

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES**

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

**PETS ARE WONDERFUL
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, 2017 and 2016, 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, 2017 and 2016, and the results of activities and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

A handwritten signature in blue ink, appearing to read "GGF, LLP". The signature is stylized and cursive.

GGF, LLP
Encino, California
May 29, 2018

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
	<u>Unrestricted</u>	<u>Unrestricted</u>
ASSETS:		
Current assets:		
Cash	\$ 56,152	\$ 42,129
Investments	784,475	880,723
Contributions receivable	389,306	9,812
Grants receivable	66,903	67,223
Pet food and supplies	148,177	56,118
Prepaid expenses	1,162	527
Total current assets	1,446,175	1,056,532
Property and equipment, net	13,831	11,745
Deposits	9,550	9,550
	\$ 1,469,556	\$ 1,077,827
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 16,046	\$ 9,632
Accrued expenses	12,372	13,754
Accrued vacation	12,876	17,220
Accrued interest	-	8,295
Deferred rent	5,545	7,394
Line of credit	-	80,000
Total current liabilities	46,839	136,295
Commitments (Note 7)		
NET ASSETS	1,422,717	941,532
	\$ 1,469,556	\$ 1,077,827

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

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
STATEMENTS OF ACTIVITIES
AS OF DECEMBER 31, 2017 AND 2016**

	2017	2016
	<u>Unrestricted</u>	<u>Unrestricted</u>
PUBLIC SUPPORT AND REVENUE:		
Public support:		
Donations	\$ 736,117	\$ 839,704
Grants – other	118,644	105,865
Grants – HOPWA	405,451	409,286
Special events	8,529	30,279
Total public support	<u>1,268,741</u>	<u>1,385,134</u>
 In-kind revenues:		
Program services	<u>387,475</u>	<u>220,106</u>
 Other revenues:		
Realized gain on investments available for sale	11,314	-
Interest and dividends	18,519	9,026
Total other revenues	<u>29,833</u>	<u>9,026</u>
 Total support and revenue	<u>1,686,049</u>	<u>1,614,266</u>
 EXPENSES:		
Program services	1,038,032	1,013,975
Management and general	101,720	107,001
Fundraising	84,304	56,545
Total expenses	<u>1,224,056</u>	<u>1,177,521</u>
 Net change in net assets	461,993	436,745
 OTHER COMPREHENSIVE INCOME:		
Unrealized gain/(loss) on investments available for sale	19,192	(1,749)
	<u>481,185</u>	<u>434,996</u>
 Net unrestricted assets, beginning of year	941,532	506,536
 Net unrestricted assets, end of year	<u>\$ 1,422,717</u>	<u>\$ 941,532</u>

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

PETS ARE WONDERFUL SUPPORT/LOS ANGELES
STATEMENTS OF FUNCTIONAL EXPENSES
AS OF DECEMBER 31, 2017 AND 2016

	2017				2016			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Salaries	\$ 371,943	\$ 76,794	\$ 24,020	\$ 472,757	\$ 400,470	\$ 74,000	\$ 45,974	\$ 520,444
Payroll taxes and benefits	42,425	3,591	-	46,016	41,265	3,641	-	44,906
Advertising	2,762	-	614	3,376	3,332	-	-	3,332
Bank charges	5,181	1,297	-	6,478	318	1,390	-	1,708
Community relations	544	-	-	544	225	-	-	225
Data processing	-	3,091	-	3,091	-	2,165	-	2,165
Depreciation	4,071	509	509	5,089	6,372	797	797	7,966
Dues and subscriptions	5,077	984	-	6,061	4,204	758	-	4,962
Equipment rental	1,840	-	3,487	5,327	-	120	2,162	2,282
Food and merchandise	-	-	3,600	3,600	-	-	3,682	3,682
Insurance	52,839	4,489	-	57,328	52,849	5,679	-	58,528
Interest	1,323	1,189	165	2,677	1,520	4,278	190	5,988
Maintenance	2,727	408	-	3,135	3,359	466	-	3,825
Miscellaneous	-	386	25	411	-	-	-	-
Office expense	7,525	838	-	8,363	14,482	1,844	301	16,627
Pet care and food	204,225	-	-	204,225	197,011	-	-	197,011
Pet supplies	2,176	-	-	2,176	2,072	-	-	2,072
Photography	-	-	349	349	-	-	-	-
Postage	1,643	246	-	1,889	3,022	452	616	4,090
Printing	8,358	-	17,900	26,258	3,623	-	464	4,087
Professional fees and outside services	23,523	2,315	26,000	51,838	35,961	4,020	-	39,981
Rent	64,333	3,789	6,950	75,072	65,524	5,185	1,500	72,209
Supplies	-	-	45	45	-	-	859	859
Telephone	7,729	444	-	8,173	7,315	407	-	7,722
Transportation	6,686	416	640	7,742	9,823	631	-	10,454
Utilities	7,330	934	-	8,264	8,312	1,168	-	9,480
Veterinary costs	213,772	-	-	213,772	152,916	-	-	152,916
	<u>\$ 1,038,032</u>	<u>\$ 101,720</u>	<u>\$ 84,304</u>	<u>\$ 1,224,056</u>	<u>\$ 1,013,975</u>	<u>\$ 107,001</u>	<u>\$ 56,545</u>	<u>\$ 1,177,521</u>

