

PETSMART CHARITIES, INC.

FINANCIAL STATEMENTS

YEAR ENDED JANUARY 28, 2024
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR YEAR ENDED JANUARY 29, 2023)



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PETSMART CHARITIES, INC.
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(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JANUARY 29, 2023)

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INDEPENDENT AUDITORS' REPORT

Board of Directors
PetSmart Charities, Inc.
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of PetSmart Charities, Inc. (the Organization) (an Arizona corporation), which comprise the statement of financial position as of January 28, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PetSmart Charities, Inc. as of January 28, 2024, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PetSmart Charities, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PetSmart Charities, Inc.'s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PetSmart Charities, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PetSmart Charities, Inc.'s ability to continue as a going concern for a reasonable period of time.

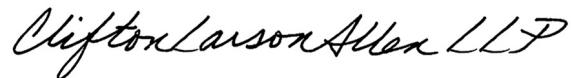
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited PetSmart Charities, Inc.'s January 29, 2023 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated August 4, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended January 29, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter – Correction of an Error

As discussed in Note 10 to the financial statements, an error related to recording of receivables was discovered. Accordingly, total beginning net assets were increased by \$2,418,009 as of January 28, 2024. The summarized prior year information has been restated to reflect this correction. Our opinion is not modified with respect to that matter.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Phoenix, Arizona
July 22, 2024

PETSMART CHARITIES, INC.
STATEMENT OF FINANCIAL POSITION
JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JANUARY 29, 2023)

	January 28, 2024	January 29, 2023 (Restated)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 21,532,448	\$ 18,899,800
Investments	51,698,540	46,825,147
Receivables	2,534,142	1,307,141
Receivable from PetSmart LLC	3,229,062	10,127,385
Receivable from PetSmart Charities of Canada	8,016	28,075
Prepaid Expenses	273,644	273,739
Total Current Assets	<u>79,275,852</u>	<u>77,461,287</u>
PROPERTY AND EQUIPMENT, NET	391,224	407,658
RECEIVABLES, NET	<u>1,577,494</u>	<u>1,287,736</u>
Total Assets	<u><u>\$ 81,244,570</u></u>	<u><u>\$ 79,156,681</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 1,430,598	\$ 2,389,186
Due to PetSmart LLC	2,298,052	4,216,200
Due to PetSmart Charities of Canada	91	-
Total Liabilities	<u>3,728,741</u>	<u>6,605,386</u>
NET ASSETS		
Without Donor Restrictions	76,221,335	71,146,559
With Donor Restrictions	1,294,494	1,404,736
Total Net Assets	<u>77,515,829</u>	<u>72,551,295</u>
Total Liabilities and Net Assets	<u><u>\$ 81,244,570</u></u>	<u><u>\$ 79,156,681</u></u>

See accompanying Notes to Financial Statements.

PETSMART CHARITIES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JANUARY 29, 2023)

	Without Donor Restrictions	With Donor Restrictions	January 28, 2024	January 29, 2023 (Restated)
REVENUE, PUBLIC SUPPORT, AND GAINS				
Individual Contributions	\$ 46,270,061	\$ -	\$ 46,270,061	\$ 52,370,955
PetSmart LLC Contributions:				
Contributions, Cash	5,005,814	-	5,005,814	4,706,591
Contributions, Donated Rent, Goods, and Services	28,028,470	-	28,028,470	29,259,181
Total PetSmart LLC Contributions	33,034,284	-	33,034,284	33,965,772
Corporate, Foundations, and Vendor Contributions:				
Contributions, Cash	1,242,731	-	1,242,731	1,412,181
Contributions, Goods and Services	336,171	-	336,171	334,466
Total Corporate, Foundations, and Vendor Contributions	1,578,902	-	1,578,902	1,746,647
Investment Income (Loss), Net	4,777,438	-	4,777,438	(1,283,679)
Releases from Restriction	110,242	(110,242)	-	-
Total	85,770,927	(110,242)	85,660,685	86,799,695
Special Events:				
Special Events Revenue	-	-	-	2,500
Total Revenue, Public Support, and Gains	85,770,927	(110,242)	85,660,685	86,802,195
EXPENSES				
Program Services	75,961,684	-	75,961,684	83,306,246
Supporting Services:				
Fundraising	2,427,827	-	2,427,827	2,640,954
Management and General	2,306,640	-	2,306,640	1,879,842
Total Supporting Services	4,734,467	-	4,734,467	4,520,796
Total Expenses	80,696,151	-	80,696,151	87,827,042
OPERATING INCOME (LOSS)	5,074,776	(110,242)	4,964,534	(1,024,847)
OTHER LOSS				
Loss on Disposal of Fixed Assets	-	-	-	(871)
CHANGE IN NET ASSETS	5,074,776	(110,242)	4,964,534	(1,025,718)
Net Assets - Beginning of Year	71,146,559	1,404,736	72,551,295	73,577,013
NET ASSETS - END OF YEAR	<u>\$ 76,221,335</u>	<u>\$ 1,294,494</u>	<u>\$ 77,515,829</u>	<u>\$ 72,551,295</u>

