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THE SATO PROJECT, INC.
(A Nonprofit Organization)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

THE SATO PROJECT, INC.
(A Nonprofit Organization)

TABLE OF CONTENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6 - 7
NOTES TO FINANCIAL STATEMENTS	8 -12



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Sato Project, Inc.
Brooklyn, New York

Report on the Financial Statements

I have audited the accompanying financial statements of The Sato Project, Inc., (the "Organization"), which comprise the statement of financial position as of December 31, 2017 and the related statements of activities and changes in net assets, functional expenses and of 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 these 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


My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the 2017 financial statements referred to above present fairly, in all material respects, the financial position of The Sato Project, Inc. as of December 31, 2017 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles accepted in the United States of America.


Certified Public Accountant

Lake Success, New York
November 11, 2018

THE SATO PROJECT, INC.
(A Nonprofit Organization)

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

	<u>2017</u>
ASSETS:	
Cash - non-interest bearing	\$ 841,869
Prepaid insurance	1,544
Prepaid rent	11,700
Prepaid events	13,434
Property and equipment net of accumulated depreciation	<u>14,994</u>
 TOTAL ASSETS	 <u>\$ 883,541</u>
LIABILITIES:	
Accounts payable and accrued expenses	\$ <u>35,491</u>
 TOTAL LIABILITIES	 <u>35,491</u>
NET ASSETS:	
Unrestricted	848,050
Temporarily restricted	<u>-</u>
 TOTAL NET ASSETS	 <u>848,050</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 883,541</u>

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

THE SATO PROJECT, INC.
(A Nonprofit Organization)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE :			
General contributions	\$ 1,498,262	\$ 129,000	\$ 1,627,262
Adoption fees	109,467	-	109,467
Unrestricted grants	219,153	-	219,153
Special events	9,729	-	9,729
	<u>1,836,611</u>	<u>129,000</u>	<u>1,965,611</u>
TOTAL SUPPORT AND REVENUE			
 EXPENSES:			
Program services	1,023,435	129,000	1,152,435
General and administrative	115,874	-	115,874
Fund-raising	65,757	-	65,757
	<u>1,205,066</u>	<u>129,000</u>	<u>1,334,066</u>
TOTAL EXPENSES			
CHANGE IN NET ASSETS	631,545	-	631,545
Net assets at beginning of year	<u>216,505</u>	<u>-</u>	<u>216,505</u>
NET ASSETS AT END OF YEAR	<u>\$ 848,050</u>	<u>\$ -</u>	<u>\$ 848,050</u>

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

THE SATO PROJECT, INC.
(A Nonprofit Organization)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	2017			
	Program Services	Management and General	Fund- raising	Total
Accounting and audit fees	\$ -	\$ 12,000	\$ -	\$ 12,000
Advertising	2,771	-	-	2,771
Automobile expenses	1,021	1,565	-	2,586
Arecibo shelter	11,529	-	-	11,529
Bank service charges	-	1,045	-	1,045
Bookkeeping services	-	2,895	-	2,895
Canine supplies	11,340	-	-	11,340
Consulting fees	41,848	16,087	5,835	63,770
Database and software	-	2,603	-	2,603
Depreciation expense	9,476	-	-	9,476
Directors and officers insurance	-	1,166	-	1,166
Dog training	15,314	-	-	15,314
Employee education	-	60	-	60
Employee - payroll	136,504	20,499	49,640	206,643
Employer payroll taxes	10,801	1,584	4,624	17,009
Events	-	-	5,600	5,600
Fees - credit card and payment processing	-	32,154	-	32,154
Fees - payroll processing	-	1,725	-	1,725
General/volunteer liability insurance	-	559	-	559
Gifts - support	124	-	58	182
Hurricane Maria relief	2,432	-	-	2,432
Interest expense	-	4,260	-	4,260
Internet and cable	6,180	-	-	6,180
Meals	2,816	3,241	-	6,057
Office expense	208	1,317	-	1,525
Office supplies	-	581	-	581
Rent	10,800	-	-	10,800
Spray and neuter program (X)	19,766	-	-	19,766
State registrations	-	8,043	-	8,043
Travel - staff	20,209	3,958	-	24,167
Transport - dog - USA	6,069	-	-	6,069
Transport - dog - air (X)	144,568	-	-	144,568
Uniforms	3,825	-	-	3,825
Veterinary services - Puerto Rico	526,039	-	-	526,039
Veterinary services - USA	28,155	-	-	28,155
Website	1,374	-	-	1,374
Workers comp and disability insurance	-	532	-	532
Volunteer allowance	10,266	-	-	10,266
<u>Temporarily Restricted Fund Expenditures</u>				
Spray and neuter program	40,000	-	-	40,000
Transport- dog- air	89,000	-	-	89,000
	<u>\$ 1,152,435</u>	<u>\$ 115,874</u>	<u>\$ 65,757</u>	<u>\$ 1,334,066</u>
Percentage of Total Expenses	<u>86.39%</u>	<u>8.68%</u>	<u>4.93%</u>	<u>100.00%</u>

(X) - The balance of these expenses are included under temporarily restricted fund expenditures.

