



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

FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

LOST DOG RESCUE FOUNDATION

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Independent Auditors' Report

To the Board of Directors
Lost Dog Rescue Foundation
Arlington, Virginia

We have audited the accompanying financial statements of the Lost Dog Rescue Foundation (the Organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended December 31, 2018, 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. Those standards require that we plan and perform the audits 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 Organization'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 Organization'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 the Lost Dog Rescue Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Lost Dog Rescue Foundation

Emphasis of Matter

As discussed in Note 4 of the financial statements, the Organization adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Councilor, Buchanan + Mitchell, P.C.

Washington, D.C.
October 31, 2019

Certified Public Accountants

LOST DOG RESCUE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 352,581	\$ 217,801
Bequests Receivable	<u>608,362</u>	<u>150,000</u>
Total Current Assets	960,943	367,801
Investments	6,819	-
Deposits	10,000	10,000
Fixed Assets		
Land	807,092	-
Building	1,210,637	-
Property and Equipment	68,990	68,990
Website	3,000	3,000
Leasehold Improvements	<u>635,503</u>	<u>617,053</u>
	2,725,222	689,043
Less Accumulated Depreciation and Amortization	<u>(335,778)</u>	<u>(294,281)</u>
Total Fixed Assets	<u>2,389,444</u>	<u>394,762</u>
Total Assets	<u><u>\$ 3,367,206</u></u>	<u><u>\$ 772,563</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 160,272	\$ 143,934
Mortgage Payable	<u>29,554</u>	<u>-</u>
Total Current Liabilities	189,826	143,934
Mortgage Payable, Net of Current Portion	1,545,794	-
Net Assets		
Without Donor Restrictions	1,444,189	628,629
With Donor Restrictions	<u>187,397</u>	<u>-</u>
Total Net Assets	<u>1,631,586</u>	<u>628,629</u>
Total Liabilities and Net Assets	<u><u>\$ 3,367,206</u></u>	<u><u>\$ 772,563</u></u>

See accompanying Notes to Financial Statements.

LOST DOG RESCUE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	2018 Total
Revenue			
Adoptions	\$ 460,719	\$ -	\$ 460,719
Contributions	986,537	187,397	1,173,934
Bequests	599,289	-	599,289
Donated Rent	26,000	-	26,000
Total Revenue	2,072,545	187,397	2,259,942
Expenses			
Program	1,177,465	-	1,177,465
Management and General	72,350	-	72,350
Fundraising	7,436	-	7,436
Total Expenses	1,257,251	-	1,257,251
Change in Net Assets before Other Revenue	815,294	187,397	1,002,691
Other Revenue			
Net Investment Income	266	-	266
Total Other Revenue	266	-	266
Change in Net Assets	815,560	187,397	1,002,957
Net Assets, Beginning of Year	628,629	-	628,629
Net Assets, End of Year	\$ 1,444,189	\$ 187,397	\$ 1,631,586

See accompanying Notes to Financial Statements.

LOST DOG RESCUE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2017 Total
Revenue			
Adoptions	\$ 439,341	\$ -	\$ 439,341
Contributions	662,746	-	662,746
Bequests	150,000	-	150,000
Donated Rent	42,000	-	42,000
Other Revenue	2,482	-	2,482
Total Revenue	1,296,569	-	1,296,569
Expenses			
Program	1,191,463	-	1,191,463
Management and General	51,425	-	51,425
Fundraising	4,829	-	4,829
Total Expenses	1,247,717	-	1,247,717
Change in Net Assets before Other Revenue	48,852	-	48,852
Other Revenue			
Net Investment Income	18	-	18
Total Other Revenue	18	-	18
Change in Net Assets	48,870	-	48,870
Net Assets, Beginning of Year	579,759	-	579,759
Net Assets, End of Year	\$ 628,629	\$ -	\$ 628,629

See accompanying Notes to Financial Statements.

