



Consolidated Financial Statements
January 28, 2018

**PetSmart Charities, Inc.
and Subsidiary**

PetSmart Charities, Inc. and Subsidiary

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January 28, 2018

(With Summarized Comparative Totals for the Year Ended January 29, 2017)

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Independent Auditor's Report

To the Board of Directors
PetSmart Charities, Inc. and Subsidiary
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of PetSmart Charities, Inc. and Subsidiary (the Organization), which comprise the consolidated statement of financial position as of January 28, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of January 28, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the PetSmart Charities, Inc. January 29, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended January 29, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 17 through 18 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Phoenix, Arizona
July 18, 2018

PetSmart Charities, Inc. and Subsidiary

Consolidated Statement of Financial Position

January 28, 2018

(With Summarized Comparative Totals for the Year Ended January 29, 2017)

	January 28, 2018	January 29, 2017
Assets		
Cash and cash equivalents	\$ 10,101,214	\$ 5,647,500
Receivables	148,010	-
Investments	37,759,191	33,083,930
Receivable from PetSmart, Inc.	3,212,319	3,181,247
Receivable from PetSmart Charities of Canada	6,010	6,985
Other assets - food supplies to be distributed	5,564,360	311,039
Prepaid expenses	292,861	397,571
	<u>57,083,965</u>	<u>42,628,272</u>
Total current assets		
Property and equipment, net	<u>2,363,479</u>	<u>3,198,770</u>
	<u>\$ 59,447,444</u>	<u>\$ 45,827,042</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 5,421,404	\$ 2,903,547
Due to PetSmart, Inc.	647,118	439,350
Due to PetSmart Charities of Canada	1,000	-
Deferred revenue	-	25,500
	<u>6,069,522</u>	<u>3,368,397</u>
Total current liabilities		
Net Assets		
Unrestricted	53,362,521	42,402,468
Temporarily restricted	<u>15,401</u>	<u>56,177</u>
	<u>53,377,922</u>	<u>42,458,645</u>
Total net assets		
	<u>\$ 59,447,444</u>	<u>\$ 45,827,042</u>

PetSmart Charities, Inc. and Subsidiary

Consolidated Statement of Activities

January 28, 2018

(With Summarized Comparative Totals for the Year Ended January 29, 2017)

	Unrestricted	Temporarily Restricted	Totals	
			January 28, 2018	January 29, 2017
Revenue, Public Support, and Gains:				
Individual contributions	\$ 49,481,702	\$ 65,239	\$ 49,546,941	\$ 42,291,755
PetSmart, Inc. contributions (including contributed rent, goods and services, royalty income, and sponsorships)	30,643,931	-	30,643,931	19,840,179
Corporate, foundations, and vendor contributions	2,404,608	-	2,404,608	1,148,054
Investment income, net	4,419,991	-	4,419,991	1,635,501
Revenue, public support, and gains	<u>86,950,232</u>	<u>65,239</u>	<u>87,015,471</u>	<u>64,915,489</u>
Special events:				
Special events revenue	1,756,113	-	1,756,113	1,481,177
Less costs of direct donor benefits	(197,219)	-	(197,219)	(174,743)
Gross profit on special events	<u>1,558,894</u>	<u>-</u>	<u>1,558,894</u>	<u>1,306,434</u>
Net assets released from restrictions	<u>106,015</u>	<u>(106,015)</u>	<u>-</u>	<u>-</u>
Total revenue, public support, and gains	<u>88,615,141</u>	<u>(40,776)</u>	<u>88,574,365</u>	<u>66,221,923</u>
Expenses:				
Program services:				
Supporting bonds between people and pets	31,643,025	-	31,643,025	30,200,778
Preventing pet homelessness	18,689,582	-	18,689,582	16,987,463
Helping shelter pets thrive	18,024,989	-	18,024,989	12,255,279
Emergency relief and other	6,260,875	-	6,260,875	1,835,500
Total program services	<u>74,618,471</u>	<u>-</u>	<u>74,618,471</u>	<u>61,279,020</u>
Supporting services:				
Fundraising	1,158,472	-	1,158,472	1,593,981
Management and general	1,878,145	-	1,878,145	1,908,692
Total support services	<u>3,036,617</u>	<u>-</u>	<u>3,036,617</u>	<u>3,502,673</u>
Total expenses	<u>77,655,088</u>	<u>-</u>	<u>77,655,088</u>	<u>64,781,693</u>
Operating income	10,960,053	(40,776)	10,919,277	1,440,230
Other loss:				
Loss on disposal of property and equipment	-	-	-	(206,591)
Change in Net Assets	<u>10,960,053</u>	<u>(40,776)</u>	<u>10,919,277</u>	<u>1,233,639</u>
Net Assets, Beginning of Year	<u>42,402,468</u>	<u>56,177</u>	<u>42,458,645</u>	<u>41,225,006</u>
Net Assets, End of Year	<u>\$ 53,362,521</u>	<u>\$ 15,401</u>	<u>\$ 53,377,922</u>	<u>\$ 42,458,645</u>