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

THE SATO PROJECT, INC.
(A Nonprofit Organization)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in Net Assets	<u>\$ 631,545</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	9,476
Changes in:	
Prepaid insurance	(1,544)
Prepaid rent	(900)
Prepaid events	(13,434)
Accounts payable and accrued expenses	<u>(8,982)</u>
TOTAL ADJUSTMENTS	<u>(15,384)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>616,161</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	-
Repayment of loan	<u>(12,144)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(12,144)</u>
NET INCREASE IN CASH	604,017
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>237,852</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 841,869</u>

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

THE SATO PROJECT, INC.
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

DISCLOSURE OF ACCOUNTING POLICY:

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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

THE SATO PROJECT, INC.
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ORGANIZATION

The Sato Project, Inc.(the organization) was incorporated in the State of New York on November 29, 2011.

The Sato Project is dedicated to rescuing abused and abandoned dogs in Puerto Rico, locally referred to as "satos". During the first several years of operations, 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 we have 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. We also work to address the underlying causes of overpopulation, abandonment, and abuse in Puerto Rico through community outreach and our low-cost Spay, Neuter, and Vaccine Program.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. To ensure observance of limitations and restrictions on the use of financial resources, the organization maintains its accounts using fund accounting.

Contributions are considered to be available for unrestricted use unless they are specifically restricted by the donor.

Revenue, including adoption fees, is recognized when earned.

(b) Basis of Presentation

Financial statement presentation follows the recommendations of the *Financial Statements of Not-for-Profit Organizations* in which the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets

Represents resources that are available for general support of the Organization's operations over which the Board of Directors has discretionary control.

Temporarily restricted net assets

Net assets of which the use has 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, those temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. As of December 31, 2017 there were temporarily restricted net assets.

(Continued)

THE SATO PROJECT, INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation (Continued)

Permanently restricted net assets

Net assets whereby donors have stipulated that the principal contributed be invested and retained in perpetuity, with investment return available for expenditure according to the restrictions, if any, imposed by the donors.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for a specific purpose are reported as temporarily restricted or permanently restricted.

(c) Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donations.

(d) Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

(e) Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional and object classification basis in the statement of functional expenses. Certain costs have been allocated among the program and supporting services benefitted.

(f) Income Tax Status

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.

The Organization recognizes the effects of income tax positions only if those positions are more likely than not of being sustained. No provisions for income taxes was required for 2017.

THE SATO PROJECT, INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Donated Services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with various programs. There is no objective measurement for these services and therefore do not fit the criteria for recognition.

(h) Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

(i) Property and Equipment

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

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination.

(j) Use of Estimates in Financial Statement Presentation

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates.

(k) Allocation of Functional Expenses

Expenses are presented according to the programs for which they were incurred and are summarized on a functional basis in the accompanying statements of activities and changes in net assets. The various programs and supporting services of the Organization are as follows:

Program expenses - 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.

(Continued)

THE SATO PROJECT, INC.
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NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Allocation of Functional 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.

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash in bank accounts that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk to cash.

NOTE 5 - TEMPORARILY RESTRICTED FUNDS

During 2017, the Organization received the following restricted contributions:

\$35,000 from Tracy and Andy Warren towards the Spay, Neuter, vaccine and microchip program. The total amount of the funds were utilized.

\$5,000 from Devin and Mike Shanahan towards the spay and neuter van. The total amount of the funds were utilized.

\$89,000 from Wendy Neu for transportation and veterinary care. The total amount of the funds were utilized.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment, at cost, and accumulated depreciation as of December 31, 2017 consisted of the following:

	<u>2017</u>
Automobiles	\$ 50,399
Furniture and equipment	21,965
Improvements	<u>717</u>
TOTAL	73,081
LESS: ACCUMULATED DEPRECIATION	<u>58,087</u>
	<u>\$ 14,994</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 7 - COMMITMENTS

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.

NOTE 8 - SUBSEQUENT EVENTS

The Sato Project, Inc. has evaluated subsequent events after December 31, 2017 through November 11, 2018 the date that the financial statements are considered available to be issued. The Organization is not aware of any subsequent events that would require additional recognition or disclosure in the accompanying financial statements.