

THE SATO PROJECT, INC.

**Financial Statements as of
December 31, 2020 and 2019
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

October 14, 2021

To the Board of Members and Board of Managers of
The Sato Project, Inc.:

We have audited the accompanying financial statements of The Sato Project, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2020 and 2019 and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 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 auditor's 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 entity'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 entity'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.

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INDEPENDENT AUDITOR'S REPORT

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Sato Project, Inc. as of December 31, 2020 and 2019, 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.

Bonadio & Co., LLP

THE SATO PROJECT, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 804,328	\$ 549,054
Accounts receivable	20,211	72,753
Prepaid expenses	-	3,050
Property and equipment, net	<u>2,858</u>	<u>381</u>
Total assets	<u>\$ 827,397</u>	<u>\$ 625,238</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	<u>\$ 39,431</u>	<u>\$ 44,467</u>
Total liabilities	39,431	44,467
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>787,966</u>	<u>580,771</u>
Total liabilities and net assets	<u>\$ 827,397</u>	<u>\$ 625,238</u>

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

THE SATO PROJECT, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
SUPPORT AND REVENUE:		
General contributions and grants	\$ 1,585,760	\$ 1,197,075
In-kind donations	168,000	-
Foundation contributions	189,280	180,000
Adoption fees	161,648	115,543
Interest income	1,017	5,695
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Total support and revenue	2,105,705	1,498,313
EXPENSES:		
Program services	1,669,606	1,323,766
General and administrative	173,966	221,801
Fundraising	54,936	127,526
	<hr/>	<hr/>
Total expenses	1,898,508	1,673,093
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	207,197	(174,780)
NET ASSETS WITHOUT DONOR RESTRICTIONS - beginning of year	<hr/>	<hr/>
	580,769	755,551
NET ASSETS WITHOUT DONOR RESTRICTIONS - end of year	<hr/> <hr/>	<hr/> <hr/>
	\$ 787,966	\$ 580,771

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

THE SATO PROJECT, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Veterinary services	\$ 774,326	\$ -	\$ -	\$ 774,326
Salaries	216,049	49,127	45,009	310,185
Dog transport	246,185	-	-	246,185
Consulting fees	81,846	17,749	-	99,595
Supplies and training	61,075	-	-	61,075
Spay and neuter program	35,675	-	-	35,675
Professional fees	-	43,838	-	43,838
Credit card and payment processing fees	-	36,640	-	36,640
Travel	24,254	3,375	-	27,629
Payroll taxes	14,627	4,121	3,659	22,407
Miscellaneous	5,002	2,823	5,805	13,630
Rent	12,000	-	-	12,000
Internet and cable	10,016	-	-	10,016
Advertising	9,860	-	-	9,860
Insurance	-	8,644	-	8,644
Automobile expenses	6,665	-	-	6,665
Database and software	-	4,697	-	4,697
Meals	603	2,052	463	3,118
Uniforms	1,925	-	-	1,925
Depreciation	1,311	-	-	1,311
Board meeting expense	-	900	-	900
Gifts - support	187	-	-	187
In-kind donation expense	<u>168,000</u>	<u>-</u>	<u>-</u>	<u>168,000</u>
	<u>\$ 1,669,606</u>	<u>\$ 173,966</u>	<u>\$ 54,936</u>	<u>\$ 1,898,508</u>

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

THE SATO PROJECT, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Veterinary services	\$ 656,798	\$ -	\$ -	\$ 656,798
Salaries	172,175	51,077	87,534	310,786
Dog transport	184,843	-	-	184,843
Consulting fees	88,469	10,936	30,000	129,405
Spay and neuter program	97,858	-	-	97,858
Professional fees	-	44,723	-	44,723
Supplies and training	43,703	-	-	43,703
Insurance	-	37,754	-	37,754
Payroll taxes	14,513	4,456	7,824	26,793
Credit card and payment processing fees	-	26,484	-	26,484
Strategic planning	-	17,888	-	17,888
Travel	-	17,130	-	17,130
Rent	13,260	-	-	13,260
Grant expenses	10,000	-	-	10,000
Advertising	9,082	-	-	9,082
Internet and cable	8,684	-	-	8,684
Meals	3,986	3,776	457	8,219
Miscellaneous	2,214	2,274	1,711	6,199
Depreciation	5,594	-	-	5,594
Automobile expenses	4,995	-	-	4,995
Uniforms	4,338	-	-	4,338
Database and software	-	3,855	-	3,855
Gifts - support	3,254	-	-	3,254
Board meeting expense	-	1,448	-	1,448
	<u>\$ 1,323,766</u>	<u>\$ 221,801</u>	<u>\$ 127,526</u>	<u>\$ 1,673,093</u>

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

THE SATO PROJECT, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 207,197	\$ (174,780)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,311	5,594
Changes in:		
Accounts receivable	52,542	(72,753)
Prepaid expenses	3,050	(2,300)
Accounts payable and accrued expenses	<u>(5,036)</u>	<u>(77,926)</u>
Net cash flow from operating activities	<u>259,064</u>	<u>(322,165)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(3,790)</u>	<u>(457)</u>
Net cash flow from investing activities	<u>(3,790)</u>	<u>(457)</u>
CHANGE IN CASH	<u>255,274</u>	<u>(322,622)</u>
CASH, beginning of year	<u>549,056</u>	<u>871,678</u>
CASH, end of year	<u>\$ 804,330</u>	<u>\$ 549,056</u>