PetSmart Charities, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
January 28, 2018

(With Summarized Comparative Totals for the Year Ended January 29, 2017)

	Program Services				Total	Supporting Services			Total	
	Supporting Bonds Between People and Pets	Preventing Pet Homelessness	Helping Shelter Pets Thrive	Emergency Relief and Other		Fundraising	Management and General	Total	January 28, 2018	January 29, 2017
Grants and allocations	\$ 14,527,982	\$ 15,502,166	\$ 14,513,616	\$ 5,144,186	\$ 49,687,950	\$ -	\$ -	\$ -	\$ 49,687,950	\$ 34,434,841
Donated services	13,007,489	1,041,771	975,339	345,698	15,370,297	88,584	877,382	965,966	16,336,263	18,480,564
Management services	1,388,341	1,481,437	1,386,968	491,595	4,748,341	32,958	301,705	334,663	5,083,004	5,936,985
Advertising	1,051,041	385,491	360,908	127,920	1,925,360	4,127	-	4,127	1,929,487	1,127,071
Other professional services	17,280	18,439	17,263	6,119	59,101	-	-	-	59,101	1,265,808
Consulting	111,955	113,070	101,365	35,928	362,318	3,681	230,504	234,185	596,503	657,502
Office expenses	13,272	13,991	13,099	4,643	45,005	93,887	79,061	172,948	217,953	55,805
Supplies	267,032	-	-	-	267,032	-	-	-	267,032	13,935
Printing and publications	-	-	-	-	-	-	-	-	-	5,739
Depreciation	1,086,676	-	-	-	1,086,676	14,848	32,932	47,780	1,134,456	1,252,135
Bank fees	-	-	-	-	-	596,501	-	596,501	596,501	528,834
Postage and shipping	1,228	1,310	532,935	31,612	567,085	9,120	-	9,120	576,205	32,401
Information technology	43,305	46,209	43,263	15,334	148,111	255,524	68,646	324,170	472,281	549,589
Conferences, conventions, and meetings	22,488	23,996	22,466	7,962	76,912	3,145	91,553	94,698	171,610	134,661
Travel	66,478	61,702	57,767	20,475	206,422	8,533	111,260	119,793	326,215	121,866
Special event costs	-	-	-	-	-	244,783	-	244,783	244,783	249,322
Equipment rental and maintenance	38,458	-	-	29,403	67,861	-	-	-	67,861	76,921
Legal fees	-	-	-	-	-	-	44,223	44,223	44,223	2,157
Accounting fees	-	-	-	-	-	-	40,879	40,879	40,879	30,300
Total expenses	31,643,025	18,689,582	18,024,989	6,260,875	74,618,471	1,355,691	1,878,145	3,233,836	77,852,307	64,956,436
Less expenses included with revenues on the statement of activities special events	-	-	-	-	-	(197,219)	-	(197,219)	(197,219)	(174,743)
Total expenses included in the expense section on the statement of activities	\$ 31,643,025	\$ 18,689,582	\$ 18,024,989	\$ 6,260,875	\$ 74,618,471	\$ 1,158,472	\$ 1,878,145	\$ 3,036,617	\$ 77,655,088	\$ 64,781,693

PetSmart Charities, Inc. and Subsidiary

Consolidated Statement of Cash Flows

January 28, 2018

(With Summarized Comparative Totals for the Year Ended January 29, 2017)