See accompanying Notes to Financial Statements.

PETSMART CHARITIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JANUARY 29, 2023)

	Program Services			Supporting Services			Total	
	Connecting Pets and People	Supporting Pets and People	Total	Fundraising	Management and General	Total	January 28, 2024	January 29, 2023
Grants and Allocations	\$ 18,562,814	\$ 25,678,371	\$ 44,241,185	\$ -	\$ -	\$ -	\$ 44,241,185	\$ 50,023,499
Donated Services	15,157,605	2,222,657	17,380,262	664,258	1,085,388	1,749,646	19,129,908	20,447,413
Donated Services - In-Kind Advertising	4,144,174	12,950	4,157,124	21,474	-	21,474	4,178,598	3,124,686
Management Services	2,383,982	2,860,702	5,244,684	204,213	319,534	523,747	5,768,431	5,964,480
Advertising	730,248	215,638	945,886	711,525	458,788	1,170,313	2,116,199	2,482,248
Other Professional Services	350,450	468,225	818,675	17,273	60,233	77,506	896,181	1,194,572
Consulting	20,653	527,530	548,183	-	44,900	44,900	593,083	456,448
Office Expenses	14,273	17,129	31,402	127,895	104,847	232,742	264,144	266,822
Supplies	18,412	11,569	29,981	-	5,096	5,096	35,077	48,013
Depreciation	124,630	13,037	137,667	-	26,278	26,278	163,945	218,363
Postage and Shipping	7,776	910,342	918,118	15,006	-	15,006	933,124	1,135,581
Information Technology	905,160	154,436	1,059,596	56,076	56,463	112,539	1,172,135	1,231,942
Conferences, Conventions, and Meetings	37,868	89,476	127,344	3,094	52,031	55,125	182,469	262,771
Travel	116,953	139,839	256,792	9,383	36,439	45,822	302,614	203,228
Equipment Rental and Maintenance	64,785	-	64,785	-	-	-	64,785	73,569
Legal Fees	-	-	-	-	9,095	9,095	9,095	15,949
Accounting Fees	-	-	-	-	47,548	47,548	47,548	41,690
Bank Fees	-	-	-	597,630	-	597,630	597,630	635,768
Total Expenses by Function	<u>\$ 42,639,783</u>	<u>\$ 33,321,901</u>	<u>\$ 75,961,684</u>	<u>\$ 2,427,827</u>	<u>\$ 2,306,640</u>	<u>\$ 4,734,467</u>	<u>\$ 80,696,151</u>	<u>\$ 87,827,042</u>
Total Expenses Included in the Expense Section on the Statement of Activities	<u>\$ 42,639,783</u>	<u>\$ 33,321,901</u>	<u>\$ 75,961,684</u>	<u>\$ 2,427,827</u>	<u>\$ 2,306,640</u>	<u>\$ 4,734,467</u>	<u>\$ 80,696,151</u>	<u>\$ 87,827,042</u>

See accompanying Notes to Financial Statements.

