

THE PETCO FOUNDATION

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT**

For the Years Ended May 2, 2020 and May 4, 2019

THE PETCO FOUNDATION
TABLE OF CONTENTS
May 2, 2020 and May 4, 2019

	<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.....	8
Notes to Financial Statements.....	9

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 2, 2020 and May 4, 2019, 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 2, 2020 and May 4, 2019, 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.

RBTK, LLP

September 10, 2020

THE PETCO FOUNDATION
STATEMENTS OF FINANCIAL POSITION
May 2, 2020 and May 4, 2019

ASSETS

	May 4, 2020	May 4, 2019
Cash and cash equivalents	\$ 7,101,589	2,834,261
Receivable from Petco Animal Supplies Stores, Inc. (Note 6)	2,258,610	2,633,868
Short-term investments, at fair value (Note 4)	-	342,192
Other receivables	698,002	820,430
Prepaid expenses	167,006	269,871
Long-term investments, at fair value (Note 4)	8,231,713	8,286,744
Mission related investment (Note 5)	1,278,485	2,397,054
	<u>19,735,405</u>	<u>17,584,420</u>
Total assets	\$ <u>19,735,405</u>	<u>17,584,420</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 139,330	899,298
Deferred revenue	400,000	-
Due to Petco Animal Supplies Stores, Inc. (Note 6)	610,087	363,707
	<u>1,149,417</u>	<u>1,263,005</u>
Total liabilities	1,149,417	1,263,005
Net assets:		
Net assets without donor restrictions (Note 9)	18,335,988	16,121,415
Net assets with donor restrictions (Note 9)	250,000	200,000
	<u>18,585,988</u>	<u>16,321,415</u>
Total net assets	18,585,988	16,321,415
Total liabilities and net assets	\$ <u>19,735,405</u>	<u>17,584,420</u>

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended May 2, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Contributions from individuals and corporations	\$ 32,864,767	250,000	33,114,767
Special events:			
Revenue	1,523,450	-	1,523,450
Expense	<u>(795,243)</u>	<u>-</u>	<u>(795,243)</u>
Net special events revenue	<u>728,207</u>	<u>-</u>	<u>728,207</u>
Merchandise:			
Revenue	18,424	-	18,424
Expense	<u>-</u>	<u>-</u>	<u>-</u>
Net merchandise revenue	<u>18,424</u>	<u>-</u>	<u>18,424</u>
Royalty revenue	1,478,878	-	1,478,878
Interest income	27,879	-	27,879
Net investment loss	(59,078)	-	(59,078)
Loss from mission related investment (Note 5)	(1,118,569)	-	(1,118,569)
Net assets released from restrictions	<u>200,000</u>	<u>(200,000)</u>	<u>-</u>
Total support and revenue	<u>34,140,508</u>	<u>50,000</u>	<u>34,190,508</u>
Expenditures:			
Program activities	<u>29,334,120</u>	<u>-</u>	<u>29,334,120</u>
Supporting activities:			
Fundraising	1,936,277	-	1,936,277
Management and general	<u>655,538</u>	<u>-</u>	<u>655,538</u>
Total supporting activities	<u>2,591,815</u>	<u>-</u>	<u>2,591,815</u>
Total expenditures	<u>31,925,935</u>	<u>-</u>	<u>31,925,935</u>
Change in net assets	2,214,573	50,000	2,264,573
Net assets, beginning of year	<u>16,121,415</u>	<u>200,000</u>	<u>16,321,415</u>
Net assets, end of year	<u>\$ 18,335,988</u>	<u>250,000</u>	<u>18,585,988</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
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended May 4, 2019

	<u>Program Activities</u>	<u>Supporting Activities</u>			<u>Total</u>	
	<u>Lifesaving</u>	<u>Fund Raising</u>	<u>General and Administrative</u>			<u>Total Supporting Activities</u>
Grants	\$ 27,426,074	-	-	-	27,426,074	
Management services	984,785	787,463	434,324	1,221,787	2,206,572	
Marketing and promotional	546,344	1,003,397	1,778	1,005,175	1,551,519	
Travel and meals	182,930	97,827	26,157	123,984	306,914	
Legal fees	-	-	109,857	109,857	109,857	
Software	59,013	15,156	5,183	20,339	79,352	
Supplies and equipment	48,156	7,366	8,250	15,616	63,772	
Postage	31,840	9,510	4,028	13,538	45,378	
Financial fees	-	-	40,250	40,250	40,250	
Other professional fees	25,982	1,408	11,136	12,544	38,526	
Printing	28,996	6,325	466	6,791	35,787	
Bank and credit card fees	-	7,825	2,016	9,841	9,841	
Licenses and registration	-	-	6,227	6,227	6,227	
Other	-	-	5,866	5,866	5,866	
Total expenses included in Expenditures on the Statement of Activities	29,334,120	1,936,277	655,538	2,591,815	31,925,935	
Cost of direct benefit to donors included in Support and Revenue on the Statement of Activities	-	795,243	-	795,243	795,243	
Total expenses by function	\$ 29,334,120	2,731,520	655,538	3,387,058	32,721,178	

