

THE PETCO FOUNDATION
FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

For the years ended May 4, 2019 and May 5, 2018

THE PETCO FOUNDATION
TABLE OF CONTENTS
May 4, 2019 and May 5, 2018

	<u>Page</u>
Independent Auditors' Report.....	1
<u>Financial Statements:</u>	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8

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 May 4, 2019 and May 5, 2018, and the related statements of activities and changes in net assets, functional expenses, 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, 2019 and May 5, 2018, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the Foundation adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended May 4, 2019. The requirements of ASU 2016-14 have been retrospectively applied to all periods presented. Our opinion is not modified with respect to this matter.

RBTK, LLP

September 16, 2019

THE PETCO FOUNDATION
STATEMENTS OF FINANCIAL POSITION
May 4, 2019 and May 5, 2018

ASSETS

	May 4, 2019	May 5, 2018
Cash and cash equivalents	\$ 2,834,261	3,446,229
Receivable from Petco Animal Supplies Stores, Inc. (Note 6)	2,633,868	2,679,546
Short-term investments, at fair value (Note 4)	342,192	-
Other receivables	820,430	198,018
Prepaid expenses	269,871	417,000
Long-term investments, at fair value (Note 4)	8,286,744	7,486,971
Mission related investment (Note 5)	2,397,054	2,677,443
 Total assets	 <u>\$ 17,584,420</u>	 <u>16,905,207</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 899,298	351,984
Mission related investment commitment (Note 5)	-	1,500,000
Deferred revenue	-	78,975
Due to Petco Animal Supplies Stores, Inc. (Note 6)	363,707	334,757
 Total liabilities	 <u>1,263,005</u>	 <u>2,265,716</u>
Net assets:		
Net assets without donor restrictions (Note 9)	16,121,415	14,639,491
Net assets with donor restrictions (Note 9)	200,000	-
 Total net assets	 <u>16,321,415</u>	 <u>14,639,491</u>
 Total liabilities and net assets	 <u>\$ 17,584,420</u>	 <u>16,905,207</u>

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended May 4, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Contributions from individuals and corporations	\$ 33,825,156	200,000	34,025,156
Special events:			
Revenue	1,584,635	-	1,584,635
Expense	<u>(764,087)</u>	<u>-</u>	<u>(764,087)</u>
Net special events revenue	<u>820,548</u>	<u>-</u>	<u>820,548</u>
Merchandise:			
Revenue	950,543	-	950,543
Expense	<u>(131,100)</u>	<u>-</u>	<u>(131,100)</u>
Net merchandise revenue	<u>819,443</u>	<u>-</u>	<u>819,443</u>
Royalty revenue	545,957	-	545,957
Interest income	31,720	-	31,720
Net investment return	806,992	-	806,992
Loss from mission related investment (Note 5)	<u>(280,389)</u>	<u>-</u>	<u>(280,389)</u>
Total support and revenue	<u>36,569,427</u>	<u>200,000</u>	<u>36,769,427</u>
Expenditures:			
Program activities	<u>32,761,591</u>	<u>-</u>	<u>32,761,591</u>
Supporting activities:			
Fundraising	1,694,500	-	1,694,500
Management and general	<u>631,412</u>	<u>-</u>	<u>631,412</u>
Total supporting activities	<u>2,325,912</u>	<u>-</u>	<u>2,325,912</u>
Total expenditures	<u>35,087,503</u>	<u>-</u>	<u>35,087,503</u>
Change in net assets	1,481,924	200,000	1,681,924
Net assets, beginning of year	<u>14,639,491</u>	<u>-</u>	<u>14,639,491</u>
Net assets, end of year	<u>\$ 16,121,415</u>	<u>200,000</u>	<u>16,321,415</u>

