Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

PetSmart Charities, Inc.

Year Ended February 3, 2013
(with comparative financial information
for the year ended January 29, 2012)

Contents

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Report of Independent Certified Public Accountants

Board of Directors
PetSmart Charities, Inc.

We have audited the accompanying financial statements of PetSmart Charities, Inc. (a nonprofit organization), which comprise the statement of financial position as of February 3, 2013, and the related statements of activities and changes in net assets, functional expenses, and 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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, 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 PetSmart Charities, Inc. as of February 3, 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Phoenix, AZ
July 16, 2013

PetSmart Charities, Inc.

STATEMENT OF FINANCIAL POSITION

February 3, 2013
(with comparative totals at January 29, 2012)

A S S E T S

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 3,031,776	$ 915,387
Investments	35,229,214	34,228,958
Receivable from PetSmart, Inc.	3,623,633	2,724,430
Receivable from PetSmart Charities of Canada, Inc.	31,288	24,954
Other receivables	89,776	98,172
Prepaid expenses	109,496	146,457
Other assets	19,607	-
TOTAL CURRENT ASSETS	42,134,790	38,138,358
PROPERTY AND EQUIPMENT, net	2,797,029	2,685,175
TOTAL ASSETS	$ 44,931,819	$ 40,823,533

L I A B I L I T I E S A N D N E T A S S E T S

	2013	2012
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 2,466,728	$ 2,075,039
Due to PetSmart, Inc.	938,273	688,342
Due to PetSmart Charities of Canada, Inc.	1,445	1,044
Deferred revenue	250,836	127,562
TOTAL CURRENT LIABILITIES	3,657,282	2,891,987
NET ASSETS		
Unrestricted	40,274,537	37,867,383
Temporarily restricted	1,000,000	64,163
TOTAL NET ASSETS	41,274,537	37,931,546
TOTAL LIABILITIES AND NET ASSETS	$ 44,931,819	$ 40,823,533

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

PetSmart Charities, Inc.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended February 3, 2013
(with comparative totals for the year ended January 29, 2012)

	Unrestricted	Temporarily Restricted	Totals 2013	Totals 2012
REVENUE, PUBLIC SUPPORT AND GAINS:				
Individual contributions	$ 41,287,959	$ -	$ 41,287,959	$ 37,686,502
PetSmart, Inc. contributions (including contributed rent, goods and services and royalty income)	15,403,146	-	15,403,146	14,867,824
Corporate, foundations and vendor contributions	1,051,583	1,000,000	2,051,583	2,013,251
Investment income, net	1,991,330	-	1,991,330	877,981
Total revenue, public support and gains	59,734,018	1,000,000	60,734,018	55,445,558
Special events:				
Special events revenue	1,558,025	-	1,558,025	1,658,524
Less costs of direct donor benefits	(380,077)	-	(380,077)	(438,321)
Gross profit on special events	1,177,948	-	1,177,948	1,220,203
Net assets released from restrictions	64,163	(64,163)	-	-
TOTAL REVENUE, PUBLIC SUPPORT AND GAINS	60,976,129	935,837	61,911,966	56,665,761
EXPENSES:				
Program services:				
Adoptions and transport	28,646,621	-	28,646,621	24,490,407
Spay/neuter and field initiatives	18,361,496	-	18,361,496	17,601,362
Emergency relief	2,420,216	-	2,420,216	4,295,695
Education and awareness	2,082,771	-	2,082,771	4,465,396
Total program services	51,511,104	-	51,511,104	50,852,860
Supporting services:				
Fundraising	3,712,465	-	3,712,465	3,927,038
Management and general	3,345,406	-	3,345,406	3,213,923
Total supporting services	7,057,871	-	7,057,871	7,140,961
TOTAL EXPENSES	58,568,975	-	58,568,975	57,993,821
CHANGE IN NET ASSETS	2,407,154	935,837	3,342,991	(1,328,060)
NET ASSETS, BEGINNING OF YEAR	37,867,383	64,163	37,931,546	39,259,606
NET ASSETS, END OF YEAR	$ 40,274,537	$ 1,000,000	$ 41,274,537	$ 37,931,546

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

PetSmart Charities, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended February 3, 2013
(with comparative totals for the year ended January 29, 2012)

