

**PETCO LOVE AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT**

For the Years Ended April 29, 2023 and April 30, 2022

PETCO LOVE AND SUBSIDIARY
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April 29, 2023 and April 30, 2022

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Petco Love and Subsidiary
San Antonio, Texas

Opinion

We have audited the accompanying consolidated financial statements of Petco Love and Subsidiary (collectively, the Organization), which comprise the consolidated statements of financial position as of April 29, 2023 and April 30, 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of April 29, 2023 and April 30, 2022, 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.

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Organization changed its accounting policy related to its recording of leases whereby it is recognizing a right-of-use asset and a lease liability for all lease agreements with a term greater than 12 months. The policy was adopted retrospectively effective January 1, 2022, with the cumulative effect of initially applying the policy recognized as of the date of application. Our conclusion is not modified with respect to this matter.

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 U.S. generally accepted accounting principles; this includes 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 within one year after the date that the consolidated financial statements are available to be issued.

Auditors' 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 auditors' 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 U.S. generally accepted auditing standards 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, including omissions, 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 U.S. generally accepted auditing standards, 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 audits, significant audit findings, and certain internal control related matters that we identified during the audits.

RBTK, LLP

September 28, 2023



PETCO LOVE AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
For the Years Ended April 29, 2023 and April 30, 2022

ASSETS

	April 29, 2023	April 30, 2022
Cash and cash equivalents	\$ 8,815,073	10,838,927
Receivable from Petco Animal Supplies Stores, Inc. (Note 8)	2,525,500	3,554,403
Other receivables	39,230	12,838
Prepaid expenses	530,046	629,973
Long-term investments, at fair value (Note 4)	14,655,737	14,442,376
Mission related investments (Note 5)	238,474	238,474
Software development-in-progress	393,259	-
Intangible asset, net (Note 6)	41,667	61,667
Goodwill (Note 7)	3,640,000	3,640,000
Total assets	<u>\$ 30,878,986</u>	<u>33,418,658</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 682,125	1,374,734
Due to Petco Animal Supplies Stores, Inc. (Note 8)	391,247	488,701
Total liabilities	<u>1,073,372</u>	<u>1,863,435</u>
Net assets:		
Net assets without donor restrictions (Note 11)	29,805,614	31,183,143
Net assets with donor restrictions (Note 11)	-	372,080
Total net assets	<u>29,805,614</u>	<u>31,555,223</u>
Total liabilities and net assets	<u>\$ 30,878,986</u>	<u>33,418,658</u>

See Accompanying Notes to Financial Statements

PETCO LOVE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended April 29, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Contributions from individuals and corporations	\$ 35,646,082	479,003	36,125,085
Merchandise:			
Revenue	452	-	452
Expense	<u>-</u>	<u>-</u>	<u>-</u>
Net merchandise revenue	<u>452</u>	<u>-</u>	<u>452</u>
Royalty revenue	1,515,948	-	1,515,948
Net investment income	213,253	-	213,253
Interest income	50,140	-	50,140
Net assets released from restrictions	<u>851,083</u>	<u>(851,083)</u>	<u>-</u>
Total support and revenue	<u>38,276,958</u>	<u>(372,080)</u>	<u>37,904,878</u>
Expenditures:			
Program activities	<u>36,858,263</u>	<u>-</u>	<u>36,858,263</u>
Supporting activities:			
Fundraising	1,898,693	-	1,898,693
Management and general	<u>897,531</u>	<u>-</u>	<u>897,531</u>
Total supporting activities	<u>2,796,224</u>	<u>-</u>	<u>2,796,224</u>
Total expenditures	<u>39,654,487</u>	<u>-</u>	<u>39,654,487</u>
Change in net assets	(1,377,529)	(372,080)	(1,749,609)
Net assets, beginning of year	<u>31,183,143</u>	<u>372,080</u>	<u>31,555,223</u>
Net assets, end of year	<u>\$ 29,805,614</u>	<u>-</u>	<u>29,805,614</u>