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended May 5, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Contributions from individuals and corporations	\$ 34,583,115	-	34,583,115
Special events:			
Revenue	1,758,809	-	1,758,809
Expense	<u>(958,997)</u>	<u>-</u>	<u>(958,997)</u>
Net special events revenue	<u>799,812</u>	<u>-</u>	<u>799,812</u>
Merchandise:			
Revenue	1,354,634	-	1,354,634
Expense	<u>(169,513)</u>	<u>-</u>	<u>(169,513)</u>
Net merchandise revenue	<u>1,185,121</u>	<u>-</u>	<u>1,185,121</u>
Interest income	21,916	-	21,916
Net investment return	655,958	-	655,958
Loss from mission related investment (Note 5)	<u>(322,557)</u>	<u>-</u>	<u>(322,557)</u>
Total support and revenue	<u>36,923,365</u>	<u>-</u>	<u>36,923,365</u>
Expenditures:			
Program activities	<u>31,864,066</u>	<u>-</u>	<u>31,864,066</u>
Supporting activities:			
Fundraising	1,734,764	-	1,734,764
Management and general	<u>833,774</u>	<u>-</u>	<u>833,774</u>
Total supporting activities	<u>2,568,538</u>	<u>-</u>	<u>2,568,538</u>
Total expenditures	<u>34,432,604</u>	<u>-</u>	<u>34,432,604</u>
Change in net assets	2,490,761	-	2,490,761
Net assets, beginning of year	<u>12,148,730</u>	<u>-</u>	<u>12,148,730</u>
Net assets, end of year	<u>\$ 14,639,491</u>	<u>-</u>	<u>14,639,491</u>

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended May 4, 2019 and May 5, 2018

	May 4, 2019				
	Program Activities	Supporting Activities			Total
	Lifesaving	Fund Raising	General and Administrative	Total Supporting Activities	
Grants	\$ 30,564,194	-	-	-	30,564,194
Management services	1,080,821	854,170	455,827	1,309,997	2,390,818
Marketing and promotional	821,147	693,064	4,357	697,421	1,518,568
Travel and meals	179,303	88,317	28,753	117,070	296,373
Software	63,655	23,944	2,961	26,905	90,560
Legal fees	-	-	58,419	58,419	58,419
Other professional fees	23,838	17,169	7	17,176	41,014
Financial fees	-	-	38,000	38,000	38,000
Supplies and equipment	5,903	2,936	25,434	28,370	34,273
Postage	11,938	6,785	3,791	10,576	22,514
Printing	9,896	2,420	3,423	5,843	15,739
Bank and credit card fees	-	5,095	1,393	6,488	6,488
Licenses and registration	-	-	5,685	5,685	5,685
Other	896	600	3,362	3,962	4,858
Total year ended May 4, 2019	\$ 32,761,591	1,694,500	631,412	2,325,912	35,087,503

	May 5, 2018				
	Program Activities	Supporting Activities			Total
	Lifesaving	Fund Raising	General and Administrative	Total Supporting Activities	
Grants	\$ 30,114,038	-	-	-	30,114,038
Management services	909,425	904,761	402,246	1,307,007	2,216,432
Marketing and promotional	519,731	593,668	201,100	794,768	1,314,499
Travel and meals	155,647	95,637	40,945	136,582	292,229
Software	76,237	32,494	2,265	34,759	110,996
Legal fees	-	-	106,133	106,133	106,133
Other professional fees	15,647	41,072	-	41,072	56,719
Financial fees	-	-	35,500	35,500	35,500
Supplies and equipment	9,156	13,816	8,994	22,810	31,966
Postage	34,819	20,717	4,328	25,045	59,864
Printing	29,332	20,679	4,297	24,976	54,308
Bank and credit card fees	-	11,922	2,466	14,388	14,388
Licenses and registration	-	-	7,133	7,133	7,133
Other	32	-	18,367	18,367	18,399
Total year ended May 5, 2018	\$ 31,864,064	1,734,766	833,774	2,568,540	34,432,604

