

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES**

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

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SUPPORT/LOS ANGELES
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Pets are Wonderful Support/Los Angeles:

We have audited the accompanying financial statements of Pets are Wonderful Support/Los Angeles ("PAWS-LA") (a California nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility of the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pets are Wonderful Support/Los Angeles as of December 31, 2016 and 2015, and the results of activities and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Handwritten signature in black ink, appearing to read "GGF, LLP".

GGF, LLP
Encino, California
February 22, 2017

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
	<u>Unrestricted</u>	<u>Unrestricted</u>
ASSETS:		
Current assets:		
Cash	\$ 42,129	\$ 136,259
Investments	880,723	214,812
Contributions receivable	9,812	57,964
Grants receivable	67,223	142,692
Pet food and supplies	56,118	95,705
Prepaid expenses	527	1,827
Total current assets	<u>1,056,532</u>	<u>649,259</u>
Property and equipment, net	11,745	19,711
Deposits	9,550	14,149
	<u>\$ 1,077,827</u>	<u>\$ 683,119</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 9,632	\$ 48,885
Accrued expenses	13,754	20,150
Accrued vacation	17,220	18,874
Accrued interest	8,295	4,207
Deferred rent	7,394	4,467
Line of credit	80,000	80,000
Total current liabilities	<u>136,295</u>	<u>176,583</u>
Commitments (Note 7)		
NET ASSETS	<u>941,532</u>	<u>506,536</u>
	<u>\$ 1,077,827</u>	<u>\$ 683,119</u>

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

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016 <u>Unrestricted</u>	2015 <u>Unrestricted</u>
PUBLIC SUPPORT AND REVENUE:		
Public support:		
Donations	\$ 839,704	\$ 352,028
Grants – other	105,865	185,043
Grants – HOPWA	409,286	406,961
Special events	30,279	31,273
Total public support	<u>1,385,134</u>	<u>975,305</u>
 In-kind revenues:		
Program services	<u>220,106</u>	<u>272,558</u>
 Other revenues:		
Interest and dividends	<u>9,026</u>	<u>8,115</u>
 Total support and revenue	<u>1,614,266</u>	<u>1,255,978</u>
 EXPENSES:		
Program services	1,013,870	981,751
Management and general	111,729	131,224
Fundraising	51,922	48,057
Total expenses	<u>1,177,521</u>	<u>1,161,032</u>
 Net change in net assets	436,745	94,946
 OTHER COMPREHENSIVE INCOME:		
Unrealized loss on investments available for sale	<u>1,749</u>	<u>6,391</u>
	434,996	88,555
 Net unrestricted assets, beginning of year	506,536	417,981
 Net unrestricted assets, end of year	<u>\$ 941,532</u>	<u>\$ 506,536</u>

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

PETS ARE WONDERFUL SUPPORT/LOS ANGELES
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016				2015			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Salaries	400,470	78,625	41,349	520,444	368,858	87,125	33,280	489,263
Payroll taxes and benefits	41,265	3,641	-	44,906	35,393	5,605	-	40,998
Advertising	3,332	-	-	3,332	2,402	-	1,303	3,705
Bank charges	318	1,390	-	1,708	-	5,148	-	5,148
Community relations	225	-	-	225	25	-	-	25
Data processing	-	2,165	-	2,165	-	2,313	-	2,313
Depreciation	6,373	797	796	7,966	7,956	994	994	9,944
Dues and subscriptions	4,203	758	-	4,961	1,356	463	199	2,018
Equipment rental	-	120	2,162	2,282	991	140	1,080	2,211
Food and merchandise	-	-	3,682	3,682	-	-	1,934	1,934
Insurance	52,848	5,679	-	58,527	39,131	5,414	-	44,545
Interest	1,520	4,278	190	5,988	1,226	3,264	153	4,643
Maintenance	3,359	466	-	3,825	5,566	2,803	-	8,369
Miscellaneous	-	-	-	-	-	306	501	807
Office expense	14,481	1,844	304	16,629	12,482	1,135	39	13,656
Pet care and food	197,011	-	-	197,011	220,323	-	-	220,323
Pet supplies	2,072	-	-	2,072	1,513	-	-	1,513
Photography	-	-	-	-	-	-	25	25
Postage	3,022	452	616	4,090	2,952	433	587	3,972
Printing	3,520	103	464	4,087	5,320	339	1,266	6,925
Professional fees and outside services	35,961	4,020	-	39,981	29,123	2,450	7,486	39,059
Rent	65,524	5,185	1,500	72,209	73,909	11,013	-	84,922
Supplies	-	-	859	859	468	-	(790)	(322)
Telephone	7,315	407	-	7,722	7,625	360	-	7,985
Transportation	9,823	631	-	10,454	10,405	728	-	11,133
Utilities	8,312	1,168	-	9,480	7,969	1,191	-	9,160
Veterinary costs	152,916	-	-	152,916	146,758	-	-	146,758
	<u>1,013,870</u>	<u>111,729</u>	<u>51,922</u>	<u>1,177,521</u>	<u>981,751</u>	<u>131,224</u>	<u>48,057</u>	<u>1,161,032</u>

