Consolidated Financial Statements
May 4, 2024

Petco Love and Subsidiary

EideBailly®

eidebailly.com

Independent Auditor's Report

To the Board of Directors
Petco Love and Subsidiary
San Antonio, Texas

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Petco Love and Subsidiary (collectively, the Organization), which comprise the consolidated statement of financial position as of May 4, 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of May 4, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Eide Bailly LLP

Pasadena, California
September 6, 2024

Assets		
Cash and cash equivalents	$	4,198,697
Receivable from Petco Animal Supplies Stores, Inc.		2,329,177
Other assets		48,255
Prepaid expenses		608,614
Investments		16,770,013
Mission related investment		238,474
Intangible assets, net		1,134,237
Total assets	$	25,327,467
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$	780,473
Due to Petco Animal Supplies Stores, Inc.		504,742
Total liabilities		1,285,215
Net Assets		
Net assets without donor restrictions		24,041,766
Net assets with donor restrictions		486
Total net assets		24,042,252
Total liabilities and net assets	$	25,327,467

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions	$ 32,796,323	$ 650,574	$ 33,446,897
Net investment return	2,207,744	-	2,207,744
Royalty revenue	1,395,133	-	1,395,133
In-kind contributions	172,025	-	172,025
Other revenue	6	-	6
Net assets released from restrictions	650,088	(650,088)	-
Total revenue, support, and gains	37,221,319	486	37,221,805
Expenses and Losses			
Program services expenses	36,397,656	-	36,397,656
Supporting services expenses			
Management and general	912,997	-	912,997
Fundraising and development	2,012,847	-	2,012,847
Total supporting services expenses	2,925,844	-	2,925,844
Total expenses	39,323,500	-	39,323,500
Impairment loss on goodwill and intangible assets	3,661,667	-	3,661,667
Total expenses and losses	42,985,167	-	42,985,167
Change in Net Assets	(5,763,848)	486	(5,763,362)
Net Assets, Beginning of Year	29,805,614	-	29,805,614
Net Assets, End of Year	$ 24,041,766	$ 486	$ 24,042,252

	Program Services			
	Lifesaving	Management and General	Fundraising and Development	Total
Grants	$ 29,113,037	$ -	$ -	$ 29,113,037
Management services	3,545,287	570,306	711,509	4,827,102
Marketing, advertising, and promotional	2,264,205	4,585	1,179,010	3,447,800
Software	855,417	8,886	34,640	898,943
Travel and meals	182,879	32,213	67,982	283,074
Other professional fees	250,193	-	-	250,193
Legal fees and accounting	-	218,155	-	218,155
Amortization	48,951	24,776	5,970	79,697
Printing	69,666	3,924	1,661	75,251
Supplies and equipment	37,277	18,530	1,586	57,393
Other	17,016	21,351	31	38,398
Postage	13,478	7,419	4,232	25,129
Bank and credit card fees	-	-	6,226	6,226
Licenses and registration	250	2,852	-	3,102
	$ 36,397,656	$ 912,997	$ 2,012,847	$ 39,323,500

Operating Activities	
Change in net assets	$ (5,763,362)
Adjustments to reconcile change in net assets to net cash used for operating activities	
Impairment loss on goodwill and intangible assets	3,661,667
Amortization	79,697
Realized and unrealized gains on investments	(2,000,724)
Changes in operating assets and liabilities	
Receivable from Petco Animal Supplies Stores, Inc.	196,323
Other assets	(9,025)
Prepaid expenses	(78,568)
Accounts payable and accrued expenses	98,348
Due to Petco Animal Supplies Stores, Inc.	113,495
Net Cash used for Operating Activities	(3,702,149)
Investing Activities	
Purchases of investments	(8,300,978)
Proceeds from sales of investments	8,187,426
Payments for internally developed software	(800,675)
Net Cash used for Investing Activities	(914,227)
Net Change in Cash and Cash Equivalents	(4,616,376)
Cash and Cash Equivalents, Beginning of Year	8,815,073
Cash and Cash Equivalents, End of Year	$ 4,198,697

Note 1 - Principal Activities and Significant Accounting Policies

Organization

Petco Love is a nonprofit organization, organized to promote, enhance and finance charitable, educational, literary, scientific and prevention of cruelty to animals activities and may also conduct and/or sponsor charitable or educational programs, events or activities which further its purpose.

Petco Love is on a mission to end preventable euthanasia of shelter and community owned pets by empowering organizations through grant investments that make the most impact and by creating national solutions to address community needs impacting the welfare of animals. Petco Love's grant investment activities seek to empower those organizations that are the most productive and effective in accomplishing their mission as determined through a decision model designed to evaluate and assess organizations alongside their peers. Petco Love funds supports animal welfare organizations working to end the euthanasia of shelter animals and helping to assure family pets get the care they need to stay in their homes, those organizations supporting service, therapy and working animals, and organizations and institutions helping to find a cure or support treatment of pet cancer. Petco Love also launched Petco Love Lost in April 2020, a national lost and found database utilizing pet image recognition technology to reunite lost pets with their families.

