

THE PETCO FOUNDATION
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
For the Years Ended April 30, 2016 and May 2, 2015

THE PETCO FOUNDATION
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April 30, 2016 and May 2, 2015

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Petco Foundation
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of The Petco Foundation (the Foundation), which comprise the statements of financial position as of April 30, 2016 and May 2, 2015, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of April 30, 2016 and May 2, 2015, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

RBTK, LLP

September 12, 2016

THE PETCO FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>April 30,</u> <u>2016</u>	<u>May 2,</u> <u>2015</u>
Cash and cash equivalents	\$ 9,076,728	12,746,126
Receivable from Petco Animal Supplies Stores, Inc. (Note 4)	2,111,330	1,817,620
Other receivables	2,437	119,091
Prepaid expenses	145,305	215,680
Long-term investments, at fair value (Note 3)	<u>4,154,849</u>	<u>4,288,474</u>
 Total assets	 <u>\$ 15,490,649</u>	 <u>19,186,991</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 375,608	321,103
Due to Petco Animal Supplies Stores, Inc. (Note 4)	<u>484,442</u>	<u>283,351</u>
 Total liabilities	 <u>860,050</u>	 <u>604,454</u>
 Net assets:		
Unrestricted	<u>14,630,599</u>	<u>18,582,537</u>
 Total net assets	 <u>14,630,599</u>	 <u>18,582,537</u>
 Total liabilities and net assets	 <u>\$ 15,490,649</u>	 <u>19,186,991</u>

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	For the Years Ended	
	April 30, 2016	May 2, 2015
Changes in unrestricted net assets:		
Support and revenue:		
Contributions from individuals and corporations	\$ 29,888,420	27,098,098
Petco Animal Supplies Stores, Inc.		
in-kind contributions (Notes 4 and 5)	1,079,817	1,567,124
Total contributions	30,968,237	28,665,222
Special events:		
Revenue	2,133,589	994,937
Expense	(805,499)	(294,333)
Net special events revenue	1,328,090	700,604
Interest income	31,497	9,681
Net long-term investment (loss) return (Note 3)	(133,625)	288,474
Total unrestricted support and revenue	32,194,199	29,663,981
Expenditures:		
Program grants and administration	33,049,646	21,141,934
Fundraising	1,794,330	1,015,370
Management and general	1,302,161	1,136,989
Total expenditures	36,146,137	23,294,293
Change in net assets	(3,951,938)	6,369,688
Net assets, beginning of year	18,582,537	12,212,849
Net assets, end of year	\$ 14,630,599	18,582,537

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENTS OF CASH FLOWS

	For the Years Ended	
	April 30, 2016	May 2, 2015
Cash flows from operating activities:		
Change in net assets	\$ (3,951,938)	6,369,688
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net long-term investment loss (return)	133,625	(288,474)
Increase in receivable from Petco Animal Supplies Stores, Inc.	(293,710)	(537,341)
Decrease in other receivables	116,654	315,635
Decrease (increase) in prepaid expense	70,375	(208,330)
Increase (decrease) in accounts payable and accrued expenses	54,505	(1,285,631)
Increase in due to Petco Animal Supplies Stores, Inc.	201,091	106,947
Net cash (used in) provided by operating activities	(3,669,398)	4,472,494
Cash flows from investing activities:		
Purchase of investments	-	(4,000,000)
Net cash used in investing activities	-	(4,000,000)
Net (decrease) increase in cash and cash equivalents	(3,669,398)	472,494
Cash and cash equivalents, beginning of year	12,746,126	12,273,632
Cash and cash equivalents, end of year	\$ 9,076,728	12,746,126
Supplemental disclosures:		
Interest paid	\$ -	-
Income taxes paid	\$ -	-

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS
April 30, 2016 and May 2, 2015

1. Organization

The Petco Foundation (the Foundation), a California non-profit public benefit corporation incorporated on February 16, 1999, is organized to promote, enhance and finance charitable, educational, literary, scientific and prevention of cruelty to animal activities through grants and contributions to organizations that conduct or sponsor charitable or educational programs related to domesticated animals. The Foundation may also conduct and/or sponsor charitable or educational programs, events or activities which further the purpose of the Foundation.

