

THE SATO PROJECT, INC.

**Financial Statements as of
December 31, 2022 and 2021
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

November 14, 2023

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, 2022 and 2021, 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, 2022 and 2021, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, The Sato Project, Inc. adopted Accounting Standards Codification 842, *Leases*, as of January 1, 2022 and ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* for the year ended December 31, 2022. Our opinion is not modified with respect to this matter.

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.

INDEPENDENT AUDITOR'S REPORT

(Continued)

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, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 926,937	\$ 1,005,015
Accounts receivable	52,231	6,833
Prepaid expenses	<u>1,000</u>	<u>-</u>
Total current assets	<u>980,168</u>	<u>1,011,848</u>
PROPERTY AND EQUIPMENT, net	<u>300,080</u>	<u>2,936</u>
OTHER ASSETS:		
Deposits	60,000	-
Right-of-use asset - operating lease	467,754	-
Right-of-use asset - finance lease	<u>24,311</u>	<u>-</u>
Total other assets	<u>552,065</u>	<u>-</u>
Total assets	<u>\$ 1,832,313</u>	<u>\$ 1,014,784</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 14,120	\$ 57,703
Current portion of operating lease liability	110,000	-
Current portion of finance lease liability	<u>6,143</u>	<u>-</u>
Total current liabilities	130,263	57,703
LEASE LIABILITIES, net of current portion:		
Operating lease	364,421	-
Finance lease	<u>18,320</u>	<u>-</u>
Total lease liabilities	<u>382,741</u>	<u>-</u>
Total liabilities	<u>513,004</u>	<u>57,703</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>1,319,309</u>	<u>957,081</u>
Total liabilities and net assets	<u>\$ 1,832,313</u>	<u>\$ 1,014,784</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
SUPPORT AND REVENUE:		
General contributions and grants	\$ 2,021,319	\$ 1,585,085
Contributions of non-financial assets	225,000	-
Foundation contributions	550,486	525,049
Adoption fees	164,437	174,977
Other income	5,202	29,131
Interest income	<u>255</u>	<u>488</u>
 Total support and revenue	 <u>2,966,699</u>	 <u>2,314,730</u>
 EXPENSES:		
Program services	2,246,280	1,795,634
Management and general	197,258	180,940
Fundraising	<u>160,933</u>	<u>169,041</u>
 Total expenses	 <u>2,604,471</u>	 <u>2,145,615</u>
 CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	 362,228	 169,115
 NET ASSETS WITHOUT DONOR RESTRICTIONS - beginning of year	 <u>957,081</u>	 <u>787,966</u>
 NET ASSETS WITHOUT DONOR RESTRICTIONS - end of year	 <u>\$ 1,319,309</u>	 <u>\$ 957,081</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, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Veterinary services	\$ 754,692	\$ -	\$ -	\$ 754,692
Dog transport	534,049	-	-	534,049
Salaries	227,917	59,107	132,852	419,876
Consulting fees	169,803	23,900	7,800	201,503
Rent and maintenance	175,418	-	-	175,418
Community outreach	121,892	-	-	121,892
Supplies and training	79,698	-	-	79,698
Travel	69,727	7,133	-	76,860
Depreciation	58,335	-	-	58,335
Credit card and payment processing fees	-	42,066	-	42,066
Professional fees	-	36,951	-	36,951
Payroll taxes	17,267	4,713	9,737	31,717
Miscellaneous	3,541	3,085	9,694	16,320
Automobile expenses	8,070	-	-	8,070
Internet and cable	13,539	-	-	13,539
Meals	3,069	5,058	850	8,977
Insurance	-	8,867	-	8,867
Database and software	-	6,378	-	6,378
Advertising	5,418	-	-	5,418
Uniforms	2,634	-	-	2,634
Gifts - support	870	-	-	870
Interest	341	-	-	341
	<u>\$ 2,246,280</u>	<u>\$ 197,258</u>	<u>\$ 160,933</u>	<u>\$ 2,604,471</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
Consulting fees	116,603	23,865	20,800	161,268
Community outreach	72,223	-	-	72,223
Travel	48,774	2,151	-	50,925
Supplies and training	41,847	-	-	41,847
Professional fees	-	40,828	-	40,828
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.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 362,228	\$ 169,115
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	58,335	2,005
Interest expense	341	-
Changes in:		
Accounts receivable	(45,398)	13,378
Prepaid expenses	(1,000)	-
Operating leases	6,667	-
Accounts payable and accrued expenses	<u>(43,583)</u>	<u>18,272</u>
Net cash flow from operating activities	<u>337,590</u>	<u>202,770</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(349,525)	(2,083)
Changes in deposits	<u>(60,000)</u>	<u>-</u>
Net cash flow from investing activities	<u>(409,525)</u>	<u>(2,083)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Payments of finance lease	<u>(6,143)</u>	<u>-</u>
CHANGE IN CASH	<u>(78,078)</u>	<u>200,687</u>
CASH, beginning of year	<u>1,005,015</u>	<u>804,328</u>
CASH, end of year	<u>\$ 926,937</u>	<u>\$ 1,005,015</u>

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

THE SATO PROJECT, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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 7,200 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).

