



Financial Statements and
Independent Auditor's Report

PetSmart Charities of Canada

February 2, 2014 and February 3, 2013

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Independent Auditor's Report

Members
PetSmart Charities of Canada

We have audited the accompanying financial statements of PetSmart Charities of Canada, which comprise the statements of financial position as at February 2, 2014 and February 3, 2013, and the statements of operations and changes in net assets, and cash flows for the years ended February 2, 2014 and February 3, 2013, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PetSmart Charities of Canada as at February 2, 2014 and February 3, 2013, and the results of its operations and its cash flows for the years ended February 2, 2014 and February 3, 2013, in accordance with Canadian accounting standards for non-for-profit organizations.



Phoenix, Arizona
July 8, 2014

PetSmart Charities of Canada

STATEMENTS OF FINANCIAL POSITION

February 2, 2014 and February 3, 2013

ASSETS			
		2014	2013
CURRENT ASSETS			
Cash	\$	1,753,948	\$ 1,162,827
Receivable from PetSmart, Inc.		238,000	241,295
Receivable from PetSmart Charities, Inc.		1,230	1,443
Other receivables		1,760	-
Prepaid expenses		-	2,352
TOTAL CURRENT ASSETS		1,994,938	1,407,917
Other assets, net		254,202	323,529
TOTAL ASSETS	\$	<u>2,249,140</u>	<u>\$ 1,731,446</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accruals	\$	332,551	\$ 42,053
Payable to PetSmart Charities, Inc.		65,694	31,095
Payable to PetSmart, Inc.		25,748	110,674
TOTAL CURRENT LIABILITIES		423,993	183,822
NET ASSETS			
Operating fund - unrestricted		1,825,147	1,547,624
TOTAL LIABILITIES AND NET ASSETS	\$	<u>2,249,140</u>	<u>\$ 1,731,446</u>

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

PetSmart Charities of Canada

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

For the Years Ended February 2, 2014 and February 3, 2013

	<u>2014</u>	<u>2013</u>
REVENUES		
Individual contributions	\$ 2,614,881	\$ 1,604,320
PetSmart, Inc. contributions (including contributed rent, goods and services and royalty income)	975,482	885,060
Special event	172,066	145,113
Corporate and vendor contributions	35,000	35,000
Interest	8,975	4,233
Total revenue	<u>3,806,404</u>	<u>2,673,726</u>
EXPENSES		
Program services:		
Animal welfare organization grants	1,722,213	735,998
Other program expenses	1,327,352	1,009,360
Total program services	<u>3,049,565</u>	<u>1,745,358</u>
Supporting services:		
Fundraising	276,141	97,972
Management and administration	203,175	75,143
Total supporting services	<u>479,316</u>	<u>173,115</u>
TOTAL EXPENSES	<u>3,528,881</u>	<u>1,918,473</u>
Excess of revenue over expenses	277,523	755,253
NET ASSETS, BEGINNING OF YEAR	<u>1,547,624</u>	<u>792,371</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,825,147</u></u>	<u><u>\$ 1,547,624</u></u>

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

PetSmart Charities of Canada

STATEMENTS OF CASH FLOWS

For the Years Ended February 2, 2014 and February 3, 2013

	2014	2013
Cash flows from operating activities		
Excess of revenue over expenditures	\$ 277,523	\$ 755,253
Amortization of license agreement	69,327	23,109
Changes in operating assets and liabilities		
Decrease (increase) in:		
Receivable from PetSmart, Inc.	3,295	(225,445)
Receivable from PetSmart Charities, Inc.	213	(389)
Other receivables	(1,760)	3,200
Prepaid expenses	2,352	(1,327)
Other assets	-	(346,638)
Increase (decrease) in:		
Accounts payable and accruals	290,498	5,173
Payable to PetSmart Charities, Inc.	34,599	5,901
Payable to PetSmart, Inc.	(84,926)	110,674
Deferred revenue	-	-
Net cash provided by operating activities	591,121	329,511
Cash, beginning of year	1,162,827	833,316
Cash, end of year	<u>\$ 1,753,948</u>	<u>\$ 1,162,827</u>
Non-cash transactions		
Contributed rent, goods and services	<u>\$ 889,639</u>	<u>\$ 820,877</u>

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

PetSmart Charities of Canada
NOTES TO FINANCIAL STATEMENTS
February 2, 2014 and February 3, 2013

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities – PetSmart Charities of Canada (“Organization”) is a registered charity incorporated under letters patent under the Canada Corporations Act in 1987 and is exempt from tax under the provisions of the Income Tax Act (Canada). In the current fiscal year the Organization completed a legal reorganization to comply with the Canada Not-for-profit Corporations Act. As a result the Organization established one member, PetSmart Charities, Inc., a related party, as its sole member.

