THE PETCO FOUNDATION

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

For the Fiscal Year Ended April 30, 2011
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INDEPENDENT AUDITORS’ REPORT

The Board of Directors
The PETCO Foundation
San Diego, California

We have audited the accompanying statement of financial position of The PETCO Foundation (the Foundation), as of April 30, 2011, and the related statements of activities and changes in net assets and cash flows for the fiscal year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the results of its operations and its cash flows for the fiscal year then ended, in conformity with U.S. generally accepted accounting principles.

August 1, 2011
THE PETCO FOUNDATION
STATEMENT OF FINANCIAL POSITION
April 30, 2011

ASSETS

Cash and cash equivalents $ 6,449,780
Contributions receivable 618,674
Other receivables 524,746

Total assets $ 7,593,200

LIABILITIES AND NET ASSETS

Liabilities:
Accounts payable and accrued expenses $ 728,919

Total liabilities 728,919

Net assets:
Unrestricted 6,864,281

Total net assets 6,864,281

Total liabilities and net assets $ 7,593,200

See Accompanying Notes to Financial Statements

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THE PETCO FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Fiscal Year Ended April 30, 2011

Changes in unrestricted net assets:
Support and revenue:
Contributions from fundraising activities:
  Tree of Hope $4,025,370
  Spring a Pet 2,907,979
  Other contributions 2,039,463
  Operation Alteration 1,308,798
  Breeds in Need 913,088
  Guide Dogs 817,381
  Pet Cancer Awareness 674,961
  Petco Adoption Fund 644,378
  Managers' Choice 244,623
  Total contributions from fundraising activities 13,576,041

Special events:
  Revenue 1,638,672
  Expense (448,804)
  Net special event revenue 1,189,868

Interest income 8,100

Total unrestricted support and revenue 14,774,009

Expenditures:
  Donations 9,979,339
  Administration and other 1,035,119
  Fundraising 435,642
  Total expenditures 11,450,100

Increase in unrestricted net assets 3,323,909

Net assets, beginning of year 3,540,372

Net assets, end of year $6,864,281

See Accompanying Notes to Financial Statements
THE PETCO FOUNDATION
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended April 30, 2011

Cash flows from operating activities:
  Increase in net assets $ 3,323,909
  Adjustments to reconcile change in net assets
to net cash provided by operating activities:
    Increase in contributions receivable (453,738)
    Increase in other receivables (524,746)
    Increase in accounts payable and accrued expenses 492,929

  Net cash provided by operating activities 2,838,354

Net increase in cash and cash equivalents 2,838,354

Cash and cash equivalents, beginning of year 3,611,426

  Cash and cash equivalents, end of year $ 6,449,780

See Accompanying Notes to Financial Statements
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 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 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 year ended April 30, 2011 (fiscal year 2010) consisted of 52 weeks.

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.

Financial Reporting

The Foundation's net assets and its revenues, expenses, gains, and losses are reported based on the existence or absence of donor-imposed restrictions. This accounting method requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted be displayed in the statement of financial position and that the amounts of changes in each of those classes of net assets be displayed in the statement of activities.

Cash and Cash Equivalents

Cash equivalents represent all liquid investments with original maturities of three months or less and include money market funds.
2. Summary of Significant Accounting Policies, Continued

Contributions
U.S. generally accepted accounting principles require that the Foundation reports 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.

Estimates and Assumptions
The preparation of these financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information that is currently available and on other assumptions that are believed to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

Contributions Receivable
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, 2011.
2. Summary of Significant Accounting Policies, Continued

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 methods for tax and financial reporting.

U.S. generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Foundation in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation’s returns for the years ended May 1, 2010, May 2, 2009, and May 3, 2008, are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

Subsequent Events
The Foundation has evaluated subsequent events through August 1, 2011, 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.

3. Related Party Transactions

Included in contribution and other receivables is $678,274 due from PETCO at April 30, 2011.

Included in accounts payable and accrued expenses is $232,474 due to PETCO at April 30, 2011.

The Foundation reimburses PETCO under an agreement that expires May 5, 2012 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 cost of six employees who perform duties solely for the Foundation and 75% of the salary of the Executive Director. The cost for all of these expenses for the year ended April 30, 2011 was $1,543,810 of which $135,281 is included in accounts payable and accrued expenses at April 30, 2011.

As further described in Note 4, the Foundation received in-kind donations from PETCO totaling $244,623 during the year ended April 30, 2011.
4. **In-Kind Donations**

The Foundation received other goods and services used in operations which were recorded as contributions and expenses in the accompanying statement of activities at their estimated fair value of $244,623 for the year ended April 30, 2011.

5. **Commitments and Contingencies**

The Foundation has entered into the following commitments:

On May 14, 2010, the Foundation entered into a memorandum of understanding with Pets Are Wonderful Support of San Francisco (S.F. PAWS). Under the terms of the agreement, the Foundation is to make five annual gifts of $50,000 beginning in fiscal year 2010. These contributions are contingent upon S.F. PAWS fulfilling certain contractual obligations. The agreement expires May 14, 2014, unless terminated earlier by either party.

On May 21, 2010, the Foundation entered into a memorandum of understanding with San Diego Humane Society & SPCA (S.D. Society). Under the terms of the agreement, the Foundation is to make five annual gifts of $200,000, the first of which was paid during fiscal year 2009. These contributions are contingent upon the S.D. Society fulfilling certain contractual obligations. The agreement expires May 21, 2014, unless terminated earlier by either party.

On June 10, 2010, the Foundation entered into a memorandum of understanding with PAWS Chicago. Under the terms of the agreement, the Foundation is to make one gift of $75,000 in fiscal year 2010 and two additional gifts of $130,000 in fiscal years 2011 and 2012. These contributions are contingent upon Chicago PAWS fulfilling certain contractual obligations. The agreement expires June 10, 2012, unless terminated earlier by either party.

On August 4, 2010, the Foundation entered into a memorandum of understanding with Human-Animal Bond Research Initiative (HABRI). Under the terms of the agreement, the Foundation is to make three gifts in total of $167,000 upon completion of certain contractual milestones. The agreement expires August 4, 2012, unless terminated earlier by either party.
6. Concentration of Risks

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

Credit Risk
At April 30, 2011, the Company had $6,449,780 of cash and cash equivalents within one financial institution, a portion of which may be in excess of the federally insured limit. The Foundation has not experienced any such losses and believes it is not exposed to any significant credit risk on these cash deposits.