	January 28, 2018	January 29, 2017
Cash Flows from Operating Activities		
Change in net assets	\$ 10,919,277	\$ 1,233,639
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
In-kind contribution of stock	(15,077)	(30,081)
In-kind contribution of food supplies to be distributed	(5,253,321)	-
Proceeds from sale of stock contribution	-	25,577
Realized (gains) losses on investments	(480,164)	754,775
Unrealized gains on investments	(3,285,429)	(1,914,488)
Depreciation	1,134,456	1,252,135
Loss on disposal of assets	-	206,591
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivable from PetSmart, Inc.	(31,072)	(91,430)
Receivable from PetSmart Charities of Canada	975	94,055
Receivables	(148,010)	-
Prepaid expenses	104,710	(94,045)
Increase (decrease) in:		
Accounts payable and accrued expenses	2,467,857	(408,431)
Due to PetSmart, Inc.	207,768	(2,050,275)
Due to PetSmart Charities of Canada	1,000	(252)
Deferred revenue	(25,500)	25,500
Net Cash from (used for) Operating Activities	<u>5,597,470</u>	<u>(996,730)</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	12,402,114	23,655,008
Purchase of investments	(13,296,705)	(24,385,567)
Purchase of property and equipment	(249,165)	(422,863)
Net Cash used for Investing Activities	<u>(1,143,756)</u>	<u>(1,153,422)</u>
Net Change in Cash	4,453,714	(2,150,152)
Cash, Beginning of Year	<u>5,647,500</u>	<u>7,797,652</u>
Cash, End of Year	<u>\$ 10,101,214</u>	<u>\$ 5,647,500</u>

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 find lifelong, loving homes for all pets by supporting programs and thought leadership that bring people and pets together.

More than 500,000 dogs and cats find homes each year through the Organization’s adoption program in most of the 1,400 plus PetSmart® stores and sponsored adoption events. 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. PetSmart Charities grants more money to directly help pets in need than any other animal welfare group in North America. PetSmart Charities is a 501(c)(3) organization, independent from PetSmart, Inc.

The Organization’s major program areas include:

- **Preventing Pet Homelessness** - PetSmart Charities provides millions of dollars in grants annually that help reduce pet overpopulation through spay and neuter programs, keep pets and families together during life transitions and encouraging pet wellness and behavior education to prevent owner surrender.
- **Helping Shelter Pets Thrive** - PetSmart Charities provides grants to improve the shelter environment to provide pets with the highest quality of care and supports pet transport and other programs that facilitate pet adoption.
- **Supporting the Bond between People and Pets** - PetSmart Charities is a leader in pet adoptions. Most of the 1,400 plus PetSmart stores host PetSmart Charities Cat Adoption Centers and more than twenty stores have PetSmart Charities Everyday Dog and Cat Adoption Centers. PetSmart Charities also sponsors events like National Adoption Weekend and community-wide adoption events.
- **Providing Emergency Relief** - PetSmart Charities’ Emergency Relief program delivers much-needed supplies to animal rescue groups saving pets from large-scale man-made and natural disasters.

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 January 28, 2018 and January 29, 2017.

Principles of Consolidation

The consolidated financial statements include the accounts of AllPaws, Inc., as PetSmart Charities, Inc. has both control and an economic interest in this entity. All significant intercompany accounts and transactions have been eliminated in consolidation.

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, 2017, 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 2018 and 2017 comprised of 52 weeks.

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. Deposits at each financial institution are insured in limited amounts by the Federal Deposit Insurance Corporation ("FDIC"). There was approximately \$9,756,000 of uninsured deposits as of January 28, 2018. The Organization's cash accounts were placed with high credit quality financial institutions, and accordingly, the Organization does not expect to experience non-performance.

Receivables

Receivables consist of qualified sponsorships for the golf event and amounts due from PetSmart, Inc. and PetSmart Charities of Canada at January 28, 2018. 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 its assessment of the current status of individual balances. Management considers receivables to be fully collectible, and accordingly, an allowance for doubtful accounts is not considered necessary at January 28, 2018. There were no receivables at January 29, 2017.

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:

	<u>Estimated Useful Lives</u>
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 January 28, 2018 and January 29, 2017.

