

Financial Statements
January 29, 2017 and January 31, 2016
PetSmart Charities of Canada

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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 29, 2017, 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

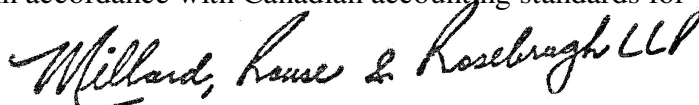
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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 29, 2017, 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.



CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

June 15, 2017
Brantford, Ontario

PetSmart Charities of Canada
Statements of Financial Position
Years Ended January 29, 2017 and January 31, 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 1,209,956	\$ 2,434,756
Investment	1,575,865	-
Receivable from PetSmart, Inc. (Note 2)	223,053	202,314
Receivable from PetSmart Charities, Inc. (Note 2)	-	357
Other assets	71,391	26,533
Total current assets	3,080,265	2,663,960
Intangible assets (Notes 2 and 5)	65,565	149,228
Property and equipment, net (Note 4)	6,436	8,849
Total non-current assets	72,001	158,077
Total assets	\$ 3,152,266	\$ 2,822,037
Liabilities and Fund Balances		
Liabilities		
Accounts payable and accrued expenses	\$ 498,069	\$ 102,369
Due to PetSmart, Inc. (Note 2)	24,965	87,579
Due to PetSmart Charities, Inc. (Note 2)	9,227	143,287
Total current liabilities	532,261	333,235
Fund Balances		
Operating fund - unrestricted	2,616,696	2,488,802
Restricted fund (Note 6)	3,309	-
Total fund balances	2,620,005	2,488,802
Total liabilities and fund balances	\$ 3,152,266	\$ 2,822,037

PetSmart Charities of Canada
Statements of Operations and Changes in Fund Balances
Years Ended January 29, 2017 and January 31, 2016

	Operating Fund	Restricted Fund	Totals	
			2017	2016
Revenue, Public Support, and Gains:				
Individual contributions	\$ 2,758,568	\$ 282,369	\$ 3,040,937	\$ 2,828,794
PetSmart, Inc. contributions (including contributed rent, goods and services, and royalty income)	\$ 1,387,591	-	1,387,591	1,166,462
Special event	239,986	-	239,986	214,349
Corporate, foundations, and vendor contributions	105,294	-	105,294	18,950
Investment income, net	77,944	-	77,944	6,924
Total revenue	4,569,383	282,369	4,851,752	4,235,479
Expenses:				
Program services:				
Animal welfare organization grants	2,333,584	279,060	2,612,644	1,868,960
Other program expenses	1,809,459	-	1,809,459	1,800,564
Total program services	4,143,043	279,060	4,422,103	3,669,524
Supporting services:				
Fundraising	214,000	-	214,000	303,539
Management and general	84,446	-	84,446	164,829
Total support services	298,446	-	298,446	468,368
Total expenses	4,441,489	279,060	4,720,549	4,137,892
Excess of Revenue over Expenses	127,894	3,309	131,203	97,587
Fund Balances, Beginning of Year	2,488,802	-	2,488,802	2,391,215
Fund Balances, End of Year	\$ 2,616,696	\$ 3,309	\$ 2,620,005	\$ 2,488,802

PetSmart Charities of Canada
Statements of Cash Flows
Years Ended January 29, 2017 and January 31, 2016

	2017	2016
Cash Flows from Operating Activities:		
Excess of revenue over expenditures	\$ 131,203	\$ 97,587
Amortization of intangible assets	83,663	76,062
Realized gains on investments	(16,072)	-
Unrealized (gains) losses on investments	(46,578)	-
Depreciation	2,413	2,414
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivable from PetSmart, Inc.	(20,739)	(1,455)
Receivable from PetSmart Charities, Inc.	357	12,706
Other assets	(44,858)	(16,333)
Increase (decrease) in:		
Accounts payable and accrued expenses	395,700	(169,106)
Due to PetSmart, Inc.	(62,614)	54,608
Due to PetSmart Charities, Inc.	(134,060)	46,301
Net Cash Provided by Operating Activities	288,415	102,784
Cash Flows from Investing Activities:		
Proceeds from sale of investments	22,890	-
Purchase of investments	(1,536,105)	-
Purchase of intangible assets	-	(40,416)
Net Cash Used for Investing Activities	(1,513,215)	(40,416)
Net Increase in Cash	(1,224,800)	62,368
Cash, Beginning of Year	2,434,756	2,372,388
Cash, End of Year	\$ 1,209,956	\$ 2,434,756
Non-Cash Transactions:		
Contributed rent, goods, and services	\$ 863,289	\$ 874,074

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 2017 and 2016 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 \$863,000 and \$874,000 for the years ended January 29, 2017 and January 31, 2016, 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 \$1,110,000 of uninsured deposits as of January 29, 2017. 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.