LOST DOG RESCUE FOUNDATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)**

	Program Services	Management and General	Fundraising	2018 Total	2017 Total
Advertising and Promotions	\$ 7,333	\$ -	\$ -	\$ 7,333	\$ 8,635
Animal Medical and Health	602,903	-	-	602,903	657,800
Automobile Expense	29,057	-	-	29,057	35,279
Conferences and Education	1,553	-	-	1,553	550
Credit Card Processing Fees	-	26,042	-	26,042	26,357
Depreciation and Amortization	39,422	2,075	-	41,497	33,369
Dues and Subscriptions	2,234	-	-	2,234	1,033
Insurance	2,474	14,018	-	16,492	11,005
Interest Expense	10,626	-	-	10,626	-
Supplies	14,827	-	128	14,955	12,471
Payroll Expenses	351,136	-	-	351,136	320,981
Miscellaneous	13,426	1,577	1,032	16,035	9,388
Professional Fees	-	18,695	-	18,695	17,703
Rent	59,851	-	-	59,851	73,752
Telephone	-	3,667	-	3,667	2,781
Contributions	-	-	-	-	6,550
Building Repairs and Maintenance	19,026	-	-	19,026	9,014
Utilities	23,597	-	-	23,597	13,853
Website	-	6,276	6,276	12,552	7,196
Totals	\$ 1,177,465	\$ 72,350	\$ 7,436	\$ 1,257,251	\$ 1,247,717

See accompanying Notes to Financial Statements.

LOST DOG RESCUE FOUNDATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 1,002,957	\$ 48,870
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	41,497	33,369
Unrealized Gain on Investments	1,489	-
Increase in Bequests Receivable	(458,362)	(150,000)
Increase in Security Deposit	-	(10,000)
Increase in Accounts Payable and Accrued Expenses	16,338	70,727
Net Cash Provided by (Used in) Operating Activities	<u>603,919</u>	<u>(7,034)</u>
Cash Flows from Investing Activities		
Purchases of Fixed Assets	(436,179)	-
Purchases or Donations of Investments	(8,308)	-
Net Cash Used in Investing Activities	<u>(444,487)</u>	<u>-</u>
Cash Flows from Financing Activities		
Proceeds from Mortgage		
Repayments of Mortgage Payable	(24,652)	-
Net Cash Used in Financing Activities	<u>(24,652)</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	134,780	(7,034)
Cash and Cash Equivalents, Beginning of Year	<u>217,801</u>	<u>224,835</u>
Cash and Cash Equivalents, End of Year	<u>\$ 352,581</u>	<u>\$ 217,801</u>
Supplementary Disclosure of Cash Flow Information		
Interest Paid	\$ 10,626	\$ -

Noncash Transaction from Investing and Financing Activity

In 2018, the Organization obtained a mortgage of \$1,600,000 to purchase a building.

See accompanying Notes to Financial Statements.

LOST DOG RESCUE FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. 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, Virginia, in foster homes, or in the Care Facility, in Falls Church, Virginia.

Each weekend, the Organization conducts adoption events at pet supply stores in the Washington, D.C., 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.

The Organization's Form 990, *Return of Organization Exempt from Income Tax*, remain open for examination by the federal taxing authorities generally for three years after they are filed.

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 of \$2,500 and above that extend the

LOST DOG RESCUE FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets (Continued)

useful lives of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Bequests Receivable

Bequests receivable consists of amounts due from bequests that were not received by the Organization at year end. The management of the Organization reviews the collectability of the accounts on a regular basis, and no reserve for doubtful accounts has been established because management expects to collect all bequests.

Contributions

The Organization reports gifts of cash and other assets as increases in net assets with donor restrictions, 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 increases in net assets without donor restrictions for financial statement purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Investments

Investments are recorded at fair market value based on quoted market prices.

Financial Statement Presentation

The Organization has presented its financial statements in accordance with U.S. Generally Accepted Accounting Principles. Under those principles, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions - resources that are available for general operations and resources designated by the Organization's board of directors for approved expenditures.

Net Assets With Donor Restrictions - resources that are subject to donor or time restrictions.

Functional Expense Allocation

The costs of providing programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated directly to the programs or supporting services benefited. The remaining general and administrative expenses include those expenses that are not directly identifiable with or allocable to any other specific function, but provide for the overall support and direction of the Organization. These expenses require allocation on a reasonable basis that is consistently applied and determined by management.

LOST DOG RESCUE FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results may vary from the estimates that were assumed in preparing the financial statements.

Reclassifications

Certain 2017 amounts have been reclassified for comparative purposes.

2. 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.