See Accompanying Notes to Financial Statements

PETCO LOVE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended April 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Contributions from individuals and corporations	\$ 36,265,513	1,734,412	37,999,925
Merchandise:			
Revenue	156,441	-	156,441
Expense	<u>-</u>	<u>-</u>	<u>-</u>
Net merchandise revenue	<u>156,441</u>	<u>-</u>	<u>156,441</u>
Royalty revenue	1,404,580	-	1,404,580
Net investment loss	(1,549,298)	-	(1,549,298)
Interest income	10,472	-	10,472
Net assets released from restrictions	<u>1,867,332</u>	<u>(1,867,332)</u>	<u>-</u>
Total support and revenue	<u>38,155,040</u>	<u>(132,920)</u>	<u>38,022,120</u>
Expenditures:			
Program activities	<u>32,716,458</u>	<u>-</u>	<u>32,716,458</u>
Supporting activities:			
Fundraising	2,844,108	-	2,844,108
Management and general	<u>1,174,120</u>	<u>-</u>	<u>1,174,120</u>
Total supporting activities	<u>4,018,228</u>	<u>-</u>	<u>4,018,228</u>
Total expenditures	<u>36,734,686</u>	<u>-</u>	<u>36,734,686</u>
Change in net assets	1,420,354	(132,920)	1,287,434
Net assets, beginning of year	<u>29,762,789</u>	<u>505,000</u>	<u>30,267,789</u>
Net assets, end of year	<u>\$ 31,183,143</u>	<u>372,080</u>	<u>31,555,223</u>

See Accompanying Notes to Financial Statements

PETCO LOVE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended April 29, 2023

	<u>Program Activities</u>	<u>Supporting Activities</u>			
		Fund	General	Total	
	Lifesaving	Raising	and Administrative	Supporting Activities	Total
Grants	\$ 30,687,245	-	-	-	30,687,245
Management services	3,225,112	580,666	556,517	1,137,183	4,362,295
Marketing, advertising, and promotional	1,469,150	1,224,310	13,993	1,238,303	2,707,453
Software	886,634	30,308	6,115	36,423	923,057
Other professional fees	365,445	-	-	-	365,445
Travel and meals	164,421	53,878	21,275	75,153	239,574
Legal fees	-	-	156,990	156,990	156,990
Other	581	-	47,470	47,470	48,051
Financial fees	-	-	43,850	43,850	43,850
Printing	23,329	2,116	8,079	10,195	33,524
Postage	19,465	2,388	6,035	8,423	27,888
Supplies and equipment	16,631	1,129	8,570	9,699	26,330
Amortization	-	-	20,000	20,000	20,000
Licenses and registration	250	-	6,626	6,626	6,876
Bank and credit card fees	-	3,898	2,011	5,909	5,909
Total expenses included in Expenditures on the Statement of Activities	36,858,263	1,898,693	897,531	2,796,224	39,654,487
Cost of direct benefit to donors included in Support and Revenue on the Statement of Activities	-	-	-	-	-
Total expenses by function	\$ 36,858,263	1,898,693	897,531	2,796,224	39,654,487

See Accompanying Notes to Financial Statements

PETCO LOVE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended April 30, 2022

	Program Activities	Supporting Activities			
			General and Administrative	Total Supporting Activities	
	Lifesaving	Fund Raising			Total
Grants	\$ 26,830,024	-	-	-	26,830,024
Management services	3,059,808	976,625	725,989	1,702,614	4,762,422
Marketing, advertising, and promotional	1,006,443	1,730,508	24,485	1,754,993	2,761,436
Software	929,017	29,445	7,287	36,732	965,749
Other professional fees	780,681	5,171	21,080	26,251	806,932
Legal fees	-	-	175,044	175,044	175,044
Other	25,955	40,482	102,899	143,381	169,336
Travel and meals	36,730	28,560	10,810	39,370	76,100
Supplies and equipment	13,767	2,257	29,556	31,813	45,580
Financial fees	-	-	42,750	42,750	42,750
Postage	15,686	20,611	5,066	25,677	41,363
Printing	18,305	4,818	10	4,828	23,133
Amortization	-	-	20,000	20,000	20,000
Bank and credit card fees	-	5,631	2,194	7,825	7,825
Licenses and registration	42	-	6,950	6,950	6,992
Total expenses included in Expenditures on the Statement of Activities	32,716,458	2,844,108	1,174,120	4,018,228	36,734,686
Cost of direct benefit to donors included in Support and Revenue on the Statement of Activities	-	-	-	-	-
Total expenses by function	\$ <u>32,716,458</u>	<u>2,844,108</u>	<u>1,174,120</u>	<u>4,018,228</u>	<u>36,734,686</u>