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.

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 includes 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 and changes in net assets 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 January 28, 2018 and January 29, 2017, the Organization remitted \$214,617 and \$243,734, respectively, to other specified beneficiaries for which it did not recognize a contribution or expense in its financial statements. As of January 28, 2018 and January 29, 2017, the Organization held \$95,183 and \$58,051 respectively, recorded in accounts payable and accrued expenses.

Contributed Goods and Services

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 January 28, 2018 and January 29, 2017, the Organization recorded contributed rent, goods and services of \$15,407,424 and \$17,922,068 from PetSmart Inc., respectively. Refer to Note 5 for more details on the relationship between the Organization and PetSmart, Inc.

For the years ended January 28, 2018 and January 29, 2017, the Organization received goods and services of \$301,486 and \$975,801, respectively, and primarily relates to pet food supplies and advertising from entities other than PetSmart, Inc. Contributed goods are reported as contributions in the financial statements at their estimated fair value at date of receipt. Contributed services are reported in the financial statements at the fair value of the services received. The contribution of services is recognized if the service received creates or enhances nonfinancial assets or requires specialized skills that are provided by individuals possessing those skills that would typically need to be purchased if not provided by donation.

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 and changes in net assets.

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 and changes in net assets.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense charged to operations was \$1,929,487 and \$1,127,071 for fiscal years ended January 28, 2018 and January 29, 2017, respectively.

Income Tax Status

PetSmart Charities 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.

AllPaws is a taxable corporation which had substantially no income or activity during the period owned by PetSmart Charities, therefore no accrual of income tax expense was recognized in the period.

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. 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 January 28, 2018 and January 29, 2017, there were no uncertain tax positions, and the Organization does not anticipate a change in its tax position in the 12 months following January 28, 2018

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

PetSmart Charities, Inc. and Subsidiary

Notes to Consolidated Financial Statements

January 28, 2018

(With Summarized Comparative Totals for the Year Ended January 29, 2017)

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:

	January 28, 2018	January 29, 2017
Mutual funds - bonds	\$ 17,435,852	\$ 18,350,185
Mutual funds - equity	19,536,286	13,991,072
Investments subtotal	36,972,138	32,341,257
Money market fund	787,053	742,673
Total investments	<u>\$ 37,759,191</u>	<u>\$ 33,083,930</u>

Investment income consists of:

	January 28, 2018	January 29, 2017
Unrealized gains on investments	\$ 3,285,429	\$ 1,914,488
Realized gains (losses) on investments	480,164	(754,775)
Interest and dividend income	894,591	704,981
Investment fees	(240,193)	(229,193)
Total investment income, net	<u>\$ 4,419,991</u>	<u>\$ 1,635,501</u>

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.

PetSmart Charities, Inc. and Subsidiary

Notes to Consolidated Financial Statements

January 28, 2018

(With Summarized Comparative Totals for the Year Ended January 29, 2017)

The following table summarizes the valuation of the Organization's financial instruments by the categories described in Note 2 as of January 28, 2018:

	January 28, 2018			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 787,053	\$ -	\$ -	\$ 787,053
Mutual funds - bonds	17,435,852	-	-	17,435,852
Mutual funds - equity	19,536,286	-	-	19,536,286
Total	<u>\$ 37,759,191</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,759,191</u>

The following table summarizes the valuation of the Organization's financial instruments by the categories described in Note 2 as of January 29, 2017:

	January 29, 2017			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 742,673	\$ -	\$ -	\$ 742,673
Mutual funds - bonds	18,350,185	-	-	18,350,185
Mutual funds - equity	13,991,072	-	-	13,991,072
Total	<u>\$ 33,083,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,083,930</u>

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 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.

