

Financial Statements
January 31, 2016 and February 1, 2015
PetSmart Charities of Canada

PetSmart Charities of Canada

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Years Ended January 31, 2016 and February 1, 2015

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INDEPENDENT AUDITORS' REPORT

To the Members of
PetSmart Charities of Canada

We have audited the accompanying financial statements of PetSmart Charities of Canada, which comprise the statement of financial position as at January 31, 2016, and the statements of operations and changes in fund balances and cash flows for the year then ended, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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. 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 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 present fairly, in all material respects, the financial position of PetSmart Charities of Canada as at January 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

June 16, 2016
Brantford, Ontario


CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

PetSmart Charities of Canada
Statement of Financial Position
Years Ended January 31, 2016 and February 1, 2015

	2016	2015
Assets		
Cash and cash equivalents	\$ 2,434,756	\$ 2,372,388
Receivable from PetSmart, Inc. (Note 2)	202,314	200,859
Receivable from PetSmart Charities, Inc. (Note 2)	357	13,063
Other assets	26,533	10,200
Total current assets	2,663,960	2,596,510
Intangible assets (Notes 2 and 4)	149,228	184,874
Property and equipment, net (Note 3)	8,849	11,263
Total non-current assets	158,077	196,137
Total assets	\$ 2,822,037	\$ 2,792,647
Liabilities and Fund Balances		
Liabilities		
Accounts payable and accrued expenses	\$ 102,369	\$ 271,475
Due to PetSmart, Inc. (Note 2)	87,579	32,971
Due to PetSmart Charities, Inc. (Note 2)	143,287	96,986
Total current liabilities	333,235	401,432
Fund Balances		
Operating fund - unrestricted	2,488,802	1,841,215
Restricted fund (Note 5)	-	550,000
Total fund balances	2,488,802	2,391,215
Total liabilities and fund balances	\$ 2,822,037	\$ 2,792,647

PetSmart Charities of Canada
Statement of Operations and Changes in Fund Balances
Years Ended January 31, 2016 and February 1, 2015

	Operating Fund	Restricted Fund	Totals	
			2016	2015
Revenue, Public Support, and Gains:				
Individual contributions	\$ 2,819,113	\$ -	\$ 2,819,113	\$ 2,762,388
PetSmart, Inc. contributions (including contributed rent, goods and services, and royalty income)	1,176,143	-	1,176,143	1,036,062
Special event	214,349	-	214,349	187,967
Corporate, foundations, and vendor contributions	18,950	-	18,950	595,426
Interest	6,924	-	6,924	9,914
Total revenue	4,235,479	-	4,235,479	4,591,757
Expenses:				
Program services:				
Animal welfare organization grants	1,318,960	550,000	1,868,960	1,833,269
Other program expenses	1,800,564	-	1,800,564	1,762,189
Total program services	3,119,524	550,000	3,669,524	3,595,458
Supporting services:				
Fundraising	303,539	-	303,539	264,843
Management and general	164,829	-	164,829	165,388
Total support services	468,368	-	468,368	430,231
Total expenses	3,587,892	550,000	4,137,892	4,025,689
Excess of Revenue over Expenses	647,587	(550,000)	97,587	566,068
Fund Balances, Beginning of Year	1,841,215	550,000	2,391,215	1,825,147
Fund Balances, End of Year	\$ 2,488,802	\$ -	\$ 2,488,802	\$ 2,391,215

PetSmart Charities of Canada
Statement of Cash Flows
Years Ended January 31, 2016 and February 1, 2015

	2016	2015
Cash Flows from Operating Activities:		
Excess of revenue over expenditures	\$ 97,587	\$ 566,068
Amortization of intangible assets	76,062	69,328
Depreciation	2,414	804
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivable from PetSmart, Inc.	(1,455)	37,141
Receivable from PetSmart Charities, Inc.	12,706	(11,833)
Other assets	(16,333)	(8,440)
Increase (decrease) in:		
Accounts payable and accruals	(169,106)	(61,076)
Due to PetSmart, Inc.	54,608	7,223
Due to PetSmart Charities, Inc.	46,301	31,292
Net Cash Provided by Operating Activities	102,784	630,507
Cash Flows from Investing Activities:		
Purchase of property and equipment	-	(12,067)
Purchase of intangible assets	(40,416)	-
Net Cash Used for Investing Activities	(40,416)	(12,067)
Net Increase in Cash	62,368	618,440
Cash, Beginning of Year	2,372,388	1,753,948
Cash, End of Year	\$ 2,434,756	\$ 2,372,388
Non-Cash Transactions:		
Contributed rent, goods, and services	\$ 874,074	\$ 914,559

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 fiscal year ended 2014, 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 strives to find lifelong, loving homes for all pets by supporting programs and thought leadership that brings people and pets together.