See Accompanying Notes to Financial Statements

PETCO LOVE AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended April 29, 2023 and April 30, 2022

	April 29, 2023	April 30, 2022
Cash flows from operating activities:		
Change in net assets	\$ (1,749,609)	1,287,434
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Amortization	20,000	20,000
Net long-term investment (income) loss	(213,253)	1,549,298
Accrued interest income	-	(8,955)
Abandoned software development	-	69,204
Decrease in receivable from Petco Animal Supplies Stores, Inc.	1,028,903	390,767
(Increase) decrease in other receivables	(26,392)	267,265
(Increase) decrease in prepaid expense	99,927	(341,891)
Increase (decrease) in accounts payable and accrued expenses	(692,609)	732,035
Increase (decrease) in due to Petco Animal Supplies Stores, Inc.	(97,454)	41,458
Net cash (used in) provided by operating activities	<u>(1,630,487)</u>	<u>4,006,615</u>
Cash flows from investing activities:		
Purchase of investments	(108)	(5,000,001)
Software development-in-progress	(393,259)	-
Net cash used in investing activities	<u>(393,367)</u>	<u>(5,000,001)</u>
Net decrease in cash and cash equivalents	(2,023,854)	(993,386)
Cash and cash equivalents, beginning of year	<u>10,838,927</u>	<u>11,832,313</u>
Cash and cash equivalents, end of year	<u>\$ 8,815,073</u>	<u>10,838,927</u>
Supplemental disclosures:		
Interest paid	\$ <u>-</u>	<u>-</u>
Income taxes paid	\$ <u>-</u>	<u>-</u>

See Accompanying Notes to Financial Statements

PETCO LOVE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 29, 2023 and April 30, 2022

1. Organization

Petco Love (the Organization), formerly known as The Petco 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 and may also conduct and/or sponsor charitable or educational programs, events or activities which further its purpose.

The Organization renamed to Petco Love in early 2021 to more accurately reflect the future operations of the organization not only as a grantor funding other organizations, but as an operating nonprofit bringing national solutions to help save pet lives. Included in the consolidated financial statements are the net assets and operations of Pets Reunited, LLC (PR), a wholly owned limited liability company. PR was organized in May 2020 to hold the intangible assets described in Notes 6 and 7. All significant interorganizational accounts and transactions have been eliminated.

The Organization 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. The Organization'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. The Organization 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. The Organization 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.

The Organization 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 Organization has been classified as a publicly supported organization, which is not a private Organization under Section 509(a) of the Code.

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 years ended April 29, 2023 (fiscal year 2022) and April 30, 2022 (fiscal year 2021) each consisted of 52 weeks.

PETCO LOVE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
April 29, 2023 and April 30, 2022

2. Summary of Significant Accounting Policies

The consolidated financial statements of the Organization 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.

Change in Accounting Principle

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 842, *Leases* (ASC 842), with a date of initial application of January 1, 2022. For leases with a lease term greater than one year, the Organization recognizes a lease asset for its right to use the underlying leased asset and a lease liability for the corresponding lease obligation. The Organization determines whether an arrangement is or contains a lease at contract inception. Operating leases with a duration greater than one year are included in operating lease right-of-use (ROU) assets and operating lease liabilities in the Organization's statements of net assets available for benefits. Operating lease ROU assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of the lease payments, the Organization uses a risk-free rate of a period comparable with that of the lease term. The Organization considers the lease term to be the noncancelable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if the Organization is reasonably certain to exercise the option, (2) terminate the lease if the Organization is reasonably certain not to exercise that option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor.