PetSmart Charities, Inc. and Subsidiary

Notes to Consolidated Financial Statements

January 28, 2018

(With Summarized Comparative Totals for the Year Ended January 1, 2016)

Note 4 - Property and Equipment

Property and equipment consists of:

	January 28, 2018	January 29, 2017
Cost or donated value:		
Construction in progress	\$ -	\$ 92,507
Store fixtures	488,080	488,080
Software	749,360	749,360
Computers	92,743	81,671
Office furniture	95,482	-
Website	50,000	-
Leasehold improvements	7,774,165	7,539,047
Total cost or donated value	<u>9,249,830</u>	<u>8,950,665</u>
Less accumulated depreciation	<u>(6,886,351)</u>	<u>(5,751,895)</u>
Property and equipment, net	<u>\$ 2,363,479</u>	<u>\$ 3,198,770</u>

Note 5 - Transactions with PetSmart, Inc. and PetSmart Charities of Canada

The following amounts have been contributed by PetSmart. The revenue amounts are included in revenue, public support and gains in the accompanying statement of activities and changes in net assets. Contributed rent, goods and services are included in functional expenses under donated services and grants.

	January 28, 2018	January 29, 2017
Contributed rent, goods and services for adoption centers, supplies, office space, utilities, and management personnel	\$ 15,407,424	\$ 17,922,068
Emergency relief grant supplies	1,349,323	211,738
Royalties	13,887,184	1,706,373
	<u>\$ 30,643,931</u>	<u>\$ 19,840,179</u>

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. Emergency Relief grant supplies revenue is the difference of fair market value and cost of goods purchased from PetSmart and then granted to animal welfare groups. Receivables from PetSmart of \$3,212,319 and \$3,181,247 at January 28, 2018 and January 29, 2017, 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.

PetSmart Charities, Inc. and Subsidiary

Notes to Consolidated Financial Statements

January 28, 2018

(With Summarized Comparative Totals for the Year Ended January 31, 2016)

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 \$5,140,000 and \$6,000,000 of expenses under the management services agreement for the years ended January 28, 2018 and January 29, 2017, respectively. At January 28, 2018 and January 29, 2017, the Organization had \$647,118 and \$439,350, respectively, due to PetSmart for reimbursable expenses and management services.

During the fiscal years ended January 28, 2018 and January 29, 2017, the Organization has received donated pet food from PetSmart, Inc. that the Organization is responsible for distributing. At January 28, 2018 and January 29, 2017, the Organization had \$5,564,360 and \$311,039 that had been received from PetSmart, Inc. however has not been distributed and is recorded as other assets – food supplies to be distributed.

In addition to providing space, supplies and labor in the adoption centers in the stores, 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.

The Organization entered into a formal management services agreement with PetSmart Charities of Canada (“PCC”) consistent with prior years’ practice of providing business management, finance, strategy and other services. Receivables from PCC of \$6,010 at January 28, 2018 and \$6,985 at January 29, 2017, respectively, represent management fees billed quarterly and miscellaneous reimbursable costs.

At January 28, 2018 and January 29, 2017, the Organization had \$1,000 and \$0, respectively, due to PCC for reimbursable revenue and other items.

Note 6 - Temporarily Restricted Net Assets

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

	January 28, 2018	January 29, 2017
PetSmart Distribution Center Donations	\$ 15,401	\$ 46,477
Rescue Waggin’® Program Heartworm Treatment Fund	-	9,700
	<u>\$ 15,401</u>	<u>\$ 56,177</u>

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 28, 2018, the Organization has approximately \$3,594,000 in commitments for future contingent grants.

PetSmart Charities, Inc. and Subsidiary

Notes to Consolidated Financial Statements

January 28, 2018

(With Summarized Comparative Totals for the Year Ended January 31, 2016)

Note 8 - Asset Purchase

On January 28, 2018, PetSmart Charities, Inc. purchased all the stock and property, which included the website and mobile device application, of AllPaws, Inc. from PetSmart, Inc. for the aggregate purchase price of \$50,000 in cash.

The following table summarizes the fair value of the assets acquired and liabilities assumed on the contribution date:

Property, plant and equipment	<u>\$ 50,000</u>
Net assets acquired	<u>\$ 50,000</u>

Note 9 - Subsequent Events

The Organization has evaluated subsequent events through July 18, 2018, which is the date these 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.