Petco Love formed a limited liability company, Pets Reunited, LLC (PR). PR was organized in May 2020 to hold certain intangible assets.

Principles of Consolidation

The consolidated financial statements include the accounts of Petco Love and PR because Petco Love has both control and an economic interest in PR. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the "Organization."

Fiscal Year

The Organization'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 year ended May 4, 2024 consisted of 53 weeks.

Cash and Cash Equivalents

All cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents.

Receivable from Petco Animal Supplies Stores, Inc.

Petco Animal Supplies Stores, Inc. (Petco) retail locations serve as collection points for contributions received from the general public for various Organization fundraising activities. These contributions are then periodically transferred to the Organization. Allowance for uncollectable receivable from Petco is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables from Petco are written off when deemed uncollectable. No allowance for uncollectable receivable from Petco has been established as of May 4, 2024, as management believes that the remaining receivable is fully collectable.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statement of financial position. Net investment return/(loss) is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

Mission Related Investment

Mission related investment is the Organization’s minority interest investment in a C Corporation that aligns with the Organization’s values. The Organization does not have the ability to exercise significant influence and the investment does not have a readily determinable fair value. Investments without readily determinable fair values are measured at cost (fair value at time of donation if donated) minus impairment (if any) and adjusted for any observable price changes in orderly transactions of identical securities or similar securities. Investments that do not have readily determinable fair values are considered annually for indicators of impairment. There were no indicators of asset impairment during the year ended May 4, 2024.

Goodwill

Goodwill represented costs in excess of purchase price over the fair value of the assets of businesses acquired, including other identifiable intangible assets. Goodwill was not amortized, rather potential impairment was considered on an annual basis, or more frequently upon the occurrence of an event or when circumstances indicate that the amount of goodwill is greater than its fair value. As a result of this analysis, the Organization recognized an impairment loss of $3,640,000 for the year ended May 4, 2024 which is included in impairment loss on goodwill and intangible assets in the consolidated statement of activities (see Note 4).

Intangible Assets

Intangible assets consist of internally developed software and covenant not to compete and are carried at cost less accumulated amortization. The Organization amortizes the cost of identifiable intangible assets on a straight-line basis over the expected period of benefit, which is five years for internally developed software and the contractual term for the covenant not to compete, which is five years. Intangible assets are considered annually for indicators of impairment. As a result of this analysis, the Organization recognized an impairment loss of $21,667 for the covenant not to compete for the year ended May 4, 2024 which is included in impairment loss on goodwill and intangible assets in the consolidated statement of activities (see Note 5).

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 consolidated statements of activities as net assets released from restrictions. The Organization reports conditional contributions restricted by donors as increases in net assets without donor restrictions if the restrictions and conditions expire simultaneously in the reporting period. The Organization had no net assets with donor restrictions that are perpetual in nature at May 4, 2024.

Revenue and Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets, or an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give (that is, those with a measurable performance or other barrier and a right of return) are not recognized until the conditions on which they depend have been met.

Royalty revenue include funds raised for the Organization by the sale of merchandise from an unrelated party. Royalty revenues are recognized at a point in time as the quarterly sales of the unrelated party are reported to the Organization. The Organization’s name, logo, and other distinguishing marks are licensed to a non-related merchandiser for use in the sale of products.

In-kind Contributions

In-kind contributions include donated pet food and supplies which are recorded at the respective fair values of the goods received (Note 7). The Organization does not sell donated gifts-in-kind. Contributed goods are recorded at fair value at the date of donation.

Advertising Costs

Advertising costs are expensed as incurred. The primary purpose of the Organization’s advertising is to promote and encourage pet adoption, reunite lost pets, and highlight the Organization’s focus on lifesaving. Advertising expense was $2,076,141 during the year ended May 4, 2024.

Grants and Grant Commitments

The Organization recognizes grants as expenses once all significant conditions are met. Generally, this is based upon stipulations related to the purpose of grant agreement which requires the Organization to review and approve certain metrics, at which point the related expense becomes unconditional. Conditional grants approved but contingent upon fulfillment of certain specified conditions and containing right of release are not recorded until such time as the conditions are substantially met (see Note 8).

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include management services, marketing advertising, and promotional, software, travel and meals, amortization, printing, supplies and equipment, and postage, which are allocated on the basis of estimates of time and effort.

Income Taxes

Petco Love is organized as a California and Texas nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction, and has been determined not to be a private foundation. Petco Love is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, Petco Love is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. Petco Love has determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. PR is incorporated in Delaware and is disregarded for federal income tax purposes.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash and cash equivalents with financial institutions believed by the Organization to be creditworthy. At times, amounts on deposit may exceed insured limits. Insured accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per insured bank, for each account ownership category. As of May 4, 2024, the Organization had approximately $5,340,000, in excess of FDIC insurance limits. To date, no losses have been experienced in any of these accounts.

The majority of the contributions received by the Organization are collected at Petco retail locations. Credit risk associated with receivables from Petco are limited due to high historical collection rates.

Investments are made by diversified investment managers whose performance is monitored by the Organization and the Finance Committee. Although the fair values of investments are subject to fluctuation on a year-to-year basis, the Organization and the Finance Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Organization.