	Program Services					Supporting Services			Total	
	Adoptions and Transport	Spay/Neuter and Field Initiatives	Emergency Relief	Education and Awareness	Total	Fundraising	Management and General	Total	2013	2012
Grants and allocations	$ 9,063,856	$ 15,963,433	$ 1,667,470	$ 768,910	$ 27,463,669	$ -	$ -	$ -	$ 27,463,669	$ 26,163,166
Donated services	9,517,401	1,160,913	134,325	539,165	11,351,804	540,562	1,621,686	2,162,248	13,514,052	14,135,996
Management services	3,493,034	426,073	49,299	197,882	4,166,288	200,000	568,882	768,882	4,935,170	4,492,807
Advertising	2,023,822	10,882	121,073	103,146	2,258,923	371,730	37,188	408,918	2,667,841	3,174,470
Other professional services	1,980,965	-	16,000	-	1,996,965	-	-	-	1,996,965	1,895,797
Consulting	541,012	510,302	-	9,250	1,060,564	204,737	617,363	822,100	1,882,664	1,978,070
Supplies	1,067,961	6,525	10,797	-	1,085,283	1,181	5,992	7,173	1,092,456	833,522
Printing and publications	16,630	16,630		-	33,260	755,838	13,156	768,994	802,254	1,047,112
Depreciation	537,494	23,857	22,840	93,604	677,795	-	31,377	31,377	709,172	501,644
Bank fees	-	-	-	-	-	511,585	55,859	567,444	567,444	593,495
Professional fundraising fees	-	-	-	-	-	545,437	-	545,437	545,437	626,133
Postage and shipping	1,657	4,232	240,765	-	246,654	289,904	3,919	293,823	540,477	571,856
Information technology	152,271	148,729	-	130,869	431,869	60,837	45,213	106,050	537,919	457,981
Conferences, conventions, and meetings	104,419	8,955	4,653	149,898	267,925	-	68,344	68,344	336,269	202,713
Travel	33,313	65,817	66,979	72,790	238,899	22,563	40,102	62,665	301,564	255,587
Special events indirect costs	-	-	-	-	-	208,091	-	208,091	208,091	403,657
Equipment rental and maintenance	112,786	-	86,015	-	198,801	-	-	-	198,801	122,133
Legal fees	-	-	-	-	-	-	155,212	155,212	155,212	117,517
Telephone	-	15,148	-	17,257	32,405	-	11,783	11,783	44,188	54,918
Accounting fees	-	-	-	-	-	-	28,497	28,497	28,497	27,700
Miscellaneous	-	-	-	-	-	-	16,135	16,135	16,135	80,894
Dues and subscriptions	-	-	-	-	-	-	13,850	13,850	13,850	15,696
License/registration fees	-	-	-	-	-	-	10,848	10,848	10,848	6,405
Research	-	-	-	-	-	-	-	-	-	194,903
Fundraising merchandise	-	-	-	-	-	-	-	-	-	39,649
TOTAL	$ 28,646,621	$ 18,361,496	$ 2,420,216	$ 2,082,771	$ 51,511,104	$ 3,712,465	$ 3,345,406	$ 7,057,871	$ 58,568,975	$ 57,993,821

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

PetSmart Charities, Inc.

STATEMENT OF CASH FLOWS

Year Ended February 3, 2013
(with comparative totals for the year ended January 29, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 3,342,991	$ (1,328,060)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Stock donation	(504,453)	(508,148)
Realized gains on investments	(452,699)	(795,548)
Unrealized (gains) losses on investments	(776,277)	472,793
Depreciation	709,172	501,644
Loss on disposal of assets	47,274	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivable from PetSmart, Inc.	(899,203)	(145,642)
Receivable from PetSmart Charities of Canada, Inc.	(6,334)	(4,847)
Other receivables	8,396	43,248
Prepaid expenses	36,961	68,245
Other assets	(19,607)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	391,689	(1,052,776)
Due to PetSmart, Inc.	249,931	308,867
Due to PetSmart Charities of Canada, Inc.	401	(6,846)
Deferred revenue	123,274	(77,212)
Net cash provided by (used in) operating activities	2,251,516	(2,524,282)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	21,579,762	35,872,656
Purchase of investments	(20,846,590)	(34,905,652)
Purchase of property and equipment	(868,299)	(1,780,734)
Net cash used in investing activities	(135,127)	(813,730)
NET INCREASE (DECREASE) IN CASH	2,116,389	(3,338,012)
CASH, BEGINNING OF YEAR	915,387	4,253,399
CASH, END OF YEAR	$ 3,031,776	$ 915,387
NON-CASH TRANSACTIONS		
Contributed rent, goods and services	$ 14,685,134	$ 15,469,345

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

NOTE 1 – NATURE OF OPERATIONS

PetSmart Charities, Inc. ("PetSmart Charities" or "Organization") is a nonprofit animal welfare organization that saves the lives of homeless pets. Founded in 1994, the Organization envisions a world in which every pet has a lifelong, loving home. The Organization's mission is to improve the quality of life for all pets by creating and supporting programs that save the lives of homeless pets and promote healthy relationships between people and pets.