PETSMART CHARITIES, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS FOR YEAR ENDED JANUARY 29, 2023)

	January 28, 2024	January 29, 2023 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 4,964,534	\$ (1,025,718)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Realized (Gains) Losses on Investments	(231,359)	1,989,407
Unrealized (Gains) Losses on Investments	(3,472,606)	879,286
Depreciation	163,945	218,363
Loss on Disposal of Assets	-	871
(Increase) Decrease in Assets:		
Receivable from PetSmart LLC	6,898,323	(6,178,636)
Receivable from PetSmart Charities of Canada	20,059	15,567
Receivables	(1,516,759)	(2,488,419)
Prepaid Expenses	95	(195,744)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(958,588)	(3,303,344)
Due to PetSmart LLC	(1,918,148)	2,342,345
Due to PetSmart Charities of Canada	91	(50)
Net Cash Provided (Used) by Operating Activities	<u>3,949,587</u>	<u>(7,746,072)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	233,892	14,741,943
Purchase of Investments	(1,403,320)	(16,488,480)
Purchase of Property and Equipment	(147,511)	(221,319)
Net Cash Used by Investing Activities	<u>(1,316,939)</u>	<u>(1,967,856)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,632,648	(9,713,928)
Cash and Cash Equivalents - Beginning of Year	<u>18,899,800</u>	<u>28,613,728</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 21,532,448</u></u>	<u><u>\$ 18,899,800</u></u>

See accompanying Notes to Financial Statements.

PETSMART CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS FOR JANUARY 29, 2023)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

PetSmart Charities, Inc. (PetSmart Charities or Organization) is a nonprofit animal welfare organization that envisions a world where communities unite in support of pets together with their families. Founded in 1994, the Organization's mission is to make the world a better place by investing in community partners that advocate and care for the well-being of pets, for pets, and all who love them. PetSmart Charities grants more money to directly help pets in need more than any other animal welfare group in North America. PetSmart Charities is a 501(c)(3) organization, independent from PetSmart LLC.

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

Net Asset Classification

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Those resources over which the board of directors has discretionary control. Designated amounts represent those revenues which the board has set aside for a particular purpose.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be satisfied by actions of the Organization or passage of time. Other donor-imposed restrictions will be held in perpetuity by the Organization. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended January 29, 2023, from which the summarized information was derived.

Fiscal Year

The Organization's fiscal year ends on the Sunday nearest January 31st. The fiscal year ended 2024 and fiscal year ended 2023 are comprised of 52 weeks.

PETSMART CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS FOR JANUARY 29, 2023)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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). The Organization's cash accounts were placed with high credit quality financial institutions, and accordingly, the Organization does not expect to experience nonperformance.

Receivables

Receivables consist of qualified sponsorships, estates, and amounts due from PetSmart LLC and PetSmart Charities of Canada at January 28, 2024 and January 29, 2023. 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, 2024 or January 29, 2023.

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 are 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:

Store Fixtures	3 to 7 Years
Software	3 Years
Computers	3 Years
Office Furniture	10 Years
Leasehold Improvements	Shorter of Useful Life or Lease Term (Generally 3 to 14 Years)

PETSMART CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS FOR JANUARY 29, 2023)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2024 and January 29, 2023.

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. Accounting principles generally accepted in the United States of America have 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.

PETSMART CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS FOR JANUARY 29, 2023)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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 without donor restriction unless specifically restricted by the donor. Contributions with donor restrictions that are received and used within the year are included in activities without donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

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, 2024 and January 29, 2023, the Organization recorded contributed rent, goods, and services of \$28,028,470 and \$29,259,181, respectively, from PetSmart LLC. Refer to Note 5 for more details on the relationship between the Organization and PetSmart LLC.

For the years ended January 28, 2024 and January 29, 2023, the Organization received goods and services of \$336,171 and \$334,466, respectively, which primarily relate to advertising from entities other than PetSmart LLC. 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.

The Organization estimates the fair value of contributed rent, advertising, goods, and services based on estimates of the current market rates for purchases of similar rents, advertising, goods, and services in the Organization's market.

PETSMART CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS FOR JANUARY 29, 2023)

NOTE 1 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.

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. Expenses that benefit more than one function of the Organization are allocated among the functions based on the programs benefited and the best estimate of management.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense charged to operations was \$6,366,565 (\$2,187,967 in cash and \$4,178,598 in in-kind services) and \$5,606,934 (\$2,482,248 in cash and \$3,124,686 in in-kind services) for fiscal years ended January 28, 2024 and January 29, 2023, respectively.