The Foundation accomplishes its chartered purpose primarily through grant investments in non-profit organizations that make the most impact, determined through a decision model designed to evaluate and assess organizations alongside their peers. The Foundation seeks to empower those organizations that are the most productive and effective in accomplishing their mission and support animal welfare organizations seeking to end the euthanasia of shelter animals, those organizations supporting service, therapy and working animals, and organizations and institutions helping to find a cure or support treatment of pet cancer.

The Foundation is exempt from income tax under Section 501(c)(3) of the United States Internal Revenue Code (the Code), and similar provisions of the California Revenue and Taxation Code and the Texas Tax Code, and contributions to it are deductible within the limitations prescribed by the Code. The Foundation has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code.

The Foundation's fiscal year ends on the Saturday closest to April 30, resulting in years of either 52 or 53 weeks. All references to a fiscal year refer to the fiscal year ending on the Saturday closest to April 30 of the following year. The fiscal years ended April 30, 2016 (fiscal year 2015) and May 2, 2015 (fiscal year 2014) each consisted of 52 weeks.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 30, 2016 and May 2, 2015

2. Summary of Significant Accounting Policies

The financial statements of the Foundation have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The significant accounting policies followed are discussed below.

Cash and Cash Equivalents

Cash equivalents represent all liquid investments with original maturities of three months or less and include money market funds.

Investments

The Foundation accounts for investments pursuant to U.S. generally accepted accounting principles under which investments with readily determinable fair values are reported at their fair values in the statement of financial position. Donated investments are recorded at their fair value on the date of receipt. Net investment return or loss (including realized and unrealized gains and losses on investments, interest, dividends, and fees) is included in the statement of activities as a change in net assets.

Fair Value Measurements

U.S. generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs – quoted prices in active markets for identical assets

Level 2 inputs – quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs – estimates using best information available when there is little or no market

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Foundation is required to measure certain financial instruments at fair value in accordance with U.S. generally accepted accounting principles. The technique used to measure the fair value of investments is described in Note 3.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 30, 2016 and May 2, 2015

2. Summary of Significant Accounting Policies, Continued

Contributions

U.S. generally accepted accounting principles require that the Foundation report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted contributions are recognized as increases in unrestricted net assets when received. Contributions restricted by donors may be reported as increases in temporarily or permanently restricted net assets, depending on the nature of the donor-imposed restriction. When restrictions are satisfied, either by the passage of time or by accomplishing the purpose, the temporarily restricted contributions are reclassified to unrestricted net assets and reported in the activity statement as net assets released from restrictions. When restrictions are satisfied in the same period as the receipt of contributions, the Foundation reports both the revenue and the related expense in the unrestricted net assets class.

Donated Goods, Services and Facilities

Those donated goods that meet the requirements for recognition under U.S. generally accepted accounting principles are recorded as both revenue and expense in the accompanying statement of activities, at amounts determined by management to be reasonable for obtaining such goods.

Receivable from Petco Animal Supplies Stores, Inc.

Petco Animal Supplies Stores, Inc. (Petco) retail locations serve as collection points for donations received from the general public for various Foundation fundraising activities. These donations are then periodically transferred to the Foundation. Management believes that all contributions receivable are fully collectible within one year; therefore, no allowance for doubtful accounts was recorded as of April 30, 2016 or May 2, 2015.

Income Taxes

The Foundation is exempt from federal and state income tax liability, and therefore, no provision is made for current or deferred income taxes. The Foundation uses the same accounting method for tax and financial reporting.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 30, 2016 and May 2, 2015

2. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

U.S. generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. If it is probable that an uncertain tax position will result in a material liability and the amount of the liability can be estimated, then the estimated liability is accrued. If the Foundation were to incur any income tax liability in the future, interest on any income tax liability would be reported as interest expense, and penalties on any income tax would be reported as income taxes. Management has considered its tax positions and believes that all of the positions taken in its federal and state tax returns are considered more likely than not to be sustained upon examination. The Foundation's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results may differ from these estimates. Significant estimates used in preparing these financial statements include the fair value of donated goods and services, the fair value of investments, and accrued expenses. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. It is reasonably possible that changes may occur in the near term that would affect such estimates.