More than 400,000 dogs and cats find homes each year through the Organization's adoption program in all PetSmart® stores (the PetSmart stores are owned and operated by PetSmart, Inc. ("PetSmart"), a retailer of pet food, pet supplies, accessories and professional pet services throughout North America), and sponsored adoption events. PetSmart Charities grants more money to directly help pets in need than any other animal welfare group in North America, with a focus on funding spay/neuter services that help communities solve pet overpopulation. PetSmart Charities is a 501(c)(3) organization, independent from PetSmart, Inc.

The Organization's major program areas include:

- **Adoption**: PetSmart Charities has more than 1,200 Cat Adoption Centers located in every PetSmart store. These centers and more than a dozen Everyday Dog and Cat Adoption Centers free up space at shelters to help more pets find forever homes. PetSmart Charities-sponsored events like National Adoption Weekends and community-specific adoption fairs showcase pets from more than 3,000 partner animal welfare groups throughout the United States. To date, these collective efforts have saved the lives of more than 5.3 million pets.

- **Spay/Neuter**: Each year, PetSmart Charities provides millions of dollars in grants to help communities control pet overpopulation by providing low-cost spay/neuter surgeries. From fiscal 2009 to 2012, PetSmart Charities funded nearly $40 million dollars for more than 1.2 million surgeries.

- **Emergency Relief:** Created after Hurricane Katrina, PetSmart Charities' Emergency Relief Waggin'® program has assisted more than 200,000 pets affected by natural and man-made disasters since 2007. When Super Storm Sandy devastated the East Coast in October 2012, the program sent more than 400 tons of life-giving supplies to the hardest-hit communities.

- **Rescue Waggin'® Program:** This pioneering pet transport program saves thousands of lives every year by relocating homeless puppies and dogs from shelters in communities struggling with pet overpopulation to areas where they are more likely to be adopted. To date, the program has saved the lives of more than 63,000 dogs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Accounting Standards Board (the "FASB") sets generally accepted accounting principles in the United States of America ("GAAP") to ensure consistent reporting. References to GAAP issued by the FASB in the accompanying footnotes are to the FASB Accounting Standards Codification (the "ASC").

Basis of presentation – The accompanying financial statements are presented in accordance with FASB ASC 958, *Not-For-Profit Organizations*. Under FASB ASC 958-205, 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. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets are restricted by donors to be maintained by the Organization in perpetuity. There were no permanently restricted net assets at February 3, 2013, and January 29, 2012.

Prior-year summarized information – The accompanying financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended January 29, 2012, from which the summarized information was derived.

Fiscal year – The Organization's fiscal year ends on the Sunday nearest January 31st. The fiscal years ended in 2013 and 2012 comprised 53 and 52 weeks, respectively.

Management's use of estimates – The preparation of financial statements in conformity with GAAP 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 period. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents – Cash includes cash deposits in banks. The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. Deposits at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC"). There was approximately $2,700,000 of uninsured deposits as of February 3, 2013. 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 receivables – Other receivables consist primarily of accrued interest on investments. Other receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on their assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to other receivables. Management considers other receivables to be fully collectible, and accordingly, an allowance for doubtful accounts is not considered necessary at February 3, 2013, and January 29, 2012.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and related depreciation – Purchased property and equipment is recorded at cost. Donated property and equipment is valued at fair value at the date of contribution to the Organization. Maintenance and repairs are charged to operations when incurred. Betterments or renewals in excess of $3,000 and which have a useful life greater than one year are capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. Depreciation is computed using the straight-line method over the following estimated useful lives:

	Estimated Useful Lives
Store fixtures	3 – 7 years
Software	3 years
Computers	3 years
Leasehold improvements	3 – 14 years

Impairment of long-lived assets – The Organization accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded in fiscal years ended 2013 and 2012.

