

THE SATO PROJECT, INC.

**Financial Statements as of
December 31, 2018
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

September 19, 2019

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 statement of financial position as of December 31, 2018 and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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 audit. 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 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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, The Sato Project, Inc. implemented Accounting Standards Update 2016-14, and the effects have been included in these financial statements. Our opinion is not modified with respect to this matter.

THE SATO PROJECT, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

ASSETS

Cash	\$	871,678
Prepaid expenses		750
Property and equipment, net		<u>5,518</u>
Total assets	\$	<u><u>877,946</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	\$	122,395
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NET ASSETS WITHOUT DONOR RESTRICTIONS		<u>755,551</u>
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Total liabilities and net assets	\$	<u><u>877,946</u></u>
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The accompanying notes are an integral part of these financial statements.

THE SATO PROJECT, INC.

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018**

SUPPORT AND REVENUE:	
General contributions	\$ 1,307,904
Adoption fees	128,773
Grants	143,473
Special events	108,801
Interest income	<u>1,629</u>
Total support and revenue	<u>1,690,580</u>
EXPENSES:	
Program services	1,491,250
General and administrative	156,680
Fundraising	<u>135,149</u>
Total expenses	<u>1,783,079</u>
CHANGE IN NET ASSETS	(92,499)
Net assets at beginning of year	<u>848,050</u>
Net assets at end of year	<u>\$ 755,551</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, 2018**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Veterinary services	\$ 718,136	\$ -	\$ -	\$ 718,136
Dog transport	332,682	-	-	332,682
Salaries	172,495	50,352	81,222	304,069
Consulting fees	70,775	16,325	668	87,768
Spray and neuter program	87,762	-	-	87,762
Events	-	-	46,493	46,493
Credit card and payment processing fees	-	29,496	-	29,496
Supplies and training	29,779	-	-	29,779
Professional fees	-	26,842	-	26,842
Payroll taxes	13,280	3,885	6,347	23,512
Advertising	15,055	-	-	15,055
Rent	12,503	-	-	12,503
Travel	-	10,233	-	10,233
Depreciation	9,476	-	-	9,476
Uniforms	7,117	-	-	7,117
Automobile expenses	6,644	-	-	6,644
Meals	3,055	2,775	419	6,249
Internet and cable	6,057	-	-	6,057
Miscellaneous	1,612	3,963	-	5,575
Insurance	-	5,283	-	5,283
Gifts - support	4,822	-	-	4,822
Database software	-	3,895	-	3,895
Board meeting expense	-	3,631	-	3,631
	<u>\$ 1,491,250</u>	<u>\$ 156,680</u>	<u>\$ 135,149</u>	<u>\$ 1,783,079</u>

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

THE SATO PROJECT, INC.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOW FROM OPERATING ACTIVITIES:

Change in net assets	\$ (92,499)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	9,476
Changes in:	
Prepaid expenses	25,928
Accounts payable and accrued expenses	<u>86,904</u>
Net cash flow from operating activities	<u>29,809</u>
CASH, beginning of year	<u>841,869</u>
CASH, end of year	<u><u>\$ 871,678</u></u>

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

THE SATO PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

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 3,000 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).

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the purpose of improving financial reporting by not-for-profit (NFP) entities.

ASU 2016-14 includes many changes affecting the presentation and accounting for the Organization’s consolidated financial statements including:

- Reducing the number of classes of net assets from three to two (net assets with donor restrictions and net assets without donor restrictions);
- Requiring the presentation of expenses in both natural and functional classifications; and
- Requiring qualitative and quantitative disclosure regarding the Organization’s liquidity and availability of resources (Note 3).

ASU 2016-14 is effective for the Organization’s year ended December 31, 2018, and was applied retrospectively with the exception of the disclosures regarding liquidity and availability of resources, and presentation of expenses in both natural and functional classification, which are presented for the current year only. The effects of this ASU have been included in these financial statements. There was no effect on total net assets or changes in net assets.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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, 2018.

Contributions

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 non-cash donations are recorded as contributions at their estimated fair values at the date of donations.

Adoption fees

Revenue for adoption fees is recognized when the activity takes place and payments are received.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.
- 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. As of December 31, 2018, the Organization has cash available of \$871,678, which serves as a liquid resource to meet its general expenditures for a period of one year following the statement of financial position date.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2018:

Automobiles	\$	50,399
Furniture and equipment		21,965
Improvements		<u>717</u>
Total		73,081
Less: Accumulated depreciation		<u>(67,563)</u>
	\$	<u>5,518</u>

Depreciation expense was \$9,476 for the year ended December 31, 2018.

5. COMMITMENTS AND CONTINGENCIES

The Organization currently rents space at 130 Water Street, Brooklyn, New York on a month-to-month basis. The current rent is \$975 per month.

6. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 19, 2019, which is the date the financial statements were available to be issued.