

**THE PETCO FOUNDATION**

**FINANCIAL STATEMENTS**  
**WITH INDEPENDENT AUDITORS' REPORT**

For the Years Ended May 3, 2014 and May 4, 2013

**THE PETCO FOUNDATION**  
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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 3, 2014 and May 4, 2013, 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 3, 2014 and May 4, 2013, 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 3, 2014

**THE PETCO FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	<u>May 3, 2014</u>	<u>May 4, 2013</u>
Cash and cash equivalents	\$ 12,273,632	7,446,396
Receivable from Petco Animal Supplies Stores, Inc. (Note 3)	1,280,279	1,100,031
Other receivables	434,726	26,597
Prepaid expenses	<u>7,350</u>	<u>103,605</u>
 Total assets	 <u>\$ 13,995,987</u>	 <u>8,676,629</u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable and accrued expenses	\$ 1,606,734	836,137
Due to Petco Animal Supplies Stores, Inc. (Note 3)	<u>176,404</u>	<u>292,188</u>
 Total liabilities	 <u>1,783,138</u>	 <u>1,128,325</u>
Net assets:		
Unrestricted	<u>12,212,849</u>	<u>7,548,304</u>
 Total net assets	 <u>12,212,849</u>	 <u>7,548,304</u>
 Total liabilities and net assets	 <u>\$ 13,995,987</u>	 <u>8,676,629</u>

See Accompanying Notes to Financial Statements

**THE PETCO FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

	For the Years Ended	
	May 3, 2014	May 4, 2013
Changes in unrestricted net assets:		
Support and revenue:		
Contributions from fundraising activities (Note 5)	\$ 13,013,551	14,136,918
Contributions from individuals & corporations Petco Animal Supplies Stores, Inc. in-kind contributions (Note 3)	6,782,973	5,115,684
	1,096,866	362,104
Total contributions	20,893,390	19,614,706
Special events:		
Revenue	2,209,767	1,090,254
Expense	(863,378)	(273,119)
Net special events revenue	1,346,389	817,135
Interest income	4,741	9,688
Total unrestricted support and revenue	22,244,520	20,441,529
Expenditures:		
Program grants	15,434,841	19,145,848
Administration and other	1,549,667	1,093,665
Fundraising	595,467	634,357
Total expenditures	17,579,975	20,873,870
Change in net assets	4,664,545	(432,341)
Net assets, beginning of year	7,548,304	7,980,645
Net assets, end of year	\$ 12,212,849	7,548,304

See Accompanying Notes to Financial Statements

**THE PETCO FOUNDATION**  
**STATEMENTS OF CASH FLOWS**

	For the Years Ended	
	May 3, 2014	May 4, 2013
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 4,664,545	(432,341)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Increase in receivable from		
Petco Animal Supplies Stores, Inc.	(180,248)	(491,228)
(Increase) decrease in other receivables	(408,129)	119,489
Decrease (increase) in prepaid expense	96,255	(103,605)
Increase in accounts payable and accrued expenses	770,597	168,505
(Decrease) increase in due to		
Petco Animal Supplies Stores, Inc.	(115,784)	174,502
Net cash provided by (used in) operating activities	4,827,236	(564,678)
Net increase (decrease) in cash and cash equivalents	4,827,236	(564,678)
Cash and cash equivalents, beginning of year	7,446,396	8,011,074
Cash and cash equivalents, end of year	\$ 12,273,632	7,446,396

See Accompanying Notes to Financial Statements

**THE PETCO FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
May 3, 2014 and May 4, 2013

**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 3, 2014 (fiscal year 2013) and May 4, 2013 (fiscal year 2012) consisted of 52 weeks and 53 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 3, 2014 and May 4, 2013

**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, and disclosure of contingent assets and liabilities 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 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.

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 3, 2014.

**THE PETCO FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
May 3, 2014 and May 4, 2013

**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 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 3, 2014, 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**

Receivable from Petco of \$1,280,279 and \$1,100,031 at May 3, 2014 and May 4, 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 PETCO FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
May 3, 2014 and May 4, 2013

**3. Related Party Transactions, Continued**

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 3, 2014 and May 4, 2013, was \$1,300,735 and \$1,019,837, respectively.

Due to Petco of \$176,404 and \$292,188 at May 3, 2014 and May 4, 2013, 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 \$1,096,866 and \$362,104, for the years ended May 3, 2014 and May 4, 2013, 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 \$674,950 and \$537,603 during the years ended May 3, 2014 and May 4, 2013, respectively.

**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 \$1,096,866 and \$362,104 for the years ended May 3, 2014 and May 4, 2013, respectively.

**THE PETCO FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
 May 3, 2014 and May 4, 2013

**5. Contributions from Fundraising Activities**

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

	<u>May 3, 2014</u>	<u>May 4, 2013</u>
Fundraising activities:		
Tree of Hope	\$ 4,323,564	4,391,308
Spring a Pet	2,059,611	1,926,089
Pet Cancer Awareness	1,543,979	1,551,911
Guide Dogs	1,409,481	1,159,524
Spay/Neuter	1,330,338	1,867,049
Breeds in Need	862,888	1,123,238
Petco Adoption Fund	540,642	503,989
Petco.com Donations	218,395	234,243
Making a Difference	183,449	207,018
Photo Contest	124,542	144,308
Direct Mail	107,300	148,698
Other fundraising activities	<u>309,362</u>	<u>879,543</u>
 Total contributions from fundraising activities	 \$ <u>13,013,551</u>	 <u>14,136,918</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:

<u>Organization</u>	<u>Expiration</u>	<u>Scheduled Gifts</u>		<u>Liability at May 3, 2014</u>
		<u>Year Ended</u>		
		<u>May 2, 2015</u>	<u>Thereafter</u>	
Prince William SPCA	7/1/2015	\$ 4,520	4,520	-
Arizona Animal Welfare League & SPCA	7/1/2015	50,000	-	-
City of San Antonio	1/31/2022	100,000	100,000	-
Total		<u>\$ 154,520</u>	<u>104,520</u>	<u>-</u>

**THE PETCO FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
May 3, 2014 and May 4, 2013

**7. Concentration of Risk**

Contributions

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

Credit Risk

At May 3, 2014, the Foundation had \$12,274,000 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.