Fair value measurements – Fair value is defined as 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. GAAP has established a framework for measuring fair value and established a fair value hierarchy based on the inputs used to measure fair value. This framework maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

> **Level 1** - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.

Level 3 - Securities that have little to no pricing observability as of the report date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors.

Contributions – The Organization accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions with temporary restrictions that are received and used within the year are included in unrestricted activities. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions.

The Organization also accepts assets from a donor where it agrees to use those assets on behalf of another specified beneficiary. These transactions do not impact the Organization's recognition of revenues or expenses unless it has variance power or is financially interrelated to the specified beneficiary. Therefore, these assets are not recognized as a contribution but as a liability until remitted to the specified beneficiary. For the years ended February 3, 2013, and January 29, 2012, the Organization remitted $390,188 and $278,758, respectively, to other specified beneficiaries for which it did not recognize a contribution or expense in its financial statements. As of February 3, 2013, and January 29, 2012, the Organization held $279,516 and $120,977, respectively, recorded in accounts payable and accrued expenses.

The Organization has a conditional promise from an outside organization to receive $1,000,000 over the next two fiscal years. Due to the conditions of this promise, these amounts have not been reflected in the current financial statements.

Administrative Services agreement – Contributed materials and store space that would otherwise have to be purchased is recognized in accordance with FASB ASC 958-605 as revenue and a corresponding expense. Contributed services are recognized as contributions in accordance with FASB ASC 958-605 if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. For the years ended February 3, 2013, and January 29, 2012, the Organization recorded $14,685,134, of which $14,311,051 represents amounts received from PetSmart, Inc., and $15,469,345 of which $14,130,995 represents amounts received from PetSmart, Inc., respectively, of contributed program rent and services.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special events revenue – The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as costs of direct donor benefits in the accompanying statement of activities. At February 3, 2013, and January 29, 2012, the Organization had received various sponsorship monies for special events, which were scheduled to occur in future fiscal years. The amounts of these sponsorships have been recorded as deferred revenue in the accompanying statement of financial position.

Royalty revenue – The Organization earns royalty income from certain campaigns in which intellectual property of the Organization is licensed.

Functional expenses – The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the accompanying statement of activities. During the fiscal year, the Organization refined its allocation process in regards to contributed rent, goods, and services received from PetSmart. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on personnel activity and other appropriate allocation methods.

Reclassifications – Certain previously reported amounts have been reclassified to conform to the current-year presentation. The principle reclassification is associated with the refinement of management's allocation methodology of its contributed rent, goods, and services within its functional expenses.

Advertising – Advertising costs are charged to operations when incurred. Advertising expense charged to operations was $2,667,841 and $3,174,470 for fiscal year ended 2013 and 2012, respectively.

Income tax status – The Organization has been recognized by the Internal Revenue Services as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal and state income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been recognized by the Internal Revenue Service as an organization that is not a private foundation. Income determined to be unrelated business income ("UBI") would be taxable.

The Organization evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts. The open tax years for the Organization include the tax years ended February 1, 2009, through the tax year ended January 29, 2012. Management must also assess whether uncertain tax positions could result in the recognition of a liability for possible interest and penalties if any. The Organization's policy is to include interest and penalties related to uncertain tax positions in management and general expense. As of February 3, 2013, and January 29, 2012, there were no uncertain tax positions, and the Organization does not anticipate a change in its tax position in the 12 months following February 3, 2013.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting pronouncements – In May 2011, the FASB issued amended standards to achieve a consistent definition of fair value and common requirements for measurement of, and disclosure about fair value between GAAP and International Financial Reporting Standards. For assets and liabilities categorized as Level 3 and recognized at fair value, these amended standards require disclosure of quantitative information about unobservable inputs, a description of the valuation process used by the entity, and a qualitative discussion about the sensitivity of the measurements. In addition, these amended standards require that we disclose the level in the fair value hierarchy for financial instruments disclosed at fair value but not recorded at fair value. These new standards were effective for fiscal years beginning after December 15, 2011. The adoption of this new guidance did not have a material impact on the Organization's financial statements.

In October 2012, the FASB issued amended standards to address how cash receipts arising from the sale of certain donated financial assets, such as securities, should be classified in the statement of cash flows for not-for-profit entities. The objective of this standard is to classify cash receipts from the sale of donated financial assets consistently with the cash donations received in the statement of cash flows. These new standards are effective for fiscal years beginning after June 15, 2013. The adoption of this new guidance has not yet been determined on the Organization's financial statements.