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended May 4, 2019 and May 5, 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,681,924	2,490,761
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net long-term investment return	(806,992)	(655,958)
Loss from mission related investment	280,389	322,557
Donated investments	(334,973)	-
Decrease (increase) in receivable from Petco Animal Supplies Stores, Inc.	45,678	(328,817)
Increase in other receivables	(622,412)	(43,560)
Decrease in prepaid expense	147,129	62,609
Increase in accounts payable and accrued expenses	547,314	168,307
Decrease in deferred revenue	(78,975)	(236,712)
Increase in due to Petco Animal Supplies Stores, Inc.	<u>28,950</u>	<u>43,163</u>
Net cash provided by operating activities	<u>888,032</u>	<u>1,822,350</u>
Cash flows from investing activities:		
Purchase of investments, net	-	(1,951,865)
Purchase of mission related investment	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Net cash used in investing activities	<u>(1,500,000)</u>	<u>(3,451,865)</u>
Net decrease in cash and cash equivalents	(611,968)	(1,629,515)
Cash and cash equivalents, beginning of year	<u>3,446,229</u>	<u>5,075,744</u>
Cash and cash equivalents, end of year	<u>\$ 2,834,261</u>	<u>3,446,229</u>
Supplemental disclosures:		
Interest paid	<u>\$ -</u>	<u>-</u>
Mission related investment commitment	<u>\$ -</u>	<u>1,500,000</u>
Income taxes paid	<u>\$ -</u>	<u>-</u>

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 4, 2019 and May 5, 2018

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 animals 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 generally 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 generally ending on the Saturday closest to April 30 of the following year. The fiscal years ended May 4, 2019 (fiscal year 2018) and May 5, 2018 (fiscal year 2017) 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.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 4, 2019 and May 5, 2018

2. Summary of Significant Accounting Policies, Continued

Net Assets

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Foundation's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes.

Other Receivables

Other receivables consist of event sponsorships, royalties, and contributions received via mobile and online fundraising solutions and are stated at the amount management expects to collect. Other receivables are reviewed for collectability and reserves for uncollectible accounts are recorded based on established policies. Management believes that all other receivables are fully collectible within one year and no allowance for doubtful accounts was necessary at May 4, 2019 or May 5, 2018.

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:

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 4, 2019 and May 5, 2018

2. Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

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 4.

Equity Method Investments

If the Foundation is not required to consolidate its investment in another entity, the Foundation uses the equity method of accounting when the Foundation can exercise significant influence over the other entity and holds common stock and/or in-substance common stock of the other entity. Under the equity method, investments are carried at cost, plus or minus the Foundation's equity in the increases and decreases in the investee's net assets after the date of acquisition and certain other adjustments. The Foundation's share of the net income or loss of the investee is included as income (loss) from the equity method investments on the Foundation's statements of activities and changes in net assets. Dividends received from the investee reduce the carrying amount of the investment. Investments accounted for under this method include the Foundation's mission related investment described in Note 5.

Royalty Revenue

Revenue is recognized when earned and consists primarily of royalty income earned by the Foundation from non-related parties. These royalties include funds raised for the Foundation by the sale of merchandise.

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.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 4, 2019 and May 5, 2018

2. Summary of Significant Accounting Policies, Continued

Advertising

The Company expenses all advertising costs as incurred. The primary purpose of the Foundation's advertising is to promote and encourage the adoption of pets and to highlight the Foundation's grant investments and the work being done by animal welfare organizations throughout the country to save lives. Advertising expense was \$406,383 and \$482,706, for the years ended May 4, 2019 and May 5, 2018, respectively.

Deferred Revenue

Revenues received in advance of a special event are deferred. The revenues are recognized when the event occurs.

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, 2019 or May 5, 2018.

Functional allocation of expenses

The Statements of Activities reports expenses by both natural and functional classification. Certain categories of expenses are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs are directly applied to the related program and supporting activity category when identified and possible. General operating costs across nearly all natural categories are allocated on the basis of estimates of time and effort.

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.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 4, 2019 and May 5, 2018

2. Summary of Significant Accounting Policies, Continued

Estimates and Assumptions

The preparation of the 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 and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation. It is reasonably possible that changes may occur in the near term that would affect management's estimates with respect to the fair value of donated goods and services, the fair value of investments, impairment of equity method investments, allowance for doubtful accounts and accrued expenses.

New Accounting Pronouncement

Effective May 6, 2018, the Foundation adopted Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. Other than requiring the addition of a schedule of functional expenses and a change to the disclosures, the adoption of this standard did not have a material impact on the financial statements.