The operating lease ROU assets also include any lease payments made and exclude lease incentives received or receivable. Lease expense is recognized on a straight-line basis over the expected lease term. Variable lease expenses are recorded when incurred.

The Organization is adopting the guidance without restating prior periods and by applying practical expedients in the guidance that allow not to reassess prior conclusions concerning whether:

- Arrangements contain a lease
- The Organization's lease arrangements are operating or capital leases (financing)
- Initial direct costs should be capitalized
- Existing land easements are leases

PETCO LOVE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
April 29, 2023 and April 30, 2022

2. Summary of Significant Accounting Policies, Continued

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 consolidated statements of activities and changes in net assets as net assets are released from restrictions.

Royalty Revenue

Revenue is recognized when earned and consists primarily of royalty income earned by the Organization from unrelated parties. These royalties include funds raised for the Organization 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 Organization. The Organization'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 consolidated statements of activities, at amounts determined by management to be reasonable for obtaining such goods.

Advertising

The Organization expenses all advertising costs 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 \$1,326,244 and \$555,178, for the years ended April 29, 2023 and April 30, 2022, respectively.

PETCO LOVE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
April 29, 2023 and April 30, 2022

2. Summary of Significant Accounting Policies, Continued

Amortization of Intangibles

Intangible assets are amortized over their estimated useful lives.

Functional Allocation of Expenses

The consolidated 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.

Cash and Cash Equivalents

The Organization'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.

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 Organization fundraising activities. These donations are then periodically transferred to the Organization. Management believes that all contributions receivable are fully collectible within one year; therefore, no allowance for doubtful accounts was recorded as of April 29, 2023 and April 30, 2022.

Other Receivables

Other receivables consist of 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 April 29, 2023 and April 30, 2022.

Investments

The Organization 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 consolidated statements 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 consolidated statements of activities as a change in net assets.

PETCO LOVE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
April 29, 2023 and April 30, 2022

2. Summary of Significant Accounting Policies, Continued

Fair Value Measurements

U.S. generally accepted accounting principles provide guidance on how fair value should be determined when consolidated 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. Transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer. The Organization 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.

Cost Method Investments

Investments in which the Organization does not have the ability to exercise significant influence and for which there is no readily determinable fair value are accounted for using the cost method. Under the cost method, the investment is measured initially at cost. Subsequently, dividends received that are distributed from earnings are recognized as income. The Organization evaluates each cost method investment for impairment on an annual basis and recognizes an impairment loss if a decline in value is determined to be other-than-temporary. The Organization has not identified any events or change in circumstances that may have an adverse effect on the fair value of a cost method investment, and therefore, the fair value of such cost method investment has not been estimated, as it is impracticable to do so. Investments accounted for under this method include the Organization's mission related investment described in Note 5.

Software Development-in-progress

Internal use software development costs are capitalized as software development-in-progress until the development stage has been completed and successfully tested. Upon completion of testing, software development-in-progress costs are reclassified as internal use software and amortized over their estimated useful lives.

PETCO LOVE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
April 29, 2023 and April 30, 2022

2. Summary of Significant Accounting Policies, Continued

Deferred Revenue

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

Income Taxes

The Organization is exempt from federal and state income tax liability, and therefore, no provision is made for current or deferred income taxes. The Organization 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 Organization 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 Organization'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 consolidated 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 consolidated 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 consolidated 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 cost method investments and goodwill, allowance for doubtful accounts and accrued expenses.

Subsequent Events

The Organization has evaluated subsequent events through September 28, 2023, the date the consolidated financial statements were available to be issued. There have been no material subsequent events which would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

PETCO LOVE AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
April 29, 2023 and April 30, 2022

3. Information Regarding Liquidity and Availability

The following table reflects the Organization's financial assets as of April 29, 2023 and April 30, 2022, reduced by amounts that are not available to meet general expenditures within one year of the consolidated statements of financial position date. Amounts not available to meet general expenditures within one year of April 29, 2023 and April 30, 2022 include net assets with donor restrictions totaling \$0 and \$372,080, and designated by contract funds totaling \$58,591 and \$32,887, 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 Organization's ability to respond quickly to change in market conditions. The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenditures.