The Organization’s mission is to improve the quality of life for all companion animals by creating and supporting programs that save the lives of homeless pets and promote healthy relationships between people and pets.

Summary of Significant Accounting Policies

Basis of reporting – The Organization has prepared these financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations (“ASNPO”), which are a part of Canadian generally accepted accounting principles (“GAAP”). These financial statements reflect the assets, liabilities, sources of financing and expenditures of the Operating Fund and use the deferral method of accounting for contributions. All amounts are stated in Canadian dollars.

Fiscal year – The Organization’s fiscal year ends on the Sunday nearest January 31st. The fiscal years ended in 2014 and 2013 comprised 52 and 53 weeks, respectively.

Revenue and expense recognition – Unrestricted general donations are recognized as revenue of the Operating Fund in the year received. Donor contributions, which have externally imposed restrictions such that they must be used for expenses of a future period, are deferred and recorded as revenue of the Operating Fund as the related expenses are recognized. Unrestricted interest and other investment income are recognized as revenue when earned.

Expenses are recognized when an expenditure or previously recognized asset does not have future economic benefit, there is an appropriate basis of measurement and a reasonable estimate of the amount involved can be made. The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on personnel activity and other appropriate allocation methods.

The Organization earns royalty income from certain campaigns in which intellectual property of the Organization is licensed and recognized as revenue as they accrue in accordance with the terms of the relevant agreement.

Contributed services and in-kind donations – The fair value of contributed materials, services and store space that would otherwise have to be purchased is recognized as revenue with a corresponding expenditure. The Organization recorded approximately \$890,000 and \$821,000 for the years ended February 2, 2014, and February 3, 2013, respectively, of contributed rent, other goods and services, supplies, office space, utilities, and management personnel (see Note 2).

PetSmart Charities of Canada

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 2, 2014 and February 3, 2013

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash – Cash includes cash deposits in banks. The Canadian Deposit Insurance Corporation (“CDIC”) insures all deposits held in Canadian banks up to \$100,000. Any amount above this would be uninsured and subject to risk. There was approximately \$1,175,000 of uninsured deposits as of February 2, 2014. The Organization’s cash accounts were placed with high-credit-quality financial institutions, and accordingly, the Organization does not expect to experience non-performance.

Other assets – Other assets are comprised of a licensing agreement, which is carried at cost, net of any related amortization. Amortization is being recognized over the five-year agreement term (see Note 2).

Financial instruments - recognition and measurement

Initial measurement

The Organization’s financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they are incurred.

Subsequent measurement

At each reporting date, the Organization measures its financial assets and liabilities at cost or amortized cost (less impairment in the case of financial assets). The financial instruments measured at cost are cash, accounts payable, and accruals and amounts due to and from related parties.

For financial assets measured at cost or amortized cost, the Organization regularly assesses whether there are any indications of impairment. If there is an indication of impairment, and the Organization determines that there is a significant adverse change in the expected timing or amount of future cash flows from the financial asset, it recognizes an impairment loss in the statement of operations. Any reversals of previously recognized impairment losses are recognized in operations in the year the reversal occurs.

Use of estimates – The preparation of the Organization’s financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PetSmart Charities of Canada

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 2, 2014 and February 3, 2013

NOTE 2 – TRANSACTIONS WITH PETSMART, INC. AND PETSMART CHARITIES, INC.