Recently Adopted Accounting Guidance

The Organization has adopted ASU 2020-07, “*Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*” for the year ended December 31, 2022. There were no material changes as a result of adopting this ASU.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Organization adopted the standard effective January 1, 2022 using the modified retrospective approach and comparative financial information has not been restated. In addition, lease disclosures for the year ended December 31, 2021 are made under prior lease guidance (FASB ASC 840).

The Organization elected the available practical expedients to account for the existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Guidance (Continued)

As a result of the adoption of new lease accounting guidance, the Organization recognized on January 1, 2022 a finance lease liability and a finance ROU asset of \$30,265. The standard did not have a material impact on the statements of activities and change in net assets or cash flows.

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. Management has determined all of these receivables are collectible, and management believes an allowance for doubtful accounts is not necessary as of December 31, 2022 and 2021.

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 straight-line method based on the estimated useful lives, which range from five to seven years for furniture and equipment, and five years for improvements. Maintenance and repairs which are not to extend the useful lives of assets are charged to expense as incurred.

Leases

At inception, it is determined if an agreement is a lease. Leases are recorded on the Organizations' statement of financial position under right-of-use (ROU) assets and lease liabilities. ROU assets represent the Organizations' right to use an underlying asset for the lease term and lease liabilities represent the Organizations' obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of these leases do not provide an implicit interest rate, the Organization uses the risk-free rate based on the information available at commencement date in determining the present value of lease payments. The ROU asset also includes any lease pre-payments made and excludes lease incentives. The terms of the lease may include options to extend or terminate the lease when it is reasonably certain that option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Lease agreements with lease and non-lease components are not accounted for separately.

For all underlying classes of assets, the Organization has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Organization is reasonably certain to exercise. The Organization recognizes fixed short-term lease cost on a straight-line basis over the lease term and variable lease cost in the period in which the obligation is incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits

Deposits represents the lease security deposit. The security deposit is held by the lessor throughout the term of the lease. The deposit is refunded to the lessee at the end of the lease term if the lessee has fully performed and observed all of the conditions set out in the lease contract.

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, 2022 and 2021.

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.

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, 2022 and 2021.

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>2022</u>	<u>2021</u>
Cash and equivalents	\$ 926,937	\$ 1,005,015
Accounts receivable, net	<u>52,231</u>	<u>6,833</u>
	<u>\$ 979,168</u>	<u>\$ 1,011,848</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Automobiles	\$ 83,995	\$ -
Furniture and equipment	124,839	28,293
Improvements	<u>169,701</u>	<u>717</u>
Total	378,535	29,010
Less: accumulated depreciation	<u>(78,455)</u>	<u>(26,074)</u>
	<u>\$ 300,080</u>	<u>\$ 2,936</u>

Depreciation expense was \$52,381 and \$2,005 for the years ended December 31, 2022 and 2021, respectively.

5. LEASES

The Organization has operating leases for a building and a vehicle with non-related parties. These leases expire at various dates through 2027. The Organization also currently rents space at 130 Water Street, Brooklyn, New York on a month-to-month basis.

The components of total lease cost for the year ended December 31, 2022 are as follows:

Operating lease expense	\$ 96,667
Short-term lease expense	12,750
Finance lease expense:	
Amortization of ROU assets	5,954
Interest on lease liabilities	341
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Total lease expense	<u>\$ 115,712</u>

Supplemental cash flow information related to leases for the year ended December 31, 2022 are as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 106,143
Operating cash flows from finance leases (i.e. Interest)	341
Financing cash flows from finance leases (i.e. principal portion)	6,143
ROU assets obtained in exchange for new operating lease liabilities	\$ 557,599
ROU assets obtained in exchange for new finance lease liabilities	\$ 30,265

Other information related to leases as of December 31, 2022 is as follows:

Weighted average remaining lease term for operating leases	4.2 years
Weighted average remaining lease term for finance leases	4.1 years
Weighted average discount rate for operating leases	1.56%
Weighted average discount rate for finance leases	1.26%

The minimum future rental payments under non-cancelable operating leases having initial terms in excess of one year as of December 31, 2022 are as follows:

Year ending December 31:

	Operating Lease	Finance Lease
2023	\$ 110,000	\$ 6,143
2024	120,000	6,143
2025	120,000	6,143
2026	120,000	6,143
2027	20,000	1,024
	<hr/>	<hr/>
Total undiscounted cash flows	490,000	25,596
Less: present value discount	(15,579)	(1,133)
Total lease liabilities	<u>\$ 474,421</u>	<u>\$ 24,463</u>

5. LEASES (Continued)

Leases (2021)

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 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>

6. CONTRIBUTIONS AND IN-KIND DONATIONS

For the year ended December 31, 2022, contributed nonfinancial assets recognized within the statements of activities included in-kind support totaling \$225,000 which consisted of air transportation for dogs. These contributions were recorded using an estimated fair market value at the date the contribution was received based on the actual cost of air transportation. Contributed nonfinancial assets did not have donor-imposed restrictions and are all program related expenses.

There were no contributed nonfinancial assets for the year ended December 31, 2021.

7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 14, 2023, which is the date the financial statements were available to be issued.