;
- The purposes of the League and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the League; and
- The investment policy of the League.

Return Objectives 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. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as Board designated funds under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the Barclay's U.S. gov/credit 1-3 year index while assuming a moderate level of investment risk. The League expects its endowment funds, over time, to provide an average rate of return that allows the league to appropriate for expenditure 5% annually while preserving the purchasing power of the original investment. Actual returns in any given year may vary from this amount.

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 targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

In general, the League has a policy of appropriating for expenditure each year 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 its Board of Directors. In establishing this policy, the League

considered 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. This is consistent with the League's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional growth through investment return.

Endowment Net Asset Classification as of July 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds - Donor designated	\$ -	\$ -	\$ 453,443	\$ 453,443
Endowment funds - Board designated	1,535,089	-	-	1,535,089
Total funds	<u>\$ 1,535,089</u>	<u>\$ -</u>	<u>\$ 453,443</u>	<u>\$ 1,988,532</u>

Changes in Endowment Net Assets for the Year Ended July 31, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 1,715,294	\$ -	\$ 453,443	\$ 2,168,737
Investment return:				
Investment income, net of management fees	53,775	-	-	53,775
Net depreciation (realized and unrealized)	(588,342)	-	-	(588,342)
Total investment return	<u>(534,567)</u>	<u>-</u>	<u>-</u>	<u>(534,567)</u>
Contributions	408,137	-	-	408,137
Appropriation of endowment assets for expenditures	<u>(53,775)</u>	<u>-</u>	<u>-</u>	<u>(53,775)</u>
Endowment net assets, end of year	<u>\$ 1,535,089</u>	<u>\$ -</u>	<u>\$ 453,443</u>	<u>\$ 1,988,532</u>

Endowment Net Asset Classification as of July 31, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds - Donor designated	\$ -	\$ -	\$ 453,443	\$ 453,443
Endowment funds - Board designated	1,715,294	-	-	1,715,294
Total funds	<u>\$ 1,715,294</u>	<u>\$ -</u>	<u>\$ 453,443</u>	<u>\$ 2,168,737</u>

Changes in Endowment Net Assets for the Year Ended July 31, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,224,653	\$ -	\$ 387,617	\$ 2,612,270
Investment return:				
Investment income, net of management fees	43,825	-	-	43,825
Net depreciation (realized and unrealized)	(55,837)	-	(13,288)	(69,125)
Total investment return	(12,012)	-	(13,288)	(25,300)
Contributions	-	-	79,114	79,114
Appropriation of endowment assets for expenditures	(497,347)	-	-	(497,347)
Endowment net assets, end of year	<u>\$ 1,715,294</u>	<u>\$ -</u>	<u>\$ 453,443</u>	<u>\$ 2,168,737</u>

8. CONCENTRATIONS OF CREDIT AND MARKET RISK

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

At various times, the League's cash deposits exceed the FDIC insurance limit of \$250,000. Management considers this a normal business risk. The League is required to maintain its primary cash account at the same financial institution with which the League has its line-of-credit agreement. (See note 5).

As of July 31, 2009, the investment portfolio has been invested in a diversified portfolio of financial instruments which management believes reduces the concentration of market risk.

9. SUPPLEMENTAL CASH FLOW INFORMATION

For the years ended July 31, 2009 and 2008, the League made cash payments of interest of approximately \$71,000 and \$4,000, respectively.