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

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
Cash flows from operating activities:		
Net change in net assets	\$ 436,745	\$ 94,946
Adjustments to reconcile net change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,966	9,944
(Increase) decrease in:		
Contributions receivable	48,152	(54,319)
Grants receivable	75,469	(77,960)
Pet food and supplies	39,587	1,935
Prepaid expenses	1,300	(1,300)
Increase (decrease) in:		
Accounts payable	(39,253)	10,594
Accrued expenses	(6,396)	(16)
Accrued vacation	(1,654)	3,007
Accrued interest	4,088	3,111
Deferred rent	2,927	2,425
Net cash provided by (used in) operating activities	568,931	(7,633)
Cash flows from investing activities:		
Purchases of investments available for sale	(665,911)	(1,267)
Proceeds from investments available for sale, net of fees	(1,749)	(6,391)
Purchases of fixed assets	-	(15,026)
Deposits	4,599	(2,357)
Net cash used in investing activities	(663,061)	(25,041)
Net decrease in cash	(94,130)	(32,674)
Cash, beginning of year	136,259	168,933
Cash, end of year	\$ 42,129	\$ 136,259

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

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 1 – Nature of activities

Pets are Wonderful Support/Los Angeles (“PAWS-LA” or “The Organization”), was organized in 1989 as a California Nonprofit Benefit Corporation, for the purpose of providing services to people in Southern California with HIV and AIDS to assist in the care of their pets. Such services include providing food, assistance in daily pet care, coordinating low-cost veterinary services and assisting clients in obtaining housing facilities and thereby enabling pets and clients to remain together. This housing assistance is partially funded through a city agency.

Note 2 – Summary of significant accounting policies

Basis of accounting – The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 958, “Not- for- Profit Entities.” Under ASC No. 958, PAWS-LA 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.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Contributions – PAWS-LA accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in ASC No. 958, “Revenue Recognition”. In accordance with ASC No. 958-225, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Statements of cash flows – For the year ended December 31, 2016 and 2015 PAWS-LA paid interest of \$5,988 and \$4,643 respectively. No income taxes were paid in 2016 and 2015.

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 2 – Summary of significant accounting policies (continued)

Promises to give – Unconditional promises to give, less an allowance for uncollectible amounts, if applicable, are recognized as revenues in the period such promises are received and are recognized as assets, decreases of liabilities, or expenses depending on the form of the benefits received.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. At December 31, 2016 and 2015, no unconditional or conditional promises to give were recorded.

Cash and cash equivalents – PAWS-LA considers all highly liquid instruments, with a maturity of three months or less, to be cash equivalents. As of December 31, 2016 and 2015, PAWS-LA had no cash equivalents.

Property and equipment – Property and equipment consist of the following details as of December 31, 2016 and 2015:

	2016	2015
Furniture and equipment	\$ 6,720	\$ 6,721
Computers	19,814	19,814
Website development	27,188	27,188
Leasehold improvements	5,242	5,242
	58,964	58,965
Less: accumulated depreciation and amortization	(47,219)	(39,254)
	\$ 11,745	\$ 19,711

Property and equipment are stated at cost. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets, which range from three to ten years. Leasehold improvements are amortized on a straight-line basis over the lease life of 5 years.

For the year ended December 31, 2016 and 2015 depreciation expense was \$7,966 and \$9,944 respectively.

Maintenance and repairs are charged to operations when incurred. When property and equipment are sold or otherwise retired, the asset accounts and related accumulated depreciation and amortization accounts are removed, and any gain or loss is included in the statements of activities.