In April 2013, the FASB issued amended standards to address the diversity in practice in what not-for-profit entities should apply for recognizing and measuring personnel services received from an affiliate. These new standards are effective for fiscal years beginning after June 15, 2014. The adoption of this new guidance is not expected to have a material impact on the Organization's financial statements.

NOTE 3 – INVESTMENTS

The Organization accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities*. Under FASB ASC 958-320, the Organization reports investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair values are based on quoted market prices.

Investments consist of:

	February 3, 2013	January 29, 2012
Equities:		
Large cap	$ 8,858,908	$ 7,383,061
Dividend value	3,793,437	3,309,936
Mutual funds	4,056,167	9,402,490
Corporate bonds	3,194,592	3,107,208
US Treasuries	6,010,545	4,432,326
US agency mortgage pass through	4,248,775	5,298,948
Multi-strategy fund	3,254,362	-
Investments subtotal	33,416,786	32,933,969
Cash and equivalents	1,812,428	1,294,989
Total investments	$ 35,229,214	$ 34,228,958

NOTE 3 – INVESTMENTS (continued)

Investment income consists of:

	February 3, 2013	January 29, 2012
Unrealized gains (losses) on investments	$ 776,277	$ (472,793)
Realized gains on investments	452,699	795,548
Interest and dividend income	991,097	796,272
Investment fees	(228,743)	(241,046)
Total investment income, net	$ 1,991,330	$ 877,981

Investments are exposed to various risks, such as interest rate, market, and credit risks. 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 and that such changes could materially affect amounts reported in the accompanying financial statements.

The following table summarizes the valuation of the Organization's financial instruments by the categories described in Note 2 as of February 3, 2013:

	Level 1	Level 2	Level 3	Total
Equities:				
Large cap	$ 8,858,908	$ -	$ -	$ 8,858,908
Dividend Value	3,793,437	-	-	3,793,437
Mutual funds	4,056,167	-	-	4,056,167
Corporate bonds	3,194,592	-	-	3,194,592
US Treasuries	6,010,545	-	-	6,010,545
US agency mortgage pass through	4,248,775	-	-	4,248,775
Multi-strategy fund	-	3,254,362	-	3,254,362
Total	$ 30,162,424	$ 3,254,362	$ -	$ 33,416,786

The following table summarizes the valuation of the Organization's financial instruments by the categories described in Note 2 as of January 29, 2012:

	Level 1	Level 2	Level 3	Total
Equities:				
Large cap	$ 7,383,061	$ -	$ -	$ 7,383,061
Dividend Value	3,309,936	-	-	3,309,936
Mutual funds	9,402,490	-	-	9,402,490
Corporate bonds	3,107,208	-	-	3,107,208
US Treasuries	4,432,326	-	-	4,432,326
US agency mortgage pass through	5,298,948	-	-	5,298,948
Total	$ 32,933,969	$ -	$ -	$ 32,933,969

NOTE 3 – INVESTMENTS (continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Organization. The Organization considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Organization's perceived risk of that instrument.

Management determined the valuation inputs for investments in active markets are its quoted prices and therefore, classified these investments as Level 1 within the fair value hierarchy. The Organization also began investing in alternative investments during the current fiscal year with an initial investment of $3.2 million. No additional purchases of these alternative investments were made during the current fiscal year, and there were no redemptions or transfers made. These alternative investments consist of a master fund/feeder fund with the underlying holdings predominantly classified as Level 2 with a minority share of holdings in Level 3. Withdrawals from the fund are not guaranteed and any repurchases are subject to approval of the fund's Board of Directors. The fund generally offers repurchases four times each year, effective as of the last day of each calendar quarter. Fund repurchases are pursuant to written tenders on terms and conditions set by the fund's Board of Directors based on several factors, including the liquidity of fund assets. There are no unfunded commitments to the fund. The fair value of the investment, above, is determined by the unit price and includes unrealized gains of $54,423 for the current period. Based on the historical performance of this fund redeeming in the near-term, management classified these alternative investments within Level 2 of the fair value hierarchy due to less transparency around inputs to the valuation.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of:

	February 3, 2013	January 29, 2012
Cost or donated value:		
Store fixtures	$ 414,522	$ 393,995
Software	526,483	588,254
Computers	39,024	17,901
Leasehold improvements	3,303,102	2,514,790
Total cost or donated value	4,283,131	3,514,940
Less accumulated depreciation	(1,486,102)	(829,765)
Property and equipment, net	$ 2,797,029	$ 2,685,175

NOTE 4 – PROPERTY AND EQUIPMENT (continued)

Significant increase in leasehold improvements are attributed to the build-out of everyday adoption centers within certain PetSmart stores.

