

The Animal Medical Center

Financial Statements

December 31, 2010



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Independent Auditors' Report

Board of Trustees The Animal Medical Center

We have audited the accompanying statement of financial position of The Animal Medical Center (AMC) as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of AMC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from AMC's 2009 financial statements and in our report dated August 24, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AMC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Animal Medical Center at December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'Connor Davies Munns & Dobbins, LLP

New York, New York
April 13, 2011

The Animal Medical Center
Statement of Financial Position

December 31, 2010
(with comparative amounts at December 31, 2009)

	2010	2009
ASSETS		
Cash	\$ 2,635,685	\$ 1,560,879
Investment redemption receivable	3,000,000	3,998,635
Accounts receivable, net	411,357	236,837
Contributions and pledges receivable	2,097,131	2,390,685
Other receivables	202,299	325,607
Prepaid expenses and other	392,107	414,900
Inventories	347,074	368,917
Investments	24,984,642	24,499,925
Beneficial interests in trusts	1,352,655	1,268,519
Deferred debt issuance costs	439,076	597,172
Fair value of interest swap agreement	288,939	-
Certificate of deposit held as collateral	1,050,000	-
Property and equipment, net	40,658,253	40,654,331
	\$ 77,859,218	\$ 76,316,407
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,257,561	\$ 1,737,476
Accrued salaries and related expenses	1,879,698	1,660,314
Deferred grant income	164,871	163,130
Capital lease payable	1,580,901	929,832
Mortgage payable	10,981,917	10,140,000
Accrued pension plan cost	2,788,647	3,868,531
Total Liabilities	18,653,595	18,499,283
Net Assets		
Unrestricted		
Operating	15,776,193	13,830,161
Investment in property and equipment	29,676,336	30,514,331
Total Unrestricted	45,452,529	44,344,492
Temporarily restricted	5,810,731	3,756,392
Permanently restricted	7,942,363	9,716,240
Total Net Assets	59,205,623	57,817,124
	\$ 77,859,218	\$ 76,316,407

See notes to financial statements

The Animal Medical Center
Statement of Activities
Year Ended December 31, 2010
(with summarized totals for the year ended December 31, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
OPERATING REVENUE					
Professional services revenue	\$ 23,487,882	\$ -	\$ -	\$ 23,487,882	\$ 21,053,298
Restricted contributions	-	1,463,253	-	1,463,253	619,337
Investment income	80,243	-	-	80,243	32,264
Donated goods	157,811	-	-	157,811	128,306
Other Operating Revenue					
Rental income	1,679,141	-	-	1,679,141	1,626,260
Other income	101,415	-	-	101,415	210,746
Total Operating Revenue	<u>25,506,492</u>	<u>1,463,253</u>	<u>-</u>	<u>26,969,745</u>	<u>23,670,211</u>
OPERATING EXPENSES					
Program Expenses					
Professional care and research	22,000,445	-	-	22,000,445	22,974,450
Housing expenses	1,932,110	-	-	1,932,110	1,718,421
Management and General					
General services	4,585,067	-	-	4,585,067	5,419,743
Fiscal services	2,267,964	-	-	2,267,964	2,077,793
Administrative services	1,524,422	-	-	1,524,422	2,489,985
Depreciation	2,276,029	-	-	2,276,029	2,392,238
Total Expenses	<u>34,586,037</u>	<u>-</u>	<u>-</u>	<u>34,586,037</u>	<u>37,072,630</u>
(Loss) from Operations Before Net Assets Released from Restrictions	(9,079,545)	1,463,253	-	(7,616,292)	(13,402,419)
Net assets released from restrictions	1,217,008	(1,217,008)	