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended 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
Legal fees	-	-	58,419	58,419	58,419
Software	63,655	23,944	2,961	26,905	90,560
Supplies and equipment	5,903	2,936	25,434	28,370	34,273
Postage	11,938	6,785	3,791	10,576	22,514
Financial fees	-	-	38,000	38,000	38,000
Other professional fees	23,838	17,169	7	17,176	41,014
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 expenses included in Expenditures on the Statement of Activities	32,761,591	1,694,500	631,412	2,325,912	35,087,503
Cost of direct benefit to donors included in Support and Revenue on the Statement of Activities	-	764,087	-	764,087	764,087
Total expenses by function	\$ 32,761,591	2,458,587	631,412	3,089,999	35,851,590

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended May 2, 2020 and May 4, 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 2,264,573	1,681,924
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net long-term investment loss (return)	59,078	(806,992)
Loss from mission related investment	1,118,569	280,389
Donated investments	-	(334,973)
Decrease in receivable from Petco Animal Supplies Stores, Inc.	375,258	45,678
Decrease (increase) in other receivables	122,428	(622,412)
Decrease in prepaid expense	102,865	147,129
(Decrease) increase in accounts payable and accrued expenses	(759,968)	547,314
Increase (decrease) in deferred revenue	400,000	(78,975)
Increase in due to Petco Animal Supplies Stores, Inc.	246,380	28,950
Net cash provided by operating activities	3,929,183	888,032
Cash flows from investing activities:		
Donated investments, net	338,145	-
Purchase of mission related investment	-	(1,500,000)
Net cash provided by (used in) investing activities	338,145	(1,500,000)
Net increase (decrease) in cash and cash equivalents	4,267,328	(611,968)
Cash and cash equivalents, beginning of year	2,834,261	3,446,229
Cash and cash equivalents, end of year	\$ 7,101,589	2,834,261
Supplemental disclosures:		
Interest paid	\$ -	-
Income taxes paid	\$ -	-

See Accompanying Notes to Financial Statements

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS
May 2, 2020 and May 4, 2019

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 2, 2020 (fiscal year 2019) and May 4, 2019 (fiscal year 2018) 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.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 2, 2020 and May 4, 2019

2. Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update, along with ASU 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Consideration (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customer (Topic 606), Narrow-Scope Improvements and Practical Expedients*, establishes a comprehensive revenue recognition standard. The updates require that revenue should be recognized to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. Additional disclosure is also required to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation adopted these updates (collectively “ASC 606”) on May 5, 2019 under the modified retrospective method. This initial application was applied to all contracts as of May 2, 2020.

The Foundation opted to apply the practical expedient which allows for application of the guidance to a portfolio of contracts (or performance obligations) with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts (or performance obligations) within the portfolio. An analysis was performed of the various provisions of this standard and no significant changes resulted in the way the Foundation recognizes revenue; however, the presentation and disclosures of revenue has been enhanced. As part of the adoption of ASC 606, the Foundation elected the practical expedient not to disclose the transaction price allocated to unsatisfied or partially unsatisfied performance obligations as of the end of the reporting period when the performance obligations relate to contracts with an expected duration of less than one year. The timing and amount of revenue recognized by the Foundation in the financial statements was not materially impacted by the adoption of ASC 606.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. ASU 2018-08 provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 2, 2020 and May 4, 2019

2. Summary of Significant Accounting Policies, Continued

New Accounting Pronouncements, Continued

transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. ASU 2018-08 will assist in the determination of the nature of the transaction which will then govern the revenue and expense recognition methodology and timing of the transaction. The Foundation adopted ASU 2018-08 effective May 5, 2019 under the modified prospective basis. The adoption of this update did not materially impact the financial statements.