Subsequent Events

The Foundation has evaluated subsequent events through September 12, 2016, the date the financial statements were available to be issued. There have been no material subsequent events which would require recognition in the financial statements or disclosure in the notes to the financial statements.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 30, 2016 and May 2, 2015

3. Long-Term Investments, at Fair Value

U.S. generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of the following assets is based on Level 1 measurements. Level 1 fair value measurements are quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date.

Long-term investments, at fair value, consist of the following at:

	<u>April 30, 2016</u>	<u>May 2, 2015</u>
Equities:		
Technology and communications	\$ 935,153	789,543
Financial	697,929	664,735
Services	399,748	522,049
Basic materials	318,062	478,227
Consumer goods	336,234	368,453
Industrial goods	<u>227,870</u>	<u>212,130</u>
Total equities	<u>2,914,996</u>	<u>3,035,137</u>
Certificates of deposit	1,057,341	955,308
Bond funds	155,261	152,122
Interest bearing cash	<u>27,251</u>	<u>145,907</u>
Total long-term investments, at fair value	<u>4,154,849</u>	<u>4,288,474</u>

Net investment return is as follows for the years ended:

	<u>April 30, 2016</u>	<u>May 2, 2015</u>
Dividend and interest income	\$ 58,588	48,853
Realized and unrealized gains	(150,109)	277,324
Investment fees	<u>(42,104)</u>	<u>(37,703)</u>
Total net investment (loss) return	<u>\$ (133,625)</u>	<u>288,474</u>

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 30, 2016 and May 2, 2015

4. Related Party Transactions

Receivable from Petco of \$2,111,330 and \$1,817,620 at April 30, 2016 and May 2, 2015, respectively, represents cash contributions received from Petco customers and Petco employees not yet remitted in cash to the Foundation as of the fiscal year end date.

The Foundation reimburses Petco under a resource and expense allocation agreement (the Agreement) for expenses incurred to operate the Foundation out of its office space and for administrative services provided. In addition, the Foundation reimburses Petco for the full cost of employees who perform duties solely for the Foundation as well as 75% of the salary of the Executive Director. The cost for all of these expenses for the years ended April 30, 2016 and May 2, 2015, was \$3,109,431 and \$2,456,028, respectively.

Due to Petco of \$484,442 and \$283,351 at April 30, 2016 and May 2, 2015, respectively, represents reimbursable expenses covered under the Agreement in addition to other operating expenses.

As further described in Note 5, the Foundation received in-kind donations from Petco totaling \$1,079,817 and \$1,567,124, for the years ended April 30, 2016 and May 2, 2015, respectively.

Program grants totaling \$122,856 for the year ended April 30, 2016, were paid to Petco for the creation of and equipping in-store adoption centers operated by Foundation coordinated non-profit adoption organizations utilizing such space and equipment to find animals homes. There were no such grants made during the year ended May 2, 2015.

Six members of the Foundation's Board of Directors also serve on boards of organizations which are recipients of program grants from the Foundation. Program grants paid to these organizations totaled \$564,660 and \$334,299 during the years ended April 30, 2016 and May 2, 2015, respectively. Additionally, as further discussed in Note 7, the Foundation has future commitments to two of these organizations totaling \$970,000 as of April 30, 2016.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
April 30, 2016 and May 2, 2015

5. In-Kind Donations

The Foundation received other goods and services used in operations which were recorded as contributions and expenses in the accompanying statements of activities at their estimated fair value of \$1,079,817 and \$1,567,124 for the years ended April 30, 2016 and May 2, 2015, respectively.

6. Commitments and Contingencies

The Foundation has entered into commitments with certain charitable organizations and institutions which are contingent upon the organizations fulfilling certain contractual obligations as described in the individual grant agreements. At April 30, 2016, commitments for the year ended April 29, 2017 totaled \$4,918,000 and commitments continuing thereafter totaled \$3,745,000.

7. Concentration of Risk

Contributions

The majority of the contributions received by the Foundation are collected at Petco retail locations.

Credit Risk

At April 30, 2016, the Foundation had \$9,077,000 of cash and cash equivalents within financial institutions, a portion of which may be in excess of the federally insured limit. The Foundation has not experienced any such losses and management believes it is not exposed to any significant credit risk on these cash deposits.

Investment Risk

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Foundation's account balances and the amounts reported in the statements of net assets available for benefits.