Reclassification

The 2017 financial statements have been reclassified, where appropriate, to conform to classifications used in the 2018 financial statements.

Subsequent Events

The Foundation has evaluated subsequent events through September 16, 2019, 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, 2019 and May 5, 2018

3. Information Regarding Liquidity and Availability

The following table reflects the Organization's financial assets as of May 4, 2019 and May 5, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date. Amounts not available to meet general expenditures within one year include the Foundations mission related investment (Note 5), net assets with donor restrictions totaling \$200,000 at May 4, 2019, and board designated funds totaling \$980,831 and \$239,283 at May 4, 2019 and May 5, 2018, respectively. As part of its liquidity plan, excess cash is invested in interest bearing cash, certificates of deposit, equities, US Treasuries, and bond and equity funds which are not subject to any constraints limiting the Foundation's ability to respond quickly to change in market conditions. The Foundation's goal is generally to maintain financial assets to meet 90 days of operating expenditures.

	<u>May 4, 2019</u>	<u>May 5, 2018</u>
Cash and cash equivalents	\$ 2,834,261	3,446,229
Receivable from Petco	2,633,868	2,679,546
Other receivables	820,430	198,018
Investments (level 1)	<u>8,628,936</u>	<u>7,486,971</u>
 Total financial assets	 14,917,495	 13,810,764
Less amounts not available to be used within one year:		
Donor restricted	(200,000)	-
Board-designated	<u>(980,831)</u>	<u>(239,283)</u>
 Total assets available for use within one year	 \$ <u><u>13,736,664</u></u>	 <u><u>13,571,481</u></u>

4. 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.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 4, 2019 and May 5, 2018

4. Investments, at Fair Value, Continued

Investments, at fair value, consist of the following at:

	<u>May 4, 2019</u>	<u>May 5, 2018</u>
Equities:		
Financial	\$ 1,258,678	1,249,494
Technology and communications	1,176,638	1,307,990
Consumer goods	1,102,975	1,060,204
Services	563,645	936,173
Industrial goods	172,460	327,534
Healthcare	<u>-</u>	<u>233,165</u>
Total equities	4,274,396	5,114,560
Certificates of deposit	1,817,777	2,099,715
Equity funds	1,281,243	-
US Treasuries	703,241	-
Bond funds	412,185	236,752
Interest bearing cash	<u>140,094</u>	<u>35,944</u>
Total investments, at fair value	\$ <u>8,628,936</u>	<u>7,486,971</u>

5. Mission Related Investment

On July 3, 2017, the Foundation entered into an agreement to make a mission related investment in Finding Rover, Inc., a privately held corporation, representing a 24% ownership interest. The Petco Foundation invested in Finding Rover because of its goal to create a national lost and found database which utilizes pet facial recognition technology to help reunite lost pets with their owners. Payments of the purchase price were paid in two \$1,500,000 installments in July 2017 and August 2018. The mission related investment (MRI) is accounted for under the equity method.

The Company's MRI consists of the following at May 4, 2019 and May 5, 2018:

<u>Investee</u>	<u>Investment Type</u>	<u>Owner Type</u>	<u>Ownership</u>
Finding Rover, Inc.	C-Corporation	Preferred Stockholder	24%

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 4, 2019 and May 5, 2018

5. Mission Related Investment, Continued

A summary of the financial information of the MRI as of May 4, 2019 and for the year then ended, is as follows:

Cash	\$ 920,401
Other assets	<u>1,433,438</u>
Total assets	<u>2,353,839</u>
Less: accounts payable	<u>5,374</u>
Net assets	\$ <u>2,348,465</u>
Net loss	\$ <u>(1,168,285)</u>
Foundation's interest:	
Balance as of May 5, 2018	\$ 2,677,443
Share of net loss	<u>(280,389)</u>
Total MRI	\$ <u>2,397,054</u>

A summary of the financial information of the MRI as of May 5, 2018 and the period of ownership then ended, is as follows:

Cash	\$ 608,538
Other assets	<u>1,235,055</u>
Total assets	<u>1,843,593</u>
Less: accounts payable	<u>2,687</u>
Net assets	\$ <u>1,840,906</u>
Net loss	\$ <u>(1,343,989)</u>
Foundation's interest:	
Original interest	\$ 3,000,000
Share of net loss	<u>(322,557)</u>
Total MRI	\$ <u>2,677,443</u>

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 4, 2019 and May 5, 2018

6. Related Party Transactions

Included in special events revenue and contributions from individuals and corporations are Petco contributions of \$307,750 and \$410,908 for the years ended May 4, 2019 and May 5, 2018, respectively.