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

THE SATO PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

1. THE ORGANIZATION

The Sato Project, Inc. (the Organization) is a New York not-for-profit organization which is dedicated to rescuing abused and abandoned dogs in Puerto Rico, locally referred to as “satos”. During the first several years of operation, the efforts were focused on a place known as “Dead Dog Beach” in the municipality of Yabucoa, one of the island’s poorest. Since Hurricane Maria in 2017, the Organization has significantly expanded the rescue efforts. The Organization has rescued over 6,000 dogs to date, rehabilitated them with the highest standards of veterinary care, and placed them in loving homes in the mainland U.S. The Organization also works to address the underlying causes of overpopulation, abandonment, and abuse in Puerto Rico through community outreach and a low-cost Spay, Neuter, and Vaccine Program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amount of assets and liabilities and disclosures contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash

Cash included bank demand deposit accounts and savings accounts. The Organization’s cash balances may at times exceed federally insured limits. The Organization has not experienced any losses in these accounts and believes it is not exposed to any significant risk with respect to cash.

Accounts Receivable

Accounts receivables represent grants and donations pledged to the Organization. All of these receivables are collectible, and management believes an allowance for doubtful accounts is not necessary as of December 31, 2020 and 2019.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Expenditures for additions and improvements greater than \$500 are capitalized. Depreciation is computed using the double declining method based on the estimated useful lives, which range from five to seven years for furniture and equipment, and fifteen years for improvements. Maintenance and repairs which are not to extend the useful lives of assets are charged to expense as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions represent resources that are available for general support of the Organization's operations over which the Board of Directors has discretionary control.

Net assets with donor restrictions are assets that have been restricted by donors to specific purposes and/or the passage of time. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or a purpose is accomplished, net assets are released to without donor restrictions. There were no net assets with donor restrictions as of December 31, 2020 and 2019.

Contributions and In-Kind Donations

Contributions received and unconditional promises to give are recognized as revenue when donor commitments are met. Contributions are reported with donor restrictions if they are received with donor stipulations that limit the use of the proceeds. 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 as without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated marketable securities and other in-kind donations are recorded as contributions at their estimated fair values at the date of donations. During 2020, the Organization received in-kind support totaling \$168,000 which consisted of dog carrier bags and air transportation for dogs. These contributions were recorded using an estimated fair market value at the date the contribution was received. The original contribution of carrier bags was valued at \$1,000,000, of which \$912,000 was passed through to a separate non-profit Organization with donor permission.

Adoption fees

Revenue for adoption fees is recognized when the activity takes place and payments are received. This is the Organization's only performance obligation which is met at a point in time. There are no implicit price concessions relating to these fees as of December 31, 2020 and 2019.

Grant Income

Revenue from grants is recognized when the expenses are incurred under the terms of the grant. Costs are subject to audit by the grantor, and changes, if any are recognized in the year known.

Allocation of Certain Expenses

The costs of providing the various programs and other activities of the Organization has been summarized on a functional and natural classification basis in the statement of functional expenses. Certain expenses are attributable to one or more the following functions.

- Program services – Includes expenses that directly relate to carrying out the Organization's mission and result in goods or services being provided for the veterinary care of abused or abandoned dogs.
- Management and general – Includes the direction of the overall affairs of the Organization such as portions of accounting, human resources, administration and related areas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of Certain Expenses (Continued)

- Fundraising – Includes costs for publicizing and conducting fundraising campaigns, maintain mailing lists and conducting fundraising events and any other activities that involve soliciting contributions.

Salaries and payroll taxes are allocated based on time spent in functions in accordance with time and effort reports completed by employees.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation.

3. LIQUIDITY AND AVAILABILITY OF ASSETS

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. The Organization is substantially supported through donor contributions. The Organization must maintain sufficient resources to meet the responsibilities of their programs.

Financial assets available to meet cash needs for general expenditures within one year consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Cash and equivalents	\$ 804,328	\$ 549,054
Accounts receivable, net	<u>20,211</u>	<u>72,753</u>
	<u>\$ 824,539</u>	<u>\$ 621,807</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Automobiles	\$ 50,399	\$ 50,399
Furniture and equipment	26,210	22,422
Improvements	<u>717</u>	<u>717</u>
Total	77,326	73,538
Less: accumulated depreciation	<u>(74,468)</u>	<u>(73,157)</u>
	<u>\$ 2,858</u>	<u>\$ 381</u>

Depreciation expense was \$1,311 and \$5,594 for the years ended December 31, 2020 and 2019, respectively.

5. COMMITMENTS AND CONTINGENCIES

Operating Lease

The Organization currently rents space at 130 Water Street, Brooklyn, New York on a month-to-month basis. The current rent is \$1,000 per month.

COVID-19

The United States is presently in the midst of a national health emergency related to a virus, commonly known as Novel Coronavirus (COVID-19). The overall consequences of COVID-19 on a national, regional and local level are unknown, but it has the potential to result in a significant economic impact. The impact of this situation on the Organization and its future results and financial position is not presently determinable.

Paycheck Protection Program Loan

In May 2020, the Organization entered into an unsecured promissory note payable to a bank in the amount of \$78,080. This note was entered into by the Organization as part of the U.S. Small Business Administration's (SBA) Paycheck Protection Program (PPP) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The PPP provides for this borrowing, or a portion of the borrowing, to be forgiven to the extent the Organization meets defined requirements related to expenditure of the funds and management of the Organization's personnel complement. The Organization met all requirements for the expenditure of these funds during the year ended December 31, 2020 and received full forgiveness of this loan by the SBA in May 2021. As such, \$78,080 was recognized as contribution and grant revenue as of December 31, 2020.

6. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 14, 2021, which is the date the financial statements were available to be issued.