

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

AUDITED FINANCIAL STATEMENTS

December 31, 2010

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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 statement of financial position of the Lost Dog Rescue Foundation (the Organization) as of December 31, 2010 and the related statements of activities and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated June 11, 2010, we expressed an unqualified opinion on those statements.

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 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 audit provides 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, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Drolet + Associates, PLLC

Washington, DC
October 5, 2011

**LOST DOG RESCUE FOUNDATION
STATEMENT OF FINANCIAL POSITION**

December 31, 2010

(With Summarized Financial Information for December 31, 2009)

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,420	\$ 60,591
Prepaid expenses	3,753	-0-
Accounts receivable	17,667	-0-
TOTAL CURRENT ASSETS	39,840	60,591
FIXED ASSETS		
Property and equipment	50,306	27,258
Website	3,000	-0-
Leasehold improvements	334,882	94,075
	388,188	121,333
Less accumulated depreciation and amortization	(45,895)	(28,209)
TOTAL FIXED ASSETS	342,293	93,124
TOTAL ASSETS	\$ 382,133	\$ 153,715
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 81,691	\$ 71,663
TOTAL CURRENT LIABILITIES	81,691	71,663
NET ASSETS		
Unrestricted	297,838	74,555
Temporarily restricted	2,604	7,497
TOTAL NET ASSETS	300,442	82,052
TOTAL LIABILITIES AND NET ASSETS	\$ 382,133	\$ 153,715

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

LOST DOG RESCUE FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010
(With Summarized Financial Information for the Year Ended December 31, 2009)

	Unrestricted	Temporarily Restricted	Total 2010	Total 2009
REVENUE				
Adoptions	\$ 673,384		\$ 673,384	\$ 617,293
Donations	555,755	\$ 38,111	593,866	405,264
In-kind donations	42,000		42,000	42,000
Interest income	11		11	81
Other revenue	6,839		6,839	-0-
Net assets released from restrictions	43,004	(43,004)	-0-	-0-
TOTAL REVENUE	1,320,993	(4,893)	1,316,100	1,064,638
EXPENSES				
Advertising and promotions	21,006		21,006	32,308
Animal medical and health	680,065		680,065	642,487
Vehicle expense	24,926		24,926	24,730
Bank service charges	18,831		18,831	12,645
Conferences and education	724		724	825
Depreciation and amortization	17,686		17,686	10,063
Dues and subscriptions	390		390	539
Insurance	1,210		1,210	504
Licenses and permits	725		725	25
Supplies	3,791		3,791	14,671
Payroll and related expenses	263,795		263,795	275,420
Printing and reproduction	2,986		2,986	4,411
Professional fees	7,190		7,190	6,750
Rent	36,000		36,000	36,000
Telephone	956		956	956
Gas and electric	3,061		3,061	-0-
Repairs and maintenance	12,668		12,668	17,053
Miscellaneous	1,001		1,001	2,193
Website	699		699	188
TOTAL EXPENSES	1,097,710		1,097,710	1,081,768
CHANGE IN NET ASSETS	223,283	(4,893)	218,390	(17,130)
NET ASSETS, BEGINNING OF YEAR	74,555	7,497	82,052	99,182
NET ASSETS, END OF YEAR	\$ 297,838	\$ 2,604	\$ 300,442	\$ 82,052

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

LOST DOG RESCUE FOUNDATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010
(With Summarized Financial Information for the Year Ended December 31, 2009)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
CHANGE IN NET ASSETS	\$ 218,390	\$ (17,130)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,686	10,063
Increase in prepaid expenses	(3,753)	-0-
Increase in accounts receivable	(17,667)	-0-
Increase in accounts payable and accrued expenses	10,028	2,281
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	224,684	(4,786)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(23,048)	(44,921)
Website development	(3,000)	-0-
Purchase of leasehold improvements	(240,807)	-0-
NET CASH USED IN INVESTING ACTIVITIES	(266,855)	(44,921)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(42,171)	(49,707)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	60,591	110,298
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 18,420	\$ 60,591

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

**LOST DOG RESCUE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

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 Washington, 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 incurred.

**Cash and Cash
Equivalents**

The Organization considers cash on hand, deposits in banks, and money market operating accounts, to be cash and 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, the Organization is not a private foundation within the meaning of Section 509(a) of the Code.

The Organization requires that a tax position be recognized or derecognized based on a "more likely-than-not" threshold. This applies to positions taken or expected to be taken in a tax return. The Organization does not believe its financial statements include, or reflect, any uncertain tax positions.

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. Expenditures for fixed assets and related betterments that extend the useful lives of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

LOST DOG RESCUE FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010

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

Accounts

Receivable Accounts receivable consist of uncollected contributions and adoption fees. Accounts receivable are stated at the amount management expects to collect from outstanding balances. No allowance for doubtful accounts has been deemed necessary.

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.

Prior Year

Information The financial statements include certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

NOTE B - DONATED SERVICES

Donated services are recognized as contributions 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, 2010 and 2009, the Organization received no donated services that would qualify for recording under generally accepted accounting principles. 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.

LOST DOG RESCUE FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010

NOTE C – RELATED PARTY

The Lost Dog Ranch, LLC is owned by the founders of the Organization. The LLC leases the property (the Ranch) at 14083 Silverhill Road, Sumerduck Virginia to the Organization for the sum of one dollar per year. The Organization is given access to the Ranch and all structures contained therein. The Ranch 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 Ranch that the Organization uses is \$3,000 per month. In addition, the Organization is allowed the use of a van, for an estimated value of \$6,000 annually. Accordingly, contribution revenue and related program expense of \$42,000 has been recorded for the years ending December 31, 2010 and 2009.

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, 2010 and 2009 are as follows:

	2010	2009
Program	\$ 1,048,983	\$ 1,019,924
Management and general	46,598	59,064
Fundraising	2,129	2,780
TOTAL	\$ 1,097,710	\$ 1,081,768

NOTE E – CONCENTRATION

For the years ended December 31, 2010 and 2009, approximately 43% and 13% of the Organization's donations were provided by a Board Member.

NOTE F – TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2010 and 2009, the Organization's temporarily restricted net assets consisted of the following:

Description	2010	2009
Building Fund	\$ 2,604	\$ 7,497
Total temporarily restricted net assets	\$ 2,604	\$ 7,497

LOST DOG RESCUE FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2010

NOTE F – TEMPORARILY RESTRICTED NET ASSETS (Continued)

Net assets released from restrictions for the years ended December 31, 2010 and 2009, were as follows:

Description	2010	2009
Building Fund	\$ 43,004	\$ 28,000
Total releases	\$ 43,004	\$ 28,000

NOTE G – SUBSEQUENT EVENTS

Subsequent events were evaluated through October 5, 2011, which is the date the financial statements were available to be issued.

Subsequent to year end, the Organization entered into a sixty-month lease agreement with the Lost Dog Ranch, LLC commencing August 15, 2011 through 2016. Under the terms of the lease, the Organization pays base rent for the premises at the rate of one dollar per year.