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

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
STATEMENTS OF CASH FLOWS
AS OF DECEMBER 31, 2017 AND 2016**

	2017	2016
Cash flows from operating activities:		
Net change in net assets	\$ 461,993	\$ 436,745
Adjustments to reconcile net change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,089	7,966
Unrealized (gain)/loss on investments	19,192	(1,749)
(Increase) decrease in:		
Contributions receivable	(379,494)	48,152
Grants receivable	320	75,469
Pet food and supplies	(92,059)	39,587
Prepaid expenses	(635)	1,300
Increase (decrease) in:		
Accounts payable	6,414	(39,253)
Accrued expenses	(1,382)	(6,396)
Accrued vacation	(4,344)	(1,654)
Accrued interest	(8,295)	4,088
Deferred rent	(1,849)	2,927
Net cash provided by operating activities	4,950	567,182
Cash flows from investing activities:		
Purchase of investments available for sale	-	(665,911)
Proceeds from sale of investments available for sale	96,248	-
Purchases of fixed assets	(7,175)	-
Deposits	-	4,599
Net cash provided by (used in) investing activities	89,073	(661,312)
Cash flows from financing activity:		
Payments to line of credit	(80,000)	-
Net increase (decrease) in cash	14,023	(94,130)
Cash, beginning of year	42,129	136,259
Cash, end of year	\$ 56,152	\$ 42,129

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

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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, 2017 and 2016 PAWS-LA paid interest of \$10,972 and \$5,988 respectively. No income taxes were paid in 2017 and 2016.

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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, 2017 and 2016, 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, 2017 and 2016, PAWS-LA had no cash equivalents.

Property and equipment – Property and equipment consist of the following details as of December 31, 2017 and 2016:

	2017	2016
Furniture and equipment	\$ 6,721	\$ 6,720
Computers	24,188	19,814
Vehicles	2,800	-
Website development	27,188	27,188
Leasehold improvements	5,242	5,242
	66,139	58,964
Less: accumulated depreciation and amortization	(52,308)	(47,219)
	\$ 13,831	\$ 11,745

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, 2017 and 2016 depreciation expense was \$5,089 and \$7,966 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, 2017**

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 2017 and 2016, the cost for pet food and supplies were determined by using various wholesale catalogues. For the year ended December 31, 2017 and 2016 PAWS-LA provided \$204,225 and \$197,011, respectively, of pet food and supplies to its clients. As of December 31, 2017 and 2016 PAWS-LA pet food and supplies inventory was \$148,177 and \$56,118, 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, 2017 and 2016 donated materials and services reflected as in-kind revenue in the amounts of \$387,475 and \$220,106, respectively, are recorded in the accompanying statements at their estimated values at the date of receipt and consist of pet food, vehicles, 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, 2017 and 2016.

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, 2017**

Note 3 – Investments

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, 2017**

Note 3 – Investments (continued)

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, 2017 and 2016 all of the organization’s investments consisted for unrestricted short-term investments. For the year ended December 31, 2017 and 2016, brokerage fees amounted to \$5,955 and \$366, respectively, which are included net of the gains recorded in the Statement of Activities.

The fair value for these investments at December 31, 2017 and 2016 are as follows:

<i>Assets at Fair Value as of December 31, 2017</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Cash	\$ 154,841	-	-	\$ 154,841
Stocks	152,482	-	-	152,482
Mutual Funds	438,769	-	-	438,769
Exchange traded and closed ended funds	38,383	-	-	38,383
Total assets in the fair value hierarchy	784,475	-	-	784,475
Investments at fair value	\$ 784,475	-	-	\$ 784,475

<i>Assets at Fair Value as of December 31, 2016</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Cash	\$ 662,158	-	-	\$ 662,158
Mutual funds	218,565	-	-	218,565
Total assets in the fair value hierarchy	880,723	-	-	880,723
Investments at fair value	\$ 880,723	-	-	\$ 880,723

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.

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 3 – Investments (continued)

As of December 31, 2017 and 2016, the Organization invested in funds that represent 53% 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.

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, 2017 and 2016.

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, 2017 and 2016, 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, 2017 and 2016, PAWS-LA recorded support of \$405,451 and \$409,286 , respectively, related to this grant.

The HOPWA grant accounted for 24% and 25% of the total support for the years ended December 31, 2017 and 2016, respectively. The HOPWA grant is a material supporting factor for PAWS-LA. As of April 1, 2018, PAWS-LA secured their annual renewal funding contract that guarantees grant support through March 31, 2019. 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 –Contributions receivable

Contributions receivable represent an estate gift from a former client. At December 31, 2017 PAWS/LA was awaiting distribution from the estate’s trustee. This gift is unrestricted and represents 85% of the total contributions receivable.

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 7 – Grants receivable

Unrestricted

Grants receivables are due from the HOPWA program. As of December 31, 2017 and 2016, the receivable from these activities was \$66,903 and \$67,223, respectively.

Grants receivable are unsecured and unrestricted.

Note 8 – Rent and lease commitment

In September 2015, PAWS-LA entered into a rental lease agreement for its main facility beginning November 1, 2015 and ending December 31, 2020. Monthly rental payments during 2017 were \$4,775.

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

2018	\$	57,300
2019		57,300
2020		57,300
		<u>\$ 171,900</u>

For the years ended December 31, 2017 and 2016, total facility rental expense including rent and maintenance charges for the PAWS-LA facility were \$55,452 and \$55,452, respectively.

Note 9 – Special events

For the years ended December 31, 2017 and 2016, PAWS-LA generated contributions of \$8,529 and \$30,279, 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, 2017 and 2016.

Note 10 – Grant support

For the years ended December 31, 2017 and 2016, PAWS-LA received grants of \$118,644 and \$105,865, respectively, from various sources including foundations.

**PETS ARE WONDERFUL
SUPPORT/LOS ANGELES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Note 11 – 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.

Note 12 – 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, 2017.

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 2014.

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

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 May 29, 2018 which is the date the financial statements are available to be issued.