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 received roughly 30,000 volunteer hours in 2018 and 21,000 volunteer hours in 2017, which were not recorded because they did not qualify for recording under generally accepted accounting standards.

3. RELATED PARTY

The Lost Dog Ranch, LLC (the LLC), is owned by the founders of the Organization. The LLC leases 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 was \$20,000 and \$36,000 for 2018 and 2017, respectively. In addition, the Organization is allowed the use of a van, for an estimated value of \$6,000 annually for both 2018 and 2017. Accordingly, donated rent and related program expense of approximately \$26,000 and \$42,000 has been recorded for the years ended December 31, 2018 and 2017, respectively.

The Organization entered into a sixty-month lease agreement with the LLC commencing January 1, 2018 through 2022. The LLC continues to allow the Organization to lease the Ranch under the original lease agreement. Under the terms of the lease, the Organization pays base rent for the premises at the rate of one dollar per year. The lease can be cancelled by either party without penalty with 60 days' notice.

LOST DOG RESCUE FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

4. ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The amendments in this ASU made improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net assets classification requirements and the information presented about a not-for-profit's liquidity, financial performance, and cash flows. A key change under ASU 2016-14 is the terminology of net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets, if applicable, are reported as net assets with donor restrictions. Additionally, ASU 2016-14 requires a presentation of expenses on a functional basis.

5. INVESTMENTS

Investment income is summarized as follows for the years ended December 31, 2018 and 2017:

Description	2018	2017
Interest and Dividend Income	\$ 320	\$ 18
Net Realized Gain	1,435	-
Net Unrealized Loss	(1,489)	-
Total Investment Income	<u>\$ 266</u>	<u>\$ 18</u>

6. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's cash flows have seasonal variations due to the timing of contributions and vendor payments. The Organization manages its liquidity to meet general expenditures, liabilities, and other obligations as they become due.

As of December 31, 2018, the following financial assets and liquidity sources are available for general operating expenditures for the year ending December 31, 2019:

Financial Assets at Year End	
Cash and Cash Equivalents	\$ 352,581
Bequests Receivable	608,362
Investments	6,819
Less Restricted for Kennel Flooring	<u>(187,397)</u>
Total Financial Assets and Liquidity Resources Available within One Year	<u>\$ 780,365</u>

7. CONCENTRATION

For the years ended December 31, 2018 and 2017, approximately 30% and 12%, respectively, of the Organization's donations were provided by the founders.

The bequests receivable as of December 31, 2018 and 2017, is due from three estates and one estate, respectively.

LOST DOG RESCUE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

8. FAIR VALUE MEASUREMENTS

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

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets (examples include mutual funds and equity securities);

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly, including inputs in markets that are not considered to be active (examples include corporate or municipal bonds);

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs to the determination of fair value require significant management judgment (examples include certain private equity securities and split interest agreements).

The following presents the Organization's assets measured at fair value as of December 31, 2018:

<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 6,819	\$ -	\$ -	\$ 6,819
Total	<u>\$ 6,819</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,819</u>

9. NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2018 and 2017, the Organization's net assets with donor restrictions consisted of the following:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Kennel Flooring	<u>\$ 187,397</u>	<u>\$ -</u>
Total Net Assets With Donor Restrictions	<u>\$ 187,397</u>	<u>\$ -</u>

10. COMMITMENTS AND CONTINGENCIES

On September 17, 2018, the Organization purchased a kennel which the Organization had previously rented on a month-to-month basis. The purchase price was \$2,000,000 and was partially financed with a loan of \$1,600,000. Interest on the loan shall accrue at 4% providing for repayment on a 30 year amortization with equal payments of principal and interest in the amount of \$7,638.63 beginning November 1, 2018 and continuing until the loan balloons in five years. The loan is secured by a first lien deed of trust on the kennel and has been guaranteed by one of the Organization's Founders and by the Organization's Treasurer.

LOST DOG RESCUE FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Following are maturities of long-term debt for each of the next five years.

For the Years Ending December 31,

2019	\$ 29,554
2020	30,792
2021	32,047
2022	33,353
2023	<u>1,449,602</u>
Total	<u>\$ 1,575,348</u>

In December 2018, the Organization entered into a contract for kennel flooring renovation for an approximate cost of \$134,000.

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through October 31, 2019, which is the date the financial statements were available to be issued.