Subsequent Events

The Organization has evaluated subsequent events through September 6, 2024, the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

Cash and cash equivalents	$ 4,198,697
Receivable from Petco Animal Supplies Stores, Inc.	2,329,177
Other assets	48,255
Investments	16,770,013
Total financial assets	23,346,142
Less those unavailable for general expenditures within one year due to	
Restricted by donor	(486)
Total financial assets available for use within one year	$ 23,345,656

As part of the Organization's liquidity plan, excess cash is invested in interest bearing cash and cash equivalents, equity securities, fixed income securities, and mutual funds which are not subject to any constraints limiting the Organization's ability to respond quickly to change in market conditions. The Organization's goal is generally to maintain financial assets to meet ninety days of operating expenditures.

Note 3 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk, or liquidity profile of the asset.

A significant portion of investment assets are classified within Level 1 because they comprise open-end mutual funds and equity securities with readily determinable fair values based on daily redemption values. Fixed income securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions. These are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost, as of May 4, 2024:

		Fair Value Measurements at Report Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents (at cost)	$ 52,188	$ -	$ -	$ -
Equity securities	10,930,525	10,930,525	-	-
Mutual funds	208,504	208,504	-	-
Fixed income securities	5,578,796	-	5,578,796	-
	$ 16,770,013	$ 11,139,029	$ 5,578,796	$ -

Note 4 - Goodwill

As of May 4, 2024, the Organization determined that certain indicators of impairment were present surrounding the goodwill from the Finding Rover acquisition and performed a test of impairment. Accordingly, an impairment charge of $3,640,000 was recorded for the year ended May 4, 2024.

Changes in the net carrying amount of goodwill during the year ended May 4, 2024, are as follows:

Balance, April 29, 2023	$ 3,640,000
Impairment	(3,640,000)
Balance, May 4, 2024	$ -

Note 5 - Intangible Assets

Intangible assets as of May 4, 2024, consist of the following:

	Cost	Accumulated Amortization	Accumulated Impairment Loss	Net
Internally developed software	$ 1,193,934	$ (59,697)	$ -	$ 1,134,237
Covenant not to compete	100,000	(78,333)	(21,667)	-
	$ 1,293,934	$ (138,030)	$ (21,667)	$ 1,134,237

Estimated future amortization expense related to the internally developed software is as follows:

Years Ending May 4,	
2025	$ 238,787
2026	238,787
2027	238,787
2028	238,787
2029	179,089
	$ 1,134,237

Note 6 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of May 4, 2024:

Specific Purpose	
Pet Cancer	$ 486

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows for the year ended May 4, 2024:

Vaccine Initiative	$ 400,110
Skechers Roundup	154,539
Pet Cancer	83,824
Disaster	6,277
Love Lost	5,000
Helping Heroes	325
Global Funding	13
	$ 650,088

Note 7 - In-kind Contributions

For the year ended May 4, 2024, in-kind contributions recognized within the consolidated statement of activities consisted of donated pet food and supplies totaling $172,025. In-kind contributions for donated pet food and supplies are valued using retail prices at Petco retail locations. Contributed pet food and supplies are used in program services. All gifts-in-kind received during the year ended May 4, 2024 were without donor restrictions.

Note 8 - Grant Commitments

The Organization has approved conditional grants that are contingent upon fulfillment of certain specified conditions. As of May 4, 2024, if the conditions are met, these amounts are scheduled to be paid as follows:

Years Ending May 4,	
2025	$ 2,943,673
2026	1,455,000
2027	705,000
2028	540,000
	$ 5,643,673

Note 9 - Related Party Transactions

The Organization is highly dependent upon the viability of Petco as the primary source of contribution revenue is received in the stores from Petco customers. Receivable from Petco of $2,329,177 at May 4, 2024, represents cash contributions received from Petco customers not yet remitted in cash to the Organization.

Included in contributions are Petco contributions of $142,474 for the year ended May 4, 2024.

The Organization also received donated pet food and supplies totaling $172,025 from Petco customers for the year ended May 4, 2024 (see Note 7).

The Organization reimburses Petco under a resource and expense allocation agreement (the Agreement) for expenses incurred for administrative services provided. In addition, the Organization reimburses Petco for the full cost of all employees who perform duties solely for the Organization. The cost for all reimbursed expenses for the year ended May 4, 2024 was $6,420,426.

Due to Petco of $504,742 at May 4, 2024 represents reimbursable expenses covered under the Agreement in addition to other operating expenses.

During the year ended May 4, 2024, two members of the Organization's Board of Directors also serve on boards of organizations which are recipients of program grants from the Organization. Grants paid to these organizations totaled $60,000 during the year ended May 4, 2024. Additionally, the Organization has future commitments to one of these organizations totaling $200,000 as of May 4, 2024 (see Note 8). In accordance with the Organization's conflict of interest policy, such members abstain from votes pertaining to such organization grants.

Note 10 - Joint Costs

The Organization 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 and were allocated among the following functional expense categories as follows:

Program	$ 3,834,413
Management and general	597,212
Fundraising and development	849,985
	$ 5,281,610