

THE PETCO FOUNDATION

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

For the Years Ended May 2, 2015 and May 3, 2014

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 2, 2015 and May 3, 2014, 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 2, 2015 and May 3, 2014, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



September 28, 2015

THE PETCO FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	May 2, 2015	May 3, 2014
Cash and cash equivalents	\$ 12,746,126	12,273,632
Receivable from Petco Animal Supplies Stores, Inc. (Note 4)	1,817,620	1,280,279
Other receivables	119,091	434,726
Prepaid expenses	215,680	7,350
Long-term investments, at fair value (Note 3)	4,288,474	-
Total assets	\$ 19,186,991	13,995,987

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 321,103	1,606,734
Due to Petco Animal Supplies Stores, Inc. (Note 4)	283,351	176,404
Total liabilities	604,454	1,783,138
Net assets:		
Unrestricted	18,582,537	12,212,849
Total net assets	18,582,537	12,212,849
Total liabilities and net assets	\$ 19,186,991	13,995,987

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	For the Years Ended	
	May 2, 2015	May 3, 2014
Changes in unrestricted net assets:		
Support and revenue:		
Contributions from individuals and corporations (Note 6)	\$ 27,098,098	19,796,524
Petco Animal Supplies Stores, Inc. in-kind contributions (Note 4)	1,567,124	1,096,866
Total contributions	28,665,222	20,893,390
Special events:		
Revenue	994,937	2,209,767
Expense	(294,333)	(863,378)
Net special events revenue	700,604	1,346,389
Interest income	9,681	4,741
Net long-term investment return (Note 3)	288,474	-
Total unrestricted support and revenue	29,663,981	22,244,520
Expenditures:		
Program activities:		
Grants	20,785,336	15,434,841
Personnel	322,958	232,219
Other	33,640	36,815
Total program activities	21,141,934	15,703,875
Administration and other	1,136,989	860,849
Fundraising	1,015,370	1,015,251
Total expenditures	23,294,293	17,579,975
Change in net assets	6,369,688	4,664,545
Net assets, beginning of year	12,212,849	7,548,304
Net assets, end of year	\$ 18,582,537	12,212,849

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENTS OF CASH FLOWS

	For the Years Ended	
	May 2, 2015	May 3, 2014
Cash flows from operating activities:		
Increase in net assets	\$ 6,369,688	4,664,545
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net long-term investment return	(288,474)	-
Increase in receivable from		
Petco Animal Supplies Stores, Inc.	(537,341)	(180,248)
Decrease (increase) in other receivables	315,635	(408,129)
(Increase) decrease in prepaid expense	(208,330)	96,255
(Decrease) increase in accounts payable and accrued expenses	(1,285,631)	770,597
Increase (decrease) in due to		
Petco Animal Supplies Stores, Inc.	106,947	(115,784)
Net cash provided by operating activities	4,472,494	4,827,236
Cash flows from investing activities:		
Purchase of investments	(4,000,000)	-
Net cash used in investing activities	(4,000,000)	-
Net increase in cash and cash equivalents	472,494	4,827,236
Cash and cash equivalents, beginning of year	12,273,632	7,446,396
Cash and cash equivalents, end of year	\$ 12,746,126	12,273,632

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 2, 2015 and May 3, 2014

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 2, 2015 (fiscal year 2014) and May 3, 2014 (fiscal year 2013) each 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.

Reclassifications

The 2013 financial statements have been reclassified, where appropriate, to conform to classifications used in the 2014 financial statements.

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 2, 2015 and May 3, 2014

2. Summary of Significant Accounting Policies, Continued

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
May 2, 2015 and May 3, 2014

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 May 2, 2015 or May 3, 2014.