Income Tax Status

PetSmart Charities has been recognized by the Internal Revenue Service (IRS) as a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal and state income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the IRC and has been recognized by the IRS 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. 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, 2024 and January 29, 2023, 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, 2024.

PETSMART CHARITIES, INC.
NOTES TO FINANCIAL STATEMENTS
JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS FOR JANUARY 29, 2023)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management evaluated subsequent events from the statement of financial position date through July 22, 2024, the date at which the financial statements were available to be issued.

Adoption of New Accounting Standards

The Organization has adopted ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of this Standard did not have a material impact on the Organization's financial statements but did change how the allowance for credit losses is determined.

NOTE 2 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, 2024	January 29, 2023
Bonds	\$ 17,882,723	\$ 16,043,449
Equities	29,072,634	26,505,029
Mutual Funds - Bonds	4,669,225	4,186,157
Money Market Fund	73,958	90,512
Total Investments	<u>\$ 51,698,540</u>	<u>\$ 46,825,147</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.
NOTES TO FINANCIAL STATEMENTS
JANUARY 28, 2024
(WITH SUMMARIZED COMPARATIVE TOTALS FOR JANUARY 29, 2023)

NOTE 2 INVESTMENTS (CONTINUED)

The following tables summarize the valuation of the Organization's financial instruments by the categories described in Note 1 as of:

January 28, 2024					
	Level 1	Level 2	Level 3	Assets Not Held Fair Value	Total
Money Market Fund	\$ -	\$ -	\$ -	\$ 73,958	\$ 73,958
Equities	29,072,634	-	-	-	29,072,634
Bonds	-	17,882,723	-	-	17,882,723
Mutual Funds - Bonds	-	4,669,225	-	-	4,669,225
Total	<u>\$ 29,072,634</u>	<u>\$ 22,551,948</u>	<u>\$ -</u>	<u>\$ 73,958</u>	<u>\$ 51,698,540</u>

January 29, 2023					
	Level 1	Level 2	Level 3	Assets Not Held Fair Value	Total
Money Market Fund	\$ -	\$ -	\$ -	\$ 90,512	\$ 90,512
Equities	26,505,029	-	-	-	26,505,029
Mutual Funds - Bonds	-	16,043,449	-	-	16,043,449
Mutual Funds - Equity	-	4,186,157	-	-	4,186,157
Total	<u>\$ 26,505,029</u>	<u>\$ 20,229,606</u>	<u>\$ -</u>	<u>\$ 90,512</u>	<u>\$ 46,825,147</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. Securities valued using Level 1 inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. Government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Securities valued using Level 2 inputs include municipal and corporate debt securities.

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.

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NOTE 3 RECEIVABLES

Receivables include estates that have been discounted at a rate of 4.51% and 4.55% at January 28, 2024 and January 29, 2023. For the years ended January 28, 2024, and January 29, 2023, four and two donors were 75% and 93% of the receivables balance, respectively. The following is a summary of the Organization's receivables:

	January 28, 2024	January 29, 2023
Estate Gifts	\$ 3,834,246	\$ 2,418,009
Qualified Sponsorships	277,390	176,868
Total	<u>\$ 4,111,636</u>	<u>\$ 2,594,877</u>

At year-end, receivables are estimated to be collected as follows:

	January 28, 2024	January 29, 2023
Within One Year	\$ 2,534,142	\$ 1,307,141
In One to Five Years	985,960	585,960
Over Five Years	591,534	701,776
Total	<u>\$ 4,111,636</u>	<u>\$ 2,594,877</u>

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of:

	January 28, 2024	January 29, 2023
Cost or Donated Value:		
Construction in Progress	\$ -	\$ 120,130
Store Fixtures	597,684	571,444
Software	913,581	913,581
Computers	86,653	8,428
Office Furniture	219,509	95,482
Leasehold Improvements	6,242,461	6,203,312
Total Cost or Donated Value	<u>8,059,888</u>	<u>7,912,377</u>
Less: Accumulated Depreciation	<u>(7,668,664)</u>	<u>(7,504,719)</u>
Property and Equipment, Net	<u>\$ 391,224</u>	<u>\$ 407,658</u>

Construction in Progress as of January 29, 2023 consisted of capitalized costs for PetSmart Charities Meeting Room project.

