

THE SATO PROJECT, INC.

**Financial Statements as of
December 31, 2021 and 2020
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

October 28, 2022

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

Opinion

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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INDEPENDENT AUDITOR'S REPORT

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

THE SATO PROJECT, INC.

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 1,005,015	\$ 804,328
Accounts receivable	6,833	20,211
Property and equipment, net	<u>2,936</u>	<u>2,858</u>
Total assets	<u>\$ 1,014,784</u>	<u>\$ 827,397</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	<u>\$ 57,703</u>	<u>\$ 39,431</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>957,081</u>	<u>787,966</u>
Total liabilities and net assets	<u>\$ 1,014,784</u>	<u>\$ 827,397</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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
SUPPORT AND REVENUE:		
General contributions and grants	\$ 1,585,085	\$ 1,585,760
In-kind donations	-	168,000
Foundation contributions	525,049	189,280
Adoption fees	174,977	161,648
Other income	29,131	-
Interest income	488	1,017
	<u>2,314,730</u>	<u>2,105,705</u>
Total support and revenue		
	<u>2,314,730</u>	<u>2,105,705</u>
EXPENSES:		
Program services	1,795,634	1,669,606
Management and general	180,940	173,966
Fundraising	169,041	54,936
	<u>2,145,615</u>	<u>1,898,508</u>
Total expenses		
	<u>2,145,615</u>	<u>1,898,508</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	169,115	207,197
NET ASSETS WITHOUT DONOR RESTRICTIONS - beginning of year	<u>787,966</u>	<u>580,769</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS - end of year	<u>\$ 957,081</u>	<u>\$ 787,966</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, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Veterinary services	\$ 946,247	\$ -	\$ -	\$ 946,247
Salaries	195,569	51,091	109,446	356,106
Dog transport	292,369	-	-	292,369
Community outreach	72,223	-	-	72,223
Professional fees	-	40,828	-	40,828
Travel	48,774	2,151	-	50,925
Consulting fees	116,603	23,865	20,800	161,268
Supplies and training	41,847	-	-	41,847
Credit card and payment processing fees	-	38,676	-	38,676
Payroll taxes	14,355	4,142	9,247	27,744
Miscellaneous	7,789	3,886	13,122	24,797
Automobile expenses	18,745	-	-	18,745
Events	-	-	15,932	15,932
Rent	14,700	-	-	14,700
Internet and cable	9,676	-	-	9,676
Insurance	-	8,660	-	8,660
Advertising	7,506	-	-	7,506
Meals	3,151	2,594	494	6,239
Database and software	-	5,047	-	5,047
Uniforms	3,885	-	-	3,885
Depreciation	2,005	-	-	2,005
Gifts - support	190	-	-	190
	<u>\$ 1,795,634</u>	<u>\$ 180,940</u>	<u>\$ 169,041</u>	<u>\$ 2,145,615</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, 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.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 169,115	\$ 207,197
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,005	1,311
Changes in:		
Accounts receivable	13,378	52,542
Prepaid expenses	-	3,050
Accounts payable and accrued expenses	<u>18,272</u>	<u>(5,036)</u>
Net cash flow from operating activities	<u>202,770</u>	<u>259,064</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(2,083)</u>	<u>(3,790)</u>
Net cash flow from investing activities	<u>(2,083)</u>	<u>(3,790)</u>
CHANGE IN CASH	<u>200,687</u>	<u>255,274</u>
CASH, beginning of year	<u>804,328</u>	<u>549,054</u>
CASH, end of year	<u>\$ 1,005,015</u>	<u>\$ 804,328</u>

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

THE SATO PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 AND 2020

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 6,500 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 includes 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, 2021 and 2020.

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, 2021 and 2020.

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. There were no in-kind donations in 2021. 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, 2021 and 2020.

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 have been summarized on a functional and natural classification basis in the statement of functional expenses. Certain expenses are attributable to one or more of 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>2021</u>	<u>2020</u>
Cash and equivalents	\$ 1,005,015	\$ 804,328
Accounts receivable, net	<u>6,833</u>	<u>20,211</u>
	<u>\$ 1,011,848</u>	<u>\$ 824,539</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Automobiles	\$ -	\$ 50,399
Furniture and equipment	28,293	26,210
Improvements	<u>717</u>	<u>717</u>
Total	29,010	77,326
Less: accumulated depreciation	<u>(26,074)</u>	<u>(74,468)</u>
	<u>\$ 2,936</u>	<u>\$ 2,858</u>

Depreciation expense was \$2,005 and \$1,311 for the years ended December 31, 2021 and 2020, respectively.

5. COMMITMENTS AND CONTINGENCIES

Operating Leases

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. In addition, the Organization leased one vehicle during 2021 with a monthly rental amount of \$512 which matures in December 2026. The future minimum lease payments for this operating lease are as follows:

2022	\$	6,144
2023		6,144
2024		6,144
2025		6,144
2026		<u>6,144</u>
	\$	<u>30,720</u>

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

In February 2022, the Organization entered into an operating lease for a property located in Caguas, Puerto Rico which will be utilized for program operations. The lease term is five years commencing in March 2022 with monthly rent of \$10,000. In addition, an escrow deposit of \$60,000 was required at the onset of the lease. The Organization has incurred approximately \$250,000 of capital and supply costs to fit up the property through the date these financial statements were available to be issued.

Subsequent events have been evaluated through October 28, 2022, which is the date the financial statements were available to be issued.