Receivable from Petco of \$2,633,868 and \$2,679,546 at May 4, 2019 and May 5, 2018, 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 for administrative services provided. In addition, the Foundation reimburses Petco for the full cost of all employees who perform duties solely for the Foundation with the exception of the Executive Director. For the Executive Director, the Foundation reimburses 75% of the cost of base salary and 100% of bonus and other costs. The cost for all of these expenses for the years ended May 4, 2019 and May 5, 2018, was \$3,259,536 and \$2,479,334, respectively.

Due to Petco of \$363,707 and \$334,757 at May 4, 2019 and May 5, 2018, respectively, represents reimbursable expenses covered under the Agreement in addition to other operating expenses.

Five members of the Foundation's Board of Directors also serve on boards of organizations which are recipients of program grants from the Foundation. Grants paid to these organizations totaled \$308,230 and \$511,378 during the years ended May 4, 2019 and May 5, 2018, respectively. Additionally, as further described in Note 8, the Foundation has future commitments to one of these organizations totaling \$50,000 as of May 4, 2019. In accordance with the Foundation's conflict of interest policy, such members abstain from votes pertaining to such organization grants.

7. Joint Costs

The Foundation conducts activities that include fundraising appeals as well as program and management and general components. These activities include travel, marketing, grant management services and other constituent relationship activities for both fiscal years 2018 and 2017. The costs of conducting these joint activities which meet the purpose, audience, and content of FASB Accounting Standards Codification 958-720 were \$2,931,063 and \$2,719,560 for the years ended May 4, 2019 and May 5, 2018, respectively. They were comprised of the following for the years ended:

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 4, 2019 and May 5, 2018

7. Joint Costs, Continued

	May 4, 2019	May 5, 2018
Program	\$ 1,363,251	1,181,132
Fundraising	1,078,156	1,094,549
Management and general	489,656	443,879
Total	\$ 2,931,063	2,719,560

8. Commitments and Contingencies

The Foundation funds effective and productive organizations and recognizes that for these organizations to be strategic in the pursuit of their mission, reliable funding is essential. The Foundation's funding strategy includes installment grant investments to organizations making a significant lifesaving impact for the animals to provide them with the security that enables innovation and sustainability. The installment grant investments are contingent upon the organizations fulfilling certain contractual obligations as described in the individual grant agreements.

The future commitments under all grant agreements are as follows at May 4, 2019:

2020	\$ 8,135,000
2021	2,815,000
2022	590,000
2023	500,000
	\$ 12,040,000

As of May 5, 2018, future commitments under all grants agreements totaled \$9,578,000.

9. Net Assets

Net assets with donor restrictions were as follows for the years ended May 4, 2019 and May 5, 2018:

	May 4, 2019	May 5, 2018
Specific purpose:		
Geographic area	\$ 200,000	-
Total	\$ 200,000	-

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 4, 2019 and May 5, 2018

9. Net Assets, Continued

Net assets without donor restrictions were as follows for the years ended May 4, 2019 and May 5, 2018:

	<u>May 4, 2019</u>	<u>May 5, 2018</u>
Undesignated	\$ 15,590,584	14,400,208
Board-designated	<u>630,831</u>	<u>239,283</u>
Total	<u>\$ 16,121,415</u>	<u>14,639,491</u>

There were no net assets released from restricted net assets during the years ended May 4, 2019 or May 5, 2018.

10. Concentration of Risk

Contributions

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

Credit Risk

At May 4, 2019, the Foundation had approximately \$2,834,000 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.