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 2 – Summary of significant accounting policies (continued)

Pet food and supplies – PAWS-LA values pet food and supplies at an estimated lower of cost or market. In 2016 and 2015, the cost for pet food and supplies were determined by using various wholesale catalogues. For the year ended December 31, 2016 and 2015 PAWS-LA provided \$183,460 and \$201,035, respectively, of pet food and supplies to its clients. As of December 31, 2016 and 2015 PAWS-LA pet food and supplies inventory was \$56,118 and \$95,705, respectively.

Donated material and services – PAWS-LA records the value of donated material or services when an objective basis is available. For the years ended December 31, 2016 and 2015 donated materials and services reflected as in-kind revenue in the amounts of \$220,106 and \$272,558, respectively, are recorded in the accompanying statements at their estimated values at the date of receipt and consist of pet food, veterinary services, grooming and postage. These amounts are offset by the recording of a commensurate expense in the financial statements for donations in-kind. Additionally, a substantial number of volunteers have donated a significant amount of time in PAWS-LA program services and fundraising events, which is considered valuable in the organization's overall efforts of providing services and is not reflected in the financial statements as of December 31, 2016 and 2015.

Functional expenses – Functional expenses have been allocated between program services and management and general services based on analysis of personnel time and facility space utilized for the related activities. Additionally, the expenses related to the newsletter containing a fundraising appeal have been allocated between program, management and general and fundraising expense as indicated on the statements of functional expenses.

Income taxes – PAWS-LA is generally exempt from Federal income taxes as a publicly supported organization under Section 501(c)(3) of the Internal Revenue Code and corresponding California Code sections.

Investments and Fair Value Measurements – ASC 820, Fair Value Measurement and Disclosures issued by the Financial Accounting Standards Board, which provides a framework for measuring assets and liabilities at fair value under generally accepted accounting principles. ASC 820 applies to all financial instruments that are being measured and reported on a fair value basis.

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 2 – Summary of significant accounting policies (continued)

As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, PAWS-LA uses various methods including market, income and cost approaches. Based on these approaches, PAWS-LA often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. PAWS-LA utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, PAWS-LA is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- | | |
|---------|---|
| Level 1 | Valuation for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. |
| Level 2 | Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities. |
| Level 3 | Valuations for assets and liabilities that are derived from other valuation methodologies, including options pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities. |

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC 820. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 3 – Investments

Investments – Investments are carried at market or appraised value, and realized and unrealized gains and losses are reflected in the statement of activities. PAWS-LA invests cash in excess of daily requirements in short-term investments. At December 31, 2016 and 2015 all of the organization’s investments consisted for unrestricted short-term investments. For the year ended December 31, 2016 and 2015, brokerage fees amounted to \$6,136 and \$2,511, respectively, which are included net of the gains recorded in the Statement of Activities.

The fair value for these investments at December 31, 2016 and 2015 are as follows:

	2016	2015
ML Bank Deposit Program	\$ 662,158	\$ 29
Alpine Ultra Short Tax Optimized Income Fund	30,193	43,445
American Funds Washington Mutual	50,139	44,126
American Growth Fund	47,725	43,908
Pimco Real Return Bond Fund	-	40,014
Pimco Low Duration Fund	-	43,290
American Century Inflation	30,648	-
Prudential Short Term Corporate Bond	29,962	-
Lord Abbett Short Duration Income Fund	29,928	-
	\$ 880,753	\$ 214,812

Under ASC No. 820 “Fair Value Measurements and Disclosures”, all investments are considered Level 1 for fair value measurement. Fair value measurement on Level 1 assets are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

As of December 31, 2016, the Organization invested in funds held at Merrill Lynch that represent 81.7% of total unrestricted assets. These investments are subject to risk due to market fluctuations. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, within twelve months, and that such changes could materially affect the amounts reported in the statements of activities.

Note 4 – Certain Risk Factors and Concentrations

Competition among nonprofit organizations has intensified in recent years due to increasing numbers of agencies seeking support, shifting government funding, and the presence of for-profit organizations. The operations of PAWS-LA are primarily dependent upon third-party support and private funding.

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 4 – Certain Risk Factors and Concentrations (continued)

The Organization maintains cash balances at one bank. Cash accounts at the bank are insured by the Federal Deposit Insurance Corporation (“FDIC”) for up to \$250,000. The Organization’s cash balances did not exceed the FDIC insurance limits at December 31, 2016 and 2015.