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. Canadian generally accepted accounting principles (“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.

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.

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.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or stockholders' equity.

NOTE 2 – TRANSACTIONS WITH PETSMA, INC. AND PETSMA 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 29, 2017	January 31, 2016
Contributed rent, other goods and services, supplies, office space, utilities, and management personnel	\$ 863,289	\$ 874,074
Contributed product and supplies	302,491	176,424
Royalty income	141,316	98,645
Sponsorship	-	27,000
Special events	6,000	6,000
	\$ 1,313,096	\$ 1,182,143

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 29, 2017	January 31, 2016
Other program expenses	\$ 847,151	\$ 791,924
Fundraising	14,159	80,321
Management and administration	1,979	1,829
	\$ 863,289	\$ 874,074

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.

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

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 29, 2017	January 31, 2016
License agreement	\$ 323,529	\$ 323,529
Less accumulated amortization	(277,311)	(207,981)
	\$ 46,218	\$ 115,548

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 29, 2017	January 31, 2016
Other program expenses	\$ 223,002	\$ 270,280
Fundraising	3,727	19,720
Management and administration	521	-
	\$ 227,250	\$ 290,000

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 \$124,804 and \$233,750 for the years ended January 29, 2017, and January 31, 2016, 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 \$0 at January 29, 2017, and \$357 at January 31, 2016, 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 – INVESTMENTS

The Organization accounts for its investments in accordance with CPA Canada Accounting Handbook Section 3856, Financial Instruments, 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:

	January 29, 2017	January 31, 2016
Bonds & Notes	\$ 1,114,080	\$ -
Equities	437,084	-
Investments subtotal	1,551,164	\$ -
Money market fund	24,701	-
Total Investments	\$ 1,575,865	\$ -

Investment income consists of:

	January 29, 2017	January 31, 2016
Unrealized gains (losses) on investments	\$ 46,578	\$ -
Realized gains on investments	16,072	-
Interest and dividend income	26,596	-
Investment fees	(11,302)	-
Total investment income, net	\$ 77,944	\$ -

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 change 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 1 as of January 29, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market fund	\$ 24,701	\$ -	\$ -	\$ 24,701
Bonds & Notes	-	1,114,080	-	1,114,080
Equities	<u>437,084</u>	<u>-</u>	<u>-</u>	<u>437,084</u>
Total	<u>\$ 461,785</u>	<u>\$ 1,114,080</u>	<u>\$ -</u>	<u>\$ 1,575,865</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of:

	<u>2017</u>	<u>2016</u>
Cost or donated value:		
Store fixtures	<u>\$ 12,067</u>	<u>\$ 12,067</u>
Less accumulated depreciation	<u>(5,631)</u>	<u>(3,218)</u>
Property and equipment, net	<u>\$ 6,436</u>	<u>\$ 8,849</u>

Depreciation expense charged to operations was \$2,413 for the year ended January 29, 2017 and \$2,414 for the year ended January 31, 2016.

NOTE 5 – INTANGIBLE ASSETS

Intangible assets consist of:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2017</u>	<u>2016</u>
License agreement	\$ 323,529	\$ 277,311	\$ 46,218	\$ 115,548
Website	<u>40,416</u>	<u>21,069</u>	<u>19,347</u>	<u>33,680</u>
	<u>\$ 363,945</u>	<u>\$ 298,380</u>	<u>\$ 65,565</u>	<u>\$ 149,228</u>

NOTE 6 – RESTRICTED FUND

Restricted fund consists of purpose-restricted contributions from donors. As of January 29, 2017 and January 31, 2016, the Organization had \$3,309 and \$0, respectively, of restricted funds externally designated for spay/neuter programs.

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 January 29, 2017, the Organization has approximately \$400,000 in commitments for future contingent grants.