

THE SATO PROJECT, INC.

**Financial Statements as of
December 31, 2019 and 2018
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

September 4, 2020

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, 2019 and 2018 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 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, 2019 and 2018, 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.

Change in Accounting Principles

As described in Note 2 to the financial statements, The SATO Project, Inc. implemented Accounting Standards Update 2014-09 and 2018-18, and the effects have been included in these financial statements. Our opinion is not modified with respect to this matter.

THE SATO PROJECT, INC.

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 549,054	\$ 871,678
Accounts receivable	72,753	-
Prepaid expenses	3,050	750
Property and equipment, net	<u>381</u>	<u>5,518</u>
Total assets	<u>\$ 625,238</u>	<u>\$ 877,946</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 44,469	\$ 122,395
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>580,769</u>	<u>755,551</u>
Total liabilities and net assets	<u>\$ 625,238</u>	<u>\$ 877,946</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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
SUPPORT AND REVENUE:		
General contributions	1,197,075	\$ 1,307,904
Foundation contributions	180,000	143,473
Adoption fees	115,543	128,773
Interest income	5,693	1,629
Special events	-	108,801
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Total support and revenue	1,498,311	1,690,580
EXPENSES:		
Program services	1,323,766	1,491,250
General and administrative	221,801	156,680
Fundraising	127,526	135,149
	<hr/>	<hr/>
Total expenses	1,673,093	1,783,079
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(174,782)	(92,499)
NET ASSETS WITHOUT DONOR RESTRICTIONS - beginning of year	<hr/>	<hr/>
	755,551	848,050
NET ASSETS WITHOUT DONOR RESTRICTIONS - end of year	<u>\$ 580,769</u>	<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, 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 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.

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
Spay 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.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (174,782)	\$ (92,499)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,594	9,476
Changes in:		
Accounts receivable	(72,753)	-
Prepaid expenses	(2,300)	25,928
Accounts payable and accrued expenses	<u>(77,926)</u>	<u>86,904</u>
Net cash flow from operating activities	<u>(322,167)</u>	<u>29,809</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(457)</u>	<u>-</u>
Net cash flow from investing activities	<u>(457)</u>	<u>-</u>
CHANGE IN CASH	<u>(322,624)</u>	<u>29,809</u>
CASH, beginning of year	<u>871,678</u>	<u>841,869</u>
CASH, end of year	<u>\$ 549,054</u>	<u>\$ 871,678</u>

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

THE SATO PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 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 4,000 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 Principles

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* and has subsequently issued supplemental and/or clarifying ASUs (collectively “ASC 606”). ASC 606 outlines a five-step framework that supersedes the principles for recognizing revenue and eliminates industry-specific guidance. The core principle of the guidance in ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASC 606 revises current disclosure requirements in an effort to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The Organization adopted ASC 606 as of January 1, 2019, utilizing the modified retrospective method of transition. There was no impact on the Organization’s beginning net assets as a result of adopting ASU 2014-09.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities, Clarifying the Scope and Accounting for Contributions Received and Contributions Made*. The objective of this standard was to provide a more robust framework on accounting for various types of assistance received and to clarify how contributions will be treated based on barriers that may have to be overcome for the Organization to be entitled to the assets as well as consideration of the right of return. The Organization has adopted the guidance as of January 1, 2019, utilizing the modified retrospective method of transition. There was no impact on the Organization’s beginning net assets as a result of adopting ASU 2018-08.

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.

Accounts Receivable

Accounts receivables represent grants and donations pledged to the Organization. For accounts receivable subsequent to the adoption of ASC 606, the estimated uncollectible amounts are generally considered implicit price concessions that are a direct reduction to accounts receivable. There were no implicit price concessions as of December 31, 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.

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, 2019.

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.

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

	<u>2019</u>	<u>2018</u>
Cash and equivalents	\$ 549,054	\$ 871,678
Accounts receivable, net	<u>72,753</u>	<u>-</u>
	<u>\$ 621,807</u>	<u>\$ 871,678</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Automobiles	\$ 50,399	\$ 50,399
Furniture and equipment	22,422	21,965
Improvements	<u>717</u>	<u>717</u>
Total	73,538	73,081
Less: accumulated depreciation	<u>(73,157)</u>	<u>(67,563)</u>
	<u>\$ 381</u>	<u>\$ 5,518</u>

Depreciation expense was \$5,594 and \$9,476 for the years ended December 31, 2019 and 2018, respectively.

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 \$1,000 per month.

6. SUBSEQUENT EVENTS

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.

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 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. Through the date the financial statements were available to be issued, the Organization is unable to determine the amount of potential loan forgiveness. If no forgiveness is granted, the terms of this agreement require the Organization to make monthly principal payments of approximately \$4,400, including interest at 1%, from December 2020 through June 2022.

Subsequent events have been evaluated through September 4, 2020, which is the date the financial statements were available to be issued.