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
May 2, 2015 and May 3, 2014

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 28, 2015, 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 2, 2015 and May 3, 2014

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 May 2, 2015:

Equities:

Technology and communications	\$ 789,543
Financial	664,735
Services	522,049
Basic materials	478,227
Consumer goods	368,453
Industrial goods	<u>212,130</u>
Total equities	3,035,137
Certificates of deposits	955,308
Bond funds	152,122
Interest bearing cash	<u>145,907</u>
Total investments, at fair value	\$ <u><u>4,288,474</u></u>

Net investment return is as follows for the year ended May 2, 2015:

Dividend and interest income	\$ 48,853
Realized and unrealized gains	277,324
Investment fees	<u>(37,703)</u>
Total net investment return	\$ <u><u>288,474</u></u>

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 2, 2015 and May 3, 2014

4. Related Party Transactions

Receivable from Petco of \$1,817,620 and \$1,280,279 at May 2, 2015 and May 3, 2014, 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 2, 2015 and May 3, 2014, was \$2,456,028 and \$1,852,413, respectively.

Due to Petco of \$283,351 and \$176,404 at May 2, 2015 and May 3, 2014, 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 \$1,567,124 and \$1,096,866, for the years ended May 2, 2015 and May 3, 2014, respectively.

Four 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 \$334,299 and \$674,950 during the years ended May 2, 2015 and May 3, 2014, respectively. Additionally, as further discussed in Note 7, the Foundation has future commitments to one of these organizations totaling \$340,000 as of May 2, 2015.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 2, 2015 and May 3, 2014

5. 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 \$1,567,124 and \$1,096,866 for the years ended May 2, 2015 and May 3, 2014, respectively.

6. Contributions from Individuals and Corporations

Contributions from individuals and contributions consist of the following for the years ended:

	<u>May 2, 2015</u>	<u>May 3, 2014</u>
Non-campaign point-of-sale contributions	\$ 8,746,019	6,301,746
Tree of Hope	6,134,745	4,323,564
Spring a Pet	2,421,386	2,059,611
Pet Cancer Awareness	2,207,790	1,543,979
Helping Heroes	2,091,242	1,409,481
Together We Can	2,016,734	862,888
Be A Lifesaver	1,811,673	1,330,338
Calendars	665,315	481,227
Petco Adoption Fund	507,740	540,642
Petco.com contributions	208,385	218,395
Making a Difference	157,005	183,449
Direct Mail	48,085	107,300
Photo Contest	-	124,542
Other fundraising activities	<u>81,979</u>	<u>309,362</u>
 Total contributions from individuals and corporations	 \$ <u>27,098,098</u>	 <u>19,796,524</u>

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 2, 2015 and May 3, 2014

7. 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 or grant agreements:

Organization	Expiration	Scheduled Gifts		Liability at May 2, 2015
		Year Ended April 30, 2016	Thereafter	
Humane America and Animal Foundation (Adopt-A-Pet)	5/1/2017	\$ 750,000	750,000	-
National Disaster Search Dog Foundation	5/1/2019	500,000	1,500,000	-
Animal Care and Control Team of Philadelphia	5/1/2017	325,000	75,000	-
San Antonio Pets Alive	5/1/2017	300,000	300,000	-
Hawaiian Humane Society	3/31/2019	225,000	675,000	-
PAWS Chicago	3/31/2017	170,000	170,000	-
Mohawk & Hudson Humane Society	5/1/2016	125,000	-	-
San Antonio Animal Control	1/31/2022	200,000	-	-
Austin Pets Alive	5/1/2016	100,000	-	-
Humane Society of Broward County	10/15/2016	100,000	-	-
Michigan Humane Society	3/31/2019	70,000	210,000	-
Oneida Human Society	4/30/2016	55,000	-	-
Humane Society for Southwest Washington	5/1/2017	50,000	50,000	-
Alliance for Contraception in Cats and Dogs	4/30/2017	25,000	25,000	-
Prince William SPCA	7/1/2015	4,560	-	-
Total		\$ 2,999,560	3,755,000	-

8. Concentration of Risk

Contributions

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

Credit Risk

At May 2, 2015, the Foundation had \$12,746,000 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.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 2, 2015 and May 3, 2014

8. Concentration of Risk, Continued

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.