	<u>April 29, 2023</u>	<u>April 30, 2022</u>
Cash and cash equivalents	\$ 8,815,073	10,838,927
Receivable from Petco	2,525,500	3,554,403
Other receivables	39,230	12,838
Investments (level 1)	<u>14,655,737</u>	<u>14,442,376</u>
Total financial assets	26,035,540	28,848,544
Less amounts not available to be used within one year:		
Donor restricted	-	(372,080)
Designated by contract	<u>(58,591)</u>	<u>(32,887)</u>
Total assets available for use within one year	\$ <u>25,976,949</u>	<u>28,443,577</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.

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April 29, 2023 and April 30, 2022

4. Investments, at Fair Value, Continued

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

	<u>April 29, 2023</u>	<u>April 30, 2022</u>
Equities:		
Consumer goods	\$ 2,861,351	3,043,021
Technology and communications	1,711,846	1,418,752
Financial	974,227	1,511,877
Healthcare	742,246	716,182
Services	492,592	300,332
Industrial goods	257,890	237,393
Basic materials	<u>53,692</u>	<u>79,929</u>
 Total equities	 7,093,844	 7,300,486
 Equity funds	 2,091,780	 1,727,896
Corporate bonds	2,086,901	2,311,400
US Treasuries	1,942,753	793,066
Certificates of deposit	692,906	2,042,396
Interest bearing cash	515,247	39,118
Bond funds	<u>232,306</u>	<u>228,014</u>
 Total investments, at fair value	 \$ <u>14,655,737</u>	 <u>14,442,376</u>

Net investment return for the years ended April 29, 2023 and April 30, 2022, are as follows:

	<u>April 29, 2023</u>	<u>April 30, 2022</u>
Dividends and interest income	156,696	164,198
Realized/unrealized gain (losses)	188,134	(1,560,298)
Investment fees	<u>(131,577)</u>	<u>(153,198)</u>
 Total net investment income (loss)	 \$ <u>213,253</u>	 <u>(1,549,298)</u>

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5. Mission Related Investments

Cost Method Investment

The Organization's cost method investment consists of the following at April 29, 2023 and April 30, 2022:

As of April 29, 2023

<u>Investment Type</u>	<u>Owner Type</u>	<u>Accounting Method</u>	<u>Ownership</u>	<u>Cost</u>
C Corporation	Shareholder	Cost	4.07%	\$ 238,474

As of April 30, 2022

<u>Investment Type</u>	<u>Owner Type</u>	<u>Accounting Method</u>	<u>Ownership</u>	<u>Cost</u>
C Corporation	Shareholder	Cost	5.21%	\$ 238,474

6. Intangible Assets

A summary of intangible assets at April 29, 2023 and April 30, 2022, is as follows:

	<u>April 29, 2023</u>	<u>April 30, 2022</u>
Covenant not to compete (5 year life)	100,000	100,000
Less accumulated amortization	<u>(58,333)</u>	<u>(38,333)</u>
	\$ <u>41,667</u>	<u>61,667</u>

7. Goodwill

Changes in the net carrying amount of goodwill during the year ended April 29, 2023 and April 30, 2022, are as follows:

	<u>April 29, 2023</u>	<u>April 30, 2022</u>
Balance, beginning of year	\$ 3,640,000	3,640,000
Goodwill acquired during the year	-	-
Impairment	<u>-</u>	<u>-</u>
Balance, end of year	\$ <u>3,640,000</u>	<u>3,640,000</u>

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April 29, 2023 and April 30, 2022

7. Goodwill, Continued

In accordance with the requirements of FASB ASC 350, the Organization does not amortize goodwill. FASB ASC 350 requires the Company to test for impairment at least annually, or more frequently if evidence of possible impairment arises. The Organization performed its annual impairment testing as of April 29, 2023 and April 30, 2022 and determined that no events or circumstances indicated that intangible assets might be impaired. As a result, no impairment charge was recorded for the year ended April 29, 2023 and April 30, 2022.

8. Related Party Transactions

Included in contributions from individuals and corporations are Petco contributions of \$190,424 and \$398,202 for the years ended April 29, 2023 and April 30, 2022, respectively.