Contribution Revenue

Contributions are recognized in the period received. Contributions received are considered to be available for use unless specifically restricted by the donor. Amounts received that are designated for a future period, or are restricted by the donor for specific purposes are reported as contributions with donor restrictions. These contributions also increase net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets are released from restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contributions is received are recognized as contributions without donor 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 2, 2020 or May 4, 2019.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 2, 2020 and May 4, 2019

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 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. The Foundation reviews these investments annually for impairment. Investments accounted for under this method include the Foundation's mission related investment described in Note 5.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 2, 2020 and May 4, 2019

2. Summary of Significant Accounting Policies, Continued

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. These contracts may dictate that the royalties be used for a specific purpose. Such royalties are treated as net assets without donor restrictions but designated by contract.

Royalty revenues are recognized at a point in time as the quarterly sales of the unrelated party are reported to the Foundation. The Foundation's name, logo, and other distinguishing marks are licensed to a non-related merchandiser for use in the sale of products.

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.

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 \$408,776 and \$406,383, for the years ended May 2, 2020 and May 4, 2019, 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 2, 2020 or May 4, 2019.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
May 2, 2020 and May 4, 2019

2. Summary of Significant Accounting Policies, Continued

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.

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.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 2, 2020 and May 4, 2019

2. Summary of Significant Accounting Policies, Continued

Subsequent Events

The Foundation has evaluated subsequent events through September 10, 2020, 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, other than as described in Note 5.

3. Information Regarding Liquidity and Availability

The following table reflects the Organization's financial assets as of May 2, 2020 and May 4, 2019, 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 \$250,000 and \$200,000 at May 2, 2020 and May 4, 2019, respectively, designated by contract funds totaling \$19,750 at May 2, 2020, board designated funds totaling \$1,065,923 and \$980,831 at May 2, 2020 and May 4, 2019, respectively, and deferred revenue totaling \$400,000 at May 2, 2020. 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 2, 2020</u>	<u>May 4, 2019</u>
Cash and cash equivalents	\$ 7,101,589	2,834,261
Receivable from Petco	2,258,610	2,633,868
Other receivables	698,002	820,430
Investments (level 1)	<u>8,231,713</u>	<u>8,628,936</u>
Total financial assets	18,289,914	14,917,495
Less amounts not available to be used within one year:		
Donor restricted	(250,000)	(200,000)
Designated by contract	(19,750)	-
Board-designated	(1,065,923)	(980,831)
Deferred revenue	<u>(400,000)</u>	<u>-</u>
Total assets available for use within one year	\$ <u><u>16,554,241</u></u>	<u><u>13,736,664</u></u>

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 2, 2020 and May 4, 2019

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.

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

	<u>May 2, 2020</u>	<u>May 4, 2019</u>
Equities:		
Consumer goods	\$ 1,554,295	1,102,975
Financial	1,139,822	1,258,678
Technology and communications	802,605	1,176,638
Services	422,028	563,645
Healthcare	218,141	-
Industrial goods	<u>177,234</u>	<u>172,460</u>
Total equities	4,314,125	4,274,396
US Treasuries	1,413,616	703,241
Equity funds	1,037,193	1,281,243
Certificates of deposit	1,026,059	1,817,777
Bond funds	298,793	412,185
Corporate bonds	100,763	-
Interest bearing cash	<u>41,164</u>	<u>140,094</u>
Total investments, at fair value	\$ <u>8,231,713</u>	<u>8,628,936</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. (FR), 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. The mission related investment (MRI) is accounted for under the equity method.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 2, 2020 and May 4, 2019

5. Mission Related Investment, Continued

The Company's MRI consists of the following at May 2, 2020 and May 4, 2019:

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

A summary of the financial information of the MRI as of May 2, 2020 and for the year then ended, is as follows:

Cash	\$ 17,752
Other assets	<u>900,849</u>
Total assets	<u>918,601</u>
Less:	
Other current liabilities	44,869
Note payable, The Petco Foundation (Note 6)	<u>160,000</u>
Net assets	\$ <u><u>713,732</u></u>
Net loss	\$ <u><u>(1,118,569)</u></u>
Foundation's interest:	
Balance as of May 2, 2020	\$ 2,397,054
Share of net loss	(305,013)
Impairment loss	<u>(813,556)</u>
Total MRI	\$ <u><u>1,278,485</u></u>

A summary of the financial information of the MRI as of May 4, 2019 and the period of ownership 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><u>2,348,465</u></u>

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 2, 2020 and May 4, 2019

5. Mission Related Investment, Continued

Net loss	\$ <u>(1,168,285)</u>
Foundation's interest:	
Balance as of May 4, 2019	\$ 2,677,443
Share of net loss	<u>(280,389)</u>
Total MRI	\$ <u>2,397,054</u>

On June 1, 2020, the Foundation entered into an agreement to purchase substantially all of the assets of FR for \$3,500,000, resulting in a return of capital of \$1,247,026 related to the Foundation's original investment. As a result of this purchase, the Foundation's MRI had no value immediately following the purchase. Accordingly, an impairment loss of \$813,556 was recorded during the year ended May 2, 2020 for this other than temporary decrease in value.