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”). 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 2016 and 2015 comprised of 52 weeks.

Revenue and expense recognition – The Organization follows the restricted fund method of accounting for contributions. Unrestricted general donations are recognized as revenue of the Operating Fund in the year received. Restricted contributions are recognized as revenue in the Restricted Fund in the year received. 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 goods and services received under the management services agreement (Note 2) 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 it accrues 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 \$874,000 and \$915,000 for the years ended January 31, 2016, and February 1, 2015, respectively, of contributed rent, other goods and services, supplies, office space, utilities, and management personnel (See Note 2).

**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 \$2,335,000 of uninsured deposits as of January 31, 2016. The Organization’s cash accounts were placed with high-credit-quality financial institutions, and accordingly, the Organization does not expect to experience non-performance.

Intangible assets – Intangible assets are carried at cost, net of any related amortization. Amortization is being recognized over the five-year agreement term on the license agreement (See Note 2). Amortization is being recognized over three years for the website.

Property and equipment and related depreciation – Purchased property and equipment is recorded at cost. Donated property and equipment is recorded 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 of capital assets ranging from 3 – 7 years.

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.

NOTE 2 – TRANSACTIONS WITH PETSMAART, INC. AND PETSMAART 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:

	January 31, 2016	February 1, 2015
Contributed rent, other goods and services, supplies, office space, utilities, and management personnel	\$ 874,074	\$ 914,559
Contributed product and supplies	176,424	-
Royalty income	98,645	121,503
Sponsorship	27,000	-
Special events	6,000	-
	<u>\$ 1,182,143</u>	<u>\$ 1,036,062</u>

Contributed rent, other goods and services, supplies, office space, management personnel and utilities for pet adoption centers were 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.:

	January 31, 2016	February 1, 2015
Other program expenses	\$ 791,924	\$ 849,378
Fundraising	80,321	63,124
Management and administration	1,829	2,057
	<u>\$ 874,074</u>	<u>\$ 914,559</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 license agreement, net on the statement 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.

	January 31, 2016	February 1, 2015
License agreement	\$ 323,529	\$ 323,529
Less accumulated amortization	(207,981)	(138,655)
	<u>\$ 115,548</u>	<u>\$ 184,874</u>

**NOTE 2 – TRANSACTIONS WITH PETSMAART, INC. AND PETSMAART 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.

During the current fiscal year, 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. These services were measured at the fair value of the outsourced services and allocated based on goods and services received under the management services agreement:

	January 31, 2016	February 1, 2015
Other program expenses	\$ 270,280	\$ 214,405
Fundraising	19,720	15,934
Management and administration	-	519
	\$ 290,000	\$ 230,858

During the current fiscal year, 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 \$233,750 and \$222,873 for the years ended January 31, 2016, and February 1, 2015, 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 \$357 at January 31, 2016, and \$13,063 at February 1, 2015, 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 – PROPERTY AND EQUIPMENT

Property and equipment consists of:

	2016	2015
Cost or donated value:		
Store fixtures	\$ 12,067	\$ 12,067
Less accumulated depreciation	(3,218)	(804)
Property and equipment, net	\$ 8,849	\$ 11,263

Depreciation expense charged to operations was \$2,414 for the year ended January 31, 2016 and \$804 for the year ended February 1, 2015.

NOTE 4 – INTANGIBLE ASSETS

Intangible assets consist of:

	Cost	Accumulated Amortization	2016	2015
License agreement	\$ 323,529	\$ 207,981	\$ 115,548	\$ 184,874
Website	40,416	6,736	33,680	12,067
	\$ 363,945	\$ 214,717	\$ 149,228	\$ 196,941

NOTE 5 – RESTRICTED FUND

Restricted fund consists of purpose-restricted contributions from donors. As of January 31, 2016 and February 1, 2015, the Organization had \$0 and \$550,000, respectively, of restricted funds externally designated for spay/neuter programs.