See Note 5 for discussion on concentrations of support and grant funding. In addition, PAWS-LA receives its support primarily from the donations of individuals and from grantors.

Note 5 – City of Los Angeles HOPWA Program

For the year ended December 31, 2016 and 2015, PAWS-LA received a grant from the City of Los Angeles Housing Opportunities for People With AIDS (“HOPWA”) program. For the year ended December 31, 2016 and 2015, PAWS-LA recorded support of \$409,286 and \$406,961, respectively, related to this grant.

The HOPWA grant accounted for 25.4% and 32.4% of the total support for the years ended December 31, 2016 and 2015, respectively. The HOPWA grant is a material supporting factor for PAWS-LA. As of August, 2014, PAWS-LA had secured a three year funding contract that guarantee grant support through March 31, 2017. However, should the grant be modified significantly or eliminated in its entirety, it may have a material adverse impact on the Statement of Net Assets.

Note 6 – Grants receivable

Unrestricted

Grants receivables are due from the HOPWA program and from promotional activities conducted during the years ended December 31, 2016 and 2015. As of December 31, 2016 and 2015, the receivable from these activities was \$67,223 and \$142,692, respectively. For the years ended December 31, 2016 and 2015 the HOPWA grants receivable represents 87% and 71% of the grants receivable balances.

Grants and other receivables are unsecured.

**PETS ARE WONDERFUL
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 7 – Rent and lease commitment

In August 2009, PAWS-LA entered into a rental lease agreement for its main facility beginning October 1, 2009 and ending September 30, 2012. This lease originally called for monthly payments of \$5,558 and has increases of 3% per year. The lease was extended until December 31, 2015. The extension includes a charge of \$750 per month in utilities in addition to the monthly rental payments. In September 2015, PAWS-LA entered into a new rental lease agreement beginning November 1, 2015 and ending December 31, 2020. Monthly rental payments during 2016 were \$4,775.

The following represents payments to be made on behalf of the lease noted above:

2017	\$	57,300
2018		57,300
2019		57,300
2020		57,300
		<u>\$ 229,200</u>

For the years ended December 31, 2016 and 2015, total facility rental expense including rent and maintenance charges for the PAWS-LA facility were \$54,791 and \$84,712, respectively.

Note 8 – Special events

For the years ended December 31, 2016 and 2015, PAWS-LA generated contributions of \$30,279 and \$31,273, respectively, from various fundraising activities.

Volunteers contributed significant time to organizing and planning for these events. PAWS-LA is unable to provide basis for this contribution, and as such it is not recorded on the statements of activities for the years ended December 31, 2016 and 2015.

Note 9 – Grant support

For the years ended December 31, 2016 and 2015, PAWS-LA received grants of \$105,865 and \$185,043, respectively, from various sources including foundations.

Note 10 – 403(b) tax sheltered annuity arrangement

Certain employees are contributors to a 403(b) tax sheltered annuity administered through PAWS-LA. A 403(b) tax sheltered annuity is considered an arrangement between the employee and the trustee and is not considered a pension plan. Contributions are made through salary reduction agreements and are passed through PAWS-LA directly to a trustee. This arrangement is made available to all employees.

**PETS ARE WONDERFUL
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 11 – Income Taxes

The Organization adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. The Organization has analyzed the tax positions taken in its filings with the Internal Revenue Service and state jurisdictions where it operates. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on its financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2016.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2013.

The Organization's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

Note 12 – Line of Credit

The Organization has a line of credit with Merrill Lynch for a maximum commitment of \$150,000 and is due on demand. The interest rate on this line of credit is 4.70% (the LIBOR rate plus the bank's spread as of December 31, 2016 of .8255% plus 3.875%. Any outstanding amount on the line would be secured by the Organization's investment assets in funds held at Merrill Lynch.

Note 13 – Subsequent events

Subsequent events are events or transactions that occur after the Statement of Financial Position date but before financial statements are issued. PAWS-LA recognizes in the financial statements the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the Statement of Financial Position, including the estimates inherent in the process of preparing the financial statements. PAWS-LA's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the Statement of Financial Position but arose after the said date and before financial statements are available to be issued.

PAWS-LA had evaluated subsequent events through February 22, 2017 which is the date the financial statements are available to be issued.