

**LOST DOG RESCUE FOUNDATION
dba LOSTDOG&CATRESCUE**

AUDITED FINANCIAL STATEMENTS

December 31, 2008 and 2007

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Drolet + Associates PLLC

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Lost Dog Rescue Foundation
Chantilly, VA

Report of Independent Auditors

We have audited the accompanying statements of financial position of the Lost Dog Rescue Foundation (the Organization) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Lost Dog Rescue Foundation as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Drolet + Associates, PLLC

Washington, DC
July 23, 2009

LOST DOG RESCUE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 110,298	\$ 64,124
TOTAL CURRENT ASSETS	110,298	64,124
FIXED ASSETS		
Property and equipment	76,412	57,472
Less accumulated depreciation	(18,146)	(9,704)
TOTAL FIXED ASSETS	58,266	47,768
TOTAL ASSETS	\$ 168,564	\$ 111,892
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 69,382	\$ 31,886
TOTAL CURRENT LIABILITIES	69,382	31,886
NET ASSETS		
Unrestricted	63,685	80,006
Temporarily restricted	35,497	-0-
TOTAL NET ASSETS	99,182	80,006
TOTAL LIABILITIES AND NET ASSETS	\$ 168,564	\$ 111,892

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

LOST DOG RESCUE FOUNDATION
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2008 and 2007

	Unrestricted	Temporarily Restricted	Total 2008	Total 2007
REVENUE				
Adoptions	\$ 607,998		\$ 607,998	\$ 484,644
Donations	278,808	35,497	314,305	270,330
In-kind donations	42,000		42,000	44,500
Interest income	229		229	374
TOTAL REVENUE	929,035	35,497	964,532	799,848
EXPENSES				
Advertising and promotions	20,332		20,332	17,498
Animal medical and health	551,759		551,759	438,130
Adoption expense	562		562	245
Automobile expense	24,619		24,619	19,798
Bank service charges	3,054		3,054	646
Clothing	8,516		8,516	2,940
Conferences and education	3,107		3,107	-0-
Depreciation	8,442		8,442	6,599
Dues and subscriptions	800		800	390
Fundraising	3,642		3,642	3,682
Insurance	1,817		1,817	660
Licenses and permits	325		325	37
Supplies	12,631		12,631	4,276
Payroll expenses	254,764		254,764	191,609
Postage and delivery	414		414	1,646
Printing and reproduction	4,374		4,374	5,053
Professional fees	6,765		6,765	5,850
Rent	36,000		36,000	36,000
Telephone	1,736		1,736	2,052
Building repairs	1,468		1,468	8,674
Website	229		229	545
TOTAL EXPENSES	945,356		945,356	746,330
CHANGE IN NET ASSETS	(16,321)	35,497	19,176	53,518
NET ASSETS, BEGINNING OF YEAR	80,006	-0-	80,006	26,488
NET ASSETS, END OF YEAR	\$ 63,685	\$ 35,497	\$ 99,182	\$ 80,006

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

LOST DOG RESCUE FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 19,176	\$ 53,518
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	8,442	6,599
Decrease in accounts receivable	-0-	12,235
Increase in accounts payable and accrued expenses	37,496	15,711
NET CASH PROVIDED BY OPERATING ACTIVITIES	65,114	88,063
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(18,940)	(32,714)
NET CASH USED IN INVESTING ACTIVITIES	(18,940)	(32,714)
NET INCREASE IN CASH AND CASH EQUIVALENTS	46,174	55,349
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	64,124	8,775
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 110,298	\$ 64,124

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

**LOST DOG RESCUE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and

Program Services The Lost Dog Rescue Foundation (the Organization) is a highly dedicated group of volunteers and small paid staff that rescues abandoned or displaced animals, mainly dogs and cats, from the threat of euthanasia by area shelters or other at-risk situations. Once in their care, these companion animals are fully vaccinated and spayed or neutered. The Organization also provides for those animals that need additional time and medical care before going to a new home. The Organization operates under the name of LostDog&CatRescue.

While awaiting placement in permanent, loving homes, these animals stay either at the Organization's boarding facility, the Lost Dog Ranch (the Ranch), 61 acres in Sumerduck, VA, or in foster homes.

Each weekend, the Organization conducts adoption events at pet supply stores in the DC - metro area. Their volunteers interview and educate prospective adopters on the importance of proper veterinary care, nutrition, exercise, and obedience training to ensure a successful adoption for everyone involved.

The Organization is supported primarily by adoption fees and contributions.

**Basis of
Accounting**

The accompanying financial statements are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when accrued.

**Cash and Cash
Equivalents**

The Organization considers cash on hand, deposits in banks, and money market operating accounts, not held for investment, to be cash equivalents.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). In addition, during their advance ruling period, the Internal Revenue Service will treat the Organization as a publicly supported organization, and not as a private foundation within the meaning of Section 509(a) of the Code. The advance ruling period began May 2, 2001 and ended April 30, 2006.

Fixed Assets

Fixed assets are recorded at cost, if purchased, or at fair market value at date of donation, if contributed, and are depreciated using the straight-line method over the estimated useful life of the asset.

**Accounts
Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. As of December 31, 2008 there was no accounts receivable.

LOST DOG RESCUE FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008 and 2007

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Contributions The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Restricted contributions for which the restrictions are met in the year received are considered unrestricted for financial statement purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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 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.

NOTE B – DONATED SERVICES

Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. For the years ended December 31, 2008 and 2007 the Organization received no donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks for the Organization with specific assistance programs, campaign solicitations, and various assignments. The Organization receives more than 16,000 volunteer hours per year.

NOTE C – RELATED PARTY

The Underwood/McAlwee Corporation (the Corporation) is owned by the founders of the Organization. The Corporation leases the property at 14083 Silverhill Road, Sumerduck Virginia to the Organization for the sum of one dollar per year. The Organization is given access to the property and all structures contained therein. The property consists of 61 acres, a barn and a former machine storage building converted into a kennel facility with indoor/outdoor kennel runs and storage space. The estimated rental value of the portion of the property that the Organization uses is \$3,000 per month. In addition, the Organization is allowed the use of a van, for an estimated use of \$6,000 annually.

LOST DOG RESCUE FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008 and 2007

NOTE D – ALLOCATION OF FUNCTIONAL EXPENSES

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

The functional expenses for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Program	\$ 876,048	\$ 729,895
Management and General	65,666	12,753
Fundraising	3,642	3,682
TOTAL	\$ 945,356	\$ 746,330

NOTE E – CONCENTRATION

For the years ended December 31, 2008 and 2007, approximately 33% of the Organization's donations were provided by two donors.

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2008, the Organization's temporarily restricted net assets consisted of the following:

Description	2008	2007
Building Fund	\$ 35,497	-0-
Total temporarily restricted net assets	\$ 35,497	\$ -0-