Depreciation expense charged to operations was $709,172 for the year ended February 3, 2013, and $501,644 for the year ended January 29, 2012.

NOTE 5 – TRANSACTIONS WITH PETSMART, INC. AND PETSMART CHARITIES OF CANADA, INC.

The following amounts have been contributed by PetSmart. The revenue amounts are included in revenue, public support and gains and special events in the accompanying statement of activities. Contributed rent, goods and services are included in functional expenses under administrative services.

	Year Ending 2013	Year Ending 2012
Contributed rent, goods and services for adoption centers, supplies, office space, utilities, management personnel	$ 14,311,051	$ 14,130,995
Royalties and sponsorships	1,092,095	736,829
PetSmart contributions (including contributed rent, goods and services and royalty income)	15,403,146	14,867,824
Sponsorships (included in special event revenue)	13,500	40,500
Total contributions and sponsorships	$ 15,416,646	$ 14,908,324

The Organization is highly dependent upon the viability of PetSmart as this is the primary source of donated revenue received in the stores from customers and from PetSmart 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 stores that bear its trademark during a certain timeframe. Receivables from PetSmart of $3,623,633 and $2,724,430 at February 3, 2013, and January 29, 2012, respectively, represent cash contributions received from PetSmart customers and PetSmart employees not yet remitted in cash to the Organization as of the fiscal year-end dates.

Receivables from PetSmart Charities of Canada, Inc. ("PCCI") of $31,288 at February 3, 2013, and $24,954 at January 29, 2013, respectively, represent management fees billed quarterly and miscellaneous reimbursable costs.

Management provides for probable uncollectible receivables through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Management considers the PetSmart, Inc. and the PetSmart Charities of Canada, Inc. receivables to be fully collectible as of February 3, 2013, and January 29, 2012, and accordingly, an allowance for doubtful accounts is not considered necessary.

NOTE 5 – TRANSACTIONS WITH PETSMART, INC. AND PETSMART CHARITIES OF CANADA, INC. (continued)

In addition to providing space, supplies and labor in the adoption centers in the stores, PetSmart provides products and supplies to the Organization, at cost, for disaster relief situations. Due to cost efficiencies, PetSmart also supplies the Organization with items such as office supplies, postage and travel services, which are reimbursed by the Organization on a monthly basis.

In 2009, the Organization entered into a management services agreement with PetSmart to cost-effectively outsource certain business and administrative management services. The fees paid to PetSmart are capped annually and the value of contributed rent, services, products and supplies received by the Organization under the agreement overwhelmingly exceeds the payments made to PetSmart.

The Organization incurred approximately $5,000,000 and $4,500,000 of expenses under the management services agreement for the years ended February 3, 2013, and January 29, 2012, respectively. At February 3, 2013, and January 30, 2012, the Organization had $938,273 and $688,342, respectively, due to PetSmart for the reimbursable expenses and the management services. Additionally, at February 3, 2013, and January 29, 2012, the Organization had $1,445 and $1,044, respectively, due to PCCI for reimbursable revenue.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of purpose-restricted contributions from donors as follows:

	February 3, 2013	January 29, 2012
Alliance for Companion Animals of Maricopa County	$ 1,000,000	$ -
Spay/Neuter Los Angeles	-	64,163
Total temporarily restricted net assets	$ 1,000,000	$ 64,163

These amounts are included within cash in the accompanying statement of financial position.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Organization makes commitments to certain charitable organizations for future grants, which are contingent future installments of a current grant. The grants are contingent upon the continued fulfillment of the original conditions in the grant request. As of February 3, 2013, the Organization has approximately $5,452,721 in commitments for future contingent grants.

The Organization entered into an advertising commitment of $800,000 during the current fiscal year, for advertising to be aired in the subsequent year.

NOTE 8 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through July 16, 2013, which is the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to the statement of financial position date that would require adjustment to, or disclosure in, the accompanying financial statements.