

THE PETCO FOUNDATION
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
For the Years Ended May 4, 2013 and April 28, 2012

THE PETCO FOUNDATION
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May 4, 2013 and April 28, 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Petco Foundation
San Diego, California

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 May 4, 2013 and April 28, 2012, 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 May 4, 2013 and April 28, 2012, 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 6, 2013

THE PETCO FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	May 4, 2013	April 28, 2012
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 7,446,396	8,011,074
Receivable from Petco Animal Supplies Stores, Inc. (Note 3)	1,100,031	608,803
Other receivables	26,597	146,086
Prepaid expenses	<u>103,605</u>	<u>-</u>
Total assets	<u>\$ 8,676,629</u>	<u>8,765,963</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 836,137	667,632
Due to Petco Animal Supplies Stores, Inc. (Note 3)	<u>292,188</u>	<u>117,686</u>
Total liabilities	<u>1,128,325</u>	<u>785,318</u>
Net assets:		
Unrestricted	<u>7,548,304</u>	<u>7,980,645</u>
Total net assets	<u>7,548,304</u>	<u>7,980,645</u>
Total liabilities and net assets	<u>\$ 8,676,629</u>	<u>8,765,963</u>

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	For the Years Ended	
	May 4, 2013	April 28, 2012
Changes in unrestricted net assets:		
Support and revenue:		
Contributions from fundraising activities (Note 5)	\$ 14,136,918	13,329,060
Contributions from individuals & corporations	5,115,684	2,359,119
Petco Animal Supplies Stores, Inc. in-kind contributions (Note 3)	362,104	309,804
Total contributions	19,614,706	15,997,983
Special Events:		
Revenue	1,090,254	1,304,380
Expense	(273,119)	(503,924)
Net special events revenue	817,135	800,456
Interest income	9,688	8,624
Total unrestricted support and revenue	20,441,529	16,807,063
Expenditures:		
Program grants	19,145,848	14,300,650
Administration and other	1,093,665	976,581
Fundraising	634,357	413,468
Total expenditures	20,873,870	15,690,699
Change in net assets	(432,341)	1,116,364
Net assets, beginning of year	7,980,645	6,864,281
Net assets, end of year	\$ 7,548,304	7,980,645

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENTS OF CASH FLOWS

	For the Years Ended	
	May 4, 2013	April 28, 2012
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (432,341)	1,116,364
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Increase (decrease) in receivable from Petco Animal Supplies Stores, Inc.	(491,228)	9,871
Decrease in other receivables	119,489	378,660
Increase in prepaid expense	(103,605)	-
Increase in accounts payable and accrued expenses Petco Animal Supplies Stores, Inc.	168,505	171,187
Increase (decrease) in due to Petco Animal Supplies Stores, Inc.	174,502	(114,788)
Net cash (used in) provided by operating activities	(564,678)	1,561,294
Net (decrease) increase in cash and cash equivalent	(564,678)	1,561,294
Cash and cash equivalents, beginning of year	8,011,074	6,449,780
Cash and cash equivalents, end of year	\$ 7,446,396	8,011,074

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 4, 2013 and April 28, 2012

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 years ended May 4, 2013 (fiscal year 2012) and April 28, 2012 (fiscal year 2011) consisted of 53 weeks and 52 weeks, respectively.

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.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 4, 2013 and April 28, 2012

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.

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. Actual results may differ from these estimates.

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 May 4, 2013.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 4, 2013 and April 28, 2012

2. Summary of Significant Accounting Policies, Continued

Reclassification

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation of the current-year financial statements.

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.

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.

Subsequent Events

The Foundation has evaluated subsequent events through September 6, 2013, 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
May 4, 2013 and April 28, 2012

3. Related Party Transactions

Receivable from Petco of \$1,100,031 and \$608,803 at May 4, 2013 and April 28, 2013, 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 May 4, 2013 and April 28, 2012, was \$1,019,837 and \$825,508, respectively.

Due to Petco of \$292,188 and \$117,686 at May 4, 2013 and April 28, 2012, respectively, represents reimbursable expenses covered under the Agreement in addition to other operating expenses.

As further described in Note 4, the Foundation received in-kind donations from Petco totaling \$362,104 and \$309,804, for the years ended May 4, 2013 and April 28, 2012, respectively.

Two directors of the Foundation also serve on boards of organizations which are recipients of program grants from the Foundation. Program grants paid to these organizations totaled \$537,603 and \$221,004 during the years ended May 4, 2013 and April 28, 2012, respectively. Additionally, as further discussed in Note 6, the Foundation has future commitments to these organizations totaling \$730,000 as of May 4, 2013, of which \$200,000 is currently due and is included in accounts payable and accrued expenses.

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 \$362,104 and \$309,804 for the years ended May 4, 2013 and April 28, 2012, respectively.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 4, 2013 and April 28, 2012

5. Contributions from Fundraising Activities

Contributions from fundraising activities consist of the following for the years ended:

	<u>May 4, 2013</u>	<u>April 28, 2012</u>
Fundraising activities:		
Tree of Hope	\$ 4,391,308	4,258,842
Spring a Pet	1,926,089	3,050,537
Operation Alteration	1,867,049	1,106,116
Pet Cancer Awareness	1,551,911	845,062
Guide Dogs	1,159,524	816,594
Breeds in Need	1,123,238	1,226,998
Petco Adoption Fund	503,989	675,149
Petco.com Donations	234,243	188,633
Making a Difference	207,018	207,109
Direct Mail	148,698	115,340
Photo Contest	144,308	-
Other fundraising activities	<u>879,543</u>	<u>838,680</u>
Total contributions from fundraising activities	<u>\$ 14,136,918</u>	<u>13,329,060</u>

6. Commitments and Contingencies

The Foundation has entered into the following commitments all of which are contingent upon the organizations fulfilling certain contractual obligations as described in the individual memorandums of understanding:

Organization	Expiration	Scheduled Gifts		Liability at May 4, 2013
		Year Ended		
		May 3, 2013	Thereafter	
Pets Are Wonderful Support of San Francisco	5/14/2014	\$ 50,000	\$ 50,000	\$ -
San Diego Humane Society & SPCA	5/21/2015	200,000	200,000	200,000
PAWS Chicago	6/10/2013	130,000	-	-
Prince William SPCA	7/1/2015	4,520	9,040	-
Arizona Animal Welfare League & SPCA	7/1/2015	50,000	50,000	-
Humane Society of Broward County, Inc.	12/31/2013	75,000	-	-
City of San Antonio	1/31/2022	100,000	-	-
Total		\$ 609,520	\$ 309,040	\$ 200,000

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 4, 2013 and April 28, 2012

7. Concentration of Risk

Contributions

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

Credit Risk

At May 4, 2013, the Foundation had \$7,446,396 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 believes it is not exposed to any significant credit risk on these cash deposits.