The following revenue amounts were received from PetSmart, Inc. and are included in total revenue in the accompanying statements of operations and changes in net assets:

	February 2, 2014	February 3, 2013
Contributed rent, other goods and services, supplies, office space, utilities, and management personnel	\$ 885,639	\$ 820,877
Contributed product and supplies	4,000	-
Royalty income	85,843	64,183
	<u>\$ 975,482</u>	<u>\$ 885,060</u>

Contributed rent, other goods and services, supplies, and utilities for pet adoption centers were received from PetSmart, Inc. Beginning in fiscal year ended 2014, amounts for office space and management personnel have also been included in the contributions received from PetSmart, Inc. Contributions have been included in the accompanying statements of operations and changes in net assets based on the type of support received from PetSmart, Inc.:

	February 2, 2014	February 3, 2013
Other program expenses	\$ 835,611	\$ 820,877
Fundraising	38,707	-
Management and administration	11,321	-
	<u>\$ 885,639</u>	<u>\$ 820,877</u>

The Organization is highly dependent upon the viability of PetSmart, Inc. as this is the primary source of donated revenue received in the stores from customers and from PetSmart, Inc. employees. Royalty income is generated on specific campaigns where the Organization receives a percentage of the purchase price on selected merchandise items sold in PetSmart, Inc. stores that bear its trademark during a certain timeframe. These transactions occurred at rates as mutually agreed and were recorded at fair market value.

In fiscal year ended 2013, the Organization entered into a license agreement with PetSmart, Inc. for the usage of its pin pad system. The transaction was measured at the exchange amount paid by the Organization, which is recorded in other assets on the statements of financial position. This asset is carried at cost, net of any related amortization. Amortization is being recognized over the five-year term of the agreement.

	February 2, 2014	February 3, 2013
License agreement	\$ 323,529	\$ 346,638
Less accumulated amortization	<u>(69,327)</u>	<u>(23,109)</u>
	<u>\$ 254,202</u>	<u>\$ 323,529</u>

PetSmart Charities of Canada

NOTES TO FINANCIAL STATEMENTS - CONTINUED

February 2, 2014 and February 3, 2013

**NOTE 2 – TRANSACTIONS WITH PETSMART, INC. AND PETSMART CHARITIES, INC.
(Continued)**

The amounts due from PetSmart, Inc. are unsecured, non-interest bearing, currently due and represent employee donations, store box revenue, pin pad, and PetSmart donations, which were not remitted to the Organization at year-end.

In fiscal year ended 2014, the Organization entered into a management services agreement with PetSmart, Inc. to cost-effectively outsource certain business and administrative management services. The fees paid to PetSmart are capped annually and the value of contributed rent, other goods and services, supplies, office space, utilities, and management personnel received by the Organization under the agreement exceeds the payments made to PetSmart, Inc. The Organization incurred \$115,600 of expenses for the year ended February 4, 2014, recorded to other program expenses and fundraising totaling \$71,709 and \$43,951, respectively. These services were measured at the fair value of the outsourced services and allocated based on personnel activity.

In fiscal year ended 2014, the Organization entered into a management services agreement with PetSmart Charities, Inc., a U.S. charitable organization related through common management. The agreement documents prior practice whereby PetSmart Charities, Inc. provided certain management services at cost to the Organization. The Organization recorded management fees of approximately \$159,000 and \$66,000 for the years ended February 2, 2014, and February 3, 2013, respectively, to PetSmart Charities, Inc. The transactions occurred at mutually agreed rates and were recorded at the respective exchange amounts throughout the year.

Receivables from PetSmart Charities, Inc. of \$1,230 at February 2, 2014, and \$1,443 at February 3, 2013, represent employee donations and sponsorships, respectively, received by PetSmart Charities, Inc. on behalf of the Organization and generally, are paid one quarter in arrears.

The amounts payable to PetSmart, Inc. and PetSmart Charities, Inc. are unsecured, non-interest bearing and recorded as current. Amounts payable to PetSmart, Inc. are generally remitted one month in arrears and amounts payable to PetSmart Charities, Inc. are generally remitted one quarter in arrears.

NOTE 3 – COMMITMENTS AND CONTINGENCIES

The Organization makes commitments to certain charitable organizations for future grants, which are contingent future installments of a current year. The grants are contingent upon the continued fulfillment of the original conditions in the grant request. As of February 2, 2014, the Organization has approximately \$144,170 in commitments for future contingent grants.