Supplementary Information
January 28, 2018

**PetSmart Charities, Inc.
and Subsidiary**

PetSmart Charities, Inc. and Subsidiary
Consolidating Statement of Financial Position
January 28, 2018

	PetSmart Charities, Inc.	AllPaws, Inc.	Consolidating Eliminations	Total
Assets				
Cash and cash equivalents	\$ 10,101,214	\$ -	\$ -	\$ 10,101,214
Receivables	148,010	-	-	148,010
Investments	37,809,191	-	(50,000)	37,759,191
Receivable from PetSmart, Inc.	3,212,319	-	-	3,212,319
Receivable from PetSmart Charities of Canada	6,010	-	-	6,010
Other assets - food supplies to be distributed	5,564,360	-	-	5,564,360
Prepaid expenses	292,861	-	-	292,861
	<u>57,133,965</u>	<u>-</u>	<u>(50,000)</u>	<u>57,083,965</u>
Total current assets				
Property and equipment, net	2,313,479	50,000	-	2,363,479
	<u>59,447,444</u>	<u>50,000</u>	<u>(50,000)</u>	<u>59,447,444</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	\$ 5,421,404	\$ -	\$ -	\$ 5,421,404
Due to PetSmart, Inc.	647,118	-	-	647,118
Due to PetSmart Charities of Canada	1,000	-	-	1,000
	<u>6,069,522</u>	<u>-</u>	<u>-</u>	<u>6,069,522</u>
Total current liabilities				
Net Assets				
Unrestricted	53,362,521	50,000	(50,000)	53,362,521
Temporarily restricted	15,401	-	-	15,401
	<u>53,377,922</u>	<u>50,000</u>	<u>(50,000)</u>	<u>53,377,922</u>
Total net assets				
Total liabilities and net assets	<u>\$ 59,447,444</u>	<u>\$ 50,000</u>	<u>\$ (50,000)</u>	<u>\$ 59,447,444</u>

PetSmart Charities, Inc. and Subsidiary
Consolidating Statement of Activities
January 28, 2018

	PetSmart Charities, Inc.	AllPaws, Inc.	Consolidating Eliminations	Total
Revenue, Public Support, and Gains:				
Individual contributions	\$ 49,546,941	\$ -	\$ -	\$ 49,546,941
PetSmart, Inc. contributions (including contributed rent, goods and services, royalty income, and sponsorships)	30,643,931	-	-	30,643,931
Corporate, foundations, and vendor contributions	2,404,608	-	-	2,404,608
Investment income, net	4,419,991	-	-	4,419,991
Revenue, public support, and gains	<u>87,015,471</u>	<u>-</u>	<u>-</u>	<u>87,015,471</u>
Special events:				
Special events revenue	1,756,113	-	-	1,756,113
Less costs of direct donor benefits	<u>(197,219)</u>	<u>-</u>	<u>-</u>	<u>(197,219)</u>
Gross profit on special events	<u>1,558,894</u>	<u>-</u>	<u>-</u>	<u>1,558,894</u>
Total revenue, public support, and gains	<u>88,574,365</u>	<u>-</u>	<u>-</u>	<u>88,574,365</u>
Expenses:				
Program services:				
Supporting bonds between people and pets	31,643,025	-	-	31,643,025
Preventing pet homelessness	18,689,582	-	-	18,689,582
Helping shelter pets thrive	18,024,989	-	-	18,024,989
Emergency relief and other	<u>6,260,875</u>	<u>-</u>	<u>-</u>	<u>6,260,875</u>
Total program services	<u>74,618,471</u>	<u>-</u>	<u>-</u>	<u>74,618,471</u>
Supporting services:				
Fundraising	1,158,472	-	-	1,158,472
Management and general	<u>1,878,145</u>	<u>-</u>	<u>-</u>	<u>1,878,145</u>
Total support services	<u>3,036,617</u>	<u>-</u>	<u>-</u>	<u>3,036,617</u>
Total expenses	<u>77,655,088</u>	<u>-</u>	<u>-</u>	<u>77,655,088</u>
Operating income	10,919,277	-	-	10,919,277
Other loss:				
Loss on disposal of property and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	<u>10,919,277</u>	<u>-</u>	<u>-</u>	<u>10,919,277</u>
Net Assets, Beginning of Year	<u>42,458,645</u>	<u>50,000</u>	<u>(50,000)</u>	<u>42,458,645</u>
Net Assets, End of Year	<u>\$ 53,377,922</u>	<u>\$ 50,000</u>	<u>\$ (50,000)</u>	<u>\$ 53,377,922</u>