6. Related Party Transactions

Included in special events revenue and contributions from individuals and corporations are Petco contributions of \$175,912 and \$307,750 for the years ended May 2, 2020 and May 4, 2019, respectively. Additionally, the Foundation received other goods and services used in operations which were recorded as contributions from individuals and corporations and expenses in the accompanying statements of activities at their estimated fair value of \$985,663 for the year ended May 2, 2020.

Receivable from Petco of \$2,258,610 and \$2,633,868 at May 2, 2020 and May 4, 2019, 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 reimbursed expenses for the years ended May 2, 2020 and May 4, 2019, was \$3,132,916 and \$3,259,536, respectively.

Due to Petco of \$610,087 and \$363,707 at May 2, 2020 and May 4, 2019, respectively, represents reimbursable expenses covered under the Agreement in addition to other operating expenses.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 2, 2020 and May 4, 2019

6. Related Party Transactions, Continued

During the years ended May 2, 2020 and May 4, 2020 two and five members, respectively, 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 \$81,269 and \$308,230 during the years ended May 2, 2020 and May 4, 2019, respectively. In accordance with the Foundation's conflict of interest policy, such members abstain from votes pertaining to such organization grants.

At May 2, 2020, the Foundation had a promissory note receivable from FR (the FR Note) for \$160,000 which was included in other receivables. The FR Note was due on the earlier to occur of a purchase of FR assets, as further explained in Note 5, or July 31, 2020, and bears interest at 10% per annum. There was no interest earned on the note for the year ended May 2, 2020. The FR Note was repaid in full subsequent to May 2, 2020.

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 2019 and 2018. The costs of conducting these joint activities which meet the purpose, audience, and content of FASB Accounting Standards Codification 958-720 were \$2,752,481 and \$2,931,063 for the years ended May 2, 2020 and May 4, 2019, respectively. They were comprised of the following for the years ended:

	<u>May 2, 2020</u>	<u>May 4, 2019</u>
Program	\$ 1,272,653	1,363,251
Fundraising	1,013,324	1,078,156
Management and general	<u>466,504</u>	<u>489,656</u>
Total	\$ <u><u>2,752,481</u></u>	<u><u>2,931,063</u></u>

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 2, 2020 and May 4, 2019

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 2, 2020:

2020	\$	5,761,500
2021		1,620,000
2022		<u>1,125,000</u>
	\$	<u><u>8,506,500</u></u>

As of May 4, 2019, future commitments under all grants agreements totaled \$12,040,000.

9. Net Assets

Net assets with donor restrictions were as follows for the years ended May 2, 2020 and May 4, 2019:

	<u>May 2, 2020</u>	<u>May 4, 2019</u>
Specific purpose:		
Save Pets Fund	\$ 250,000	-
Geographic area	<u>-</u>	<u>200,000</u>
 Total	 \$ <u><u>250,000</u></u>	 <u><u>200,000</u></u>

Net assets were released from donor restrictions during the year ended May 2, 2020, by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

Geographic area	\$ <u>200,000</u>
	\$ <u><u>200,000</u></u>

There were no net assets released from restricted net assets during the year ended May 4, 2019.

THE PETCO FOUNDATION
NOTES TO FINANCIAL STATEMENTS, CONTINUED
 May 2, 2020 and May 4, 2019

9. Net Assets, Continued

Net assets without donor restrictions were as follows for the years ended May 2, 2020 and May 4, 2019:

	<u>May 2, 2020</u>	<u>May 4, 2019</u>
Undesignated	\$ 17,250,315	15,490,584
Designated by contract	19,750	-
Board-designated	<u>1,065,923</u>	<u>630,831</u>
Total	<u>\$ 18,335,988</u>	<u>16,121,415</u>

10. Concentration of Risk

Contributions

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

Credit Risk

At May 2, 2020, the Foundation had approximately \$7,102,000 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.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of multiple businesses and is disrupting supply chains and affecting production and sales across a range of industries. While the disruption is currently expected to be temporary, the extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on members, donors, and vendors. At this point, the extent to which COVID-19 may impact the Organization's financial condition or results of operations is uncertain.