The Organization is highly dependent upon the viability of Petco as this is the primary source of donated revenue received in the stores from Petco customers and Petco employees. Receivable from Petco of \$2,525,500 and \$3,554,403 at April 29, 2023 and April 30, 2022, respectively, represents cash contributions received from Petco customers and Petco employees not yet remitted in cash to the Organization as of the fiscal year end date.

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 with the exception of the Executive Director. For the Executive Director, the Organization reimburses 75% of the cost of base salary and benefits expense and 100% of bonuses. The cost for all reimbursed expenses for the years ended April 29, 2023 and April 30, 2022, was \$7,034,495 and \$6,012,657, respectively.

Due to Petco of \$391,247 and \$488,701 at April 29, 2023 and April 30, 2022, respectively, represents reimbursable expenses covered under the Agreement in addition to other operating expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
April 29, 2023 and April 30, 2022

8. Related Party Transactions, Continued

During the years ended April 29, 2023 and April 30, 2022 three 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 \$270,000 and \$172,500 during the years ended April 29, 2023 and April 30, 2022, respectively. Additionally, as further described in Note 10, the Organization has future commitments to three of these organizations totaling \$260,000 as of April 29, 2023. In accordance with the Organization's conflict of interest policy, such members abstain from votes pertaining to such organization grants.

9. 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 for both fiscal years 2022 and 2021. The costs of conducting these joint activities which meet the purpose, audience, and content of FASB ASC 958-720 were \$4,775,868 and \$4,950,180 for the years ended April 29, 2023 and April 30, 2022, respectively. They were comprised of the following for the years ended:

	<u>April 29, 2023</u>	<u>April 30, 2022</u>
Program	\$ 3,495,503	3,196,852
Fundraising	703,098	1,038,070
Management and general	<u>577,267</u>	<u>715,258</u>
Total	\$ <u>4,775,868</u>	<u>4,950,180</u>

10. Commitments and Contingencies

The Organization 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 Organization'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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
April 29, 2023 and April 30, 2022

10. Commitments and Contingencies, Continued

The future commitments under all grant agreements are as follows at April 29, 2023:

2023	\$ 2,874,780
2024	<u>828,673</u>
	<u>\$ 3,703,453</u>

As of April 30, 2022, future commitments under all grants agreements totaled \$6,345,000.

11. Net Assets

Net assets with donor restrictions were as follows for the years ended April 29, 2023 and April 30, 2022:

	<u>April 29, 2023</u>	<u>April 30, 2022</u>
Specific purpose:		
Vaccine initiative	\$ -	200,000
Save Pets Fund	-	130,000
Global funding	<u>-</u>	<u>42,080</u>
Total	<u>\$ -</u>	<u>372,080</u>

Net assets were released from donor restrictions during the year ended April 29, 2023 and April 30, 2022, by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>April 29, 2023</u>	<u>April 30, 2022</u>
Vaccine Initiative	\$ 400,247	503,050
Save Pets Fund	130,000	280,000
Skechers Roundup	90,655	-
Pet Cancer	82,899	75,129
Yummy Fund	75,195	-
Global Funding	42,819	900,000
Disaster	26,268	14,153
Helping Heroes	3,000	-
Innovation Showdown	<u>-</u>	<u>95,000</u>
Total	<u>\$ 851,083</u>	<u>1,867,332</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
April 29, 2023 and April 30, 2022

11. Net Assets, Continued

Net assets without donor restrictions were as follows for the years ended April 29, 2023 and April 30, 2022:

	<u>April 29, 2023</u>	<u>April 30, 2022</u>
Undesignated	\$ 29,753,949	31,150,256
Designated by contract	<u>58,591</u>	<u>32,887</u>
Total	\$ <u>29,805,614</u>	<u>31,183,143</u>

12. Concentration of Risk

Contributions

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

Credit Risk

At April 29, 2023, the Organization had approximately \$8,815,000 of cash and cash equivalents within financial institutions, a portion of which may be in excess of the federally insured limit. The Organization 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 Organization 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 Organization's account balances and the amounts reported in the consolidated statements of net assets available for benefits.