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NOTE 5 NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions consist of a receivable related to a charitable remainder unitrust which the Organization does not have the immediate right to use. The value of this receivable was \$1,294,494 and \$1,404,736 at January 28, 2024 and January 29, 2023, respectively.

NOTE 6 TRANSACTIONS WITH PETSMART LLC AND PETSMART CHARITIES OF CANADA

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

	January 29, 2024	January 30, 2023
Contributed Rent, Management Personnel, Office Space, and Other Goods and Services	\$ 28,028,470	\$ 29,259,181
Royalty Income	4,897,513	4,507,842
Other Donations	108,301	198,749
Total	<u>\$ 33,034,284</u>	<u>\$ 33,965,772</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. Receivables from PetSmart of \$3,229,062 and \$10,127,385 at January 28, 2024 and January 29, 2023, 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. The receivables are all expected to be fully collectible within the next fiscal year.

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 \$5,863,431 and \$6,059,480 of expenses under the management services agreement for the years ended January 28, 2024 and January 29, 2023, respectively. At January 28, 2024 and January 29, 2023, the Organization had \$2,298,052 and \$4,216,200, respectively, due to PetSmart for reimbursable expenses and management services.

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**NOTE 6 TRANSACTIONS WITH PETSMART LLC AND PETSMART CHARITIES OF CANADA
(CONTINUED)**

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. The Organization received \$95,000 from the management services agreement for both the years ending years ended January 28, 2024 and January 29, 2023. Receivables from PCC of \$8,016 at January 28, 2024 and \$28,075 at January 29, 2023 represent management fees billed quarterly and miscellaneous reimbursable costs.

At January 28, 2024 and January 29, 2023, the Organization had \$91 and \$-0-, respectively, due to PCC for reimbursable revenue and other items.

NOTE 7 TRANSACTIONS WITH RELATED ENTITIES

During the years ended January 28, 2024 and January 29, 2023, amounts paid to board member related organizations totaled \$10,000 and \$6,079,500, respectively, and are included in Program Services in the accompanying statements of activities.

NOTE 8 CONTRIBUTED NONFINANCIAL ASSETS

The Organization received the following contribution of nonfinancial assets for years ending:

	January 28, 2024	January 29, 2023
Adoption Centers (Rent and Supplies)	\$ 17,268,316	\$ 19,037,145
Pet Supplies	5,056,135	6,021,546
Advertising	4,178,598	3,124,687
Office Rent	363,220	337,577
Other Goods and Services	1,498,372	1,072,692
Total Contributed Nonfinancial Assets	<u>\$ 28,364,641</u>	<u>\$ 29,593,647</u>

NOTE 9 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. The Organization has approximately \$13,100,000 and \$6,400,000 of commitments for future contingent grants at January 28, 2024 and January 29, 2023, respectively.

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NOTE 10 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its general operating needs based on revenue and grant distribution cycles. The Organization's financial assets available within one year of the statement of financial position date for general expenditures are listed in the table below.

	January 28, 2024	January 29, 2023
Financial Assets at Year-End:		
Cash and Cash Equivalents	\$ 21,532,448	\$ 18,899,800
Investments	51,698,540	46,825,147
Receivables	2,534,142	1,307,141
Receivable from PetSmart LLC	3,229,062	10,127,385
Receivable from PetSmart Charities of Canada	8,016	28,075
Total Financial Assets	<u>79,002,208</u>	<u>77,187,548</u>
Donor-Imposed Restrictions:		
Restricted Funds	<u>(1,294,494)</u>	<u>(1,404,736)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u><u>\$ 77,707,714</u></u>	<u><u>\$ 75,782,812</u></u>

NOTE 11 CORRECTION OF ERROR

An error related to the recording of contribution revenue related to bequests and trusts was discovered during the year ended January 28, 2024. As such the following adjustments have been made to the January 29, 2023 financial statements as previously reported:

	January 29, 2023 Previously Reported	Correction	January 29, 2023 As Restated
Receivables	\$ 176,868	\$ 2,418,009	\$ 2,594,877
Net Assets Without Donor Restrictions	70,133,286	1,013,273	71,146,559
Net Assets With Donor Restrictions	-	1,404,736	1,404,736
Total Net Assets	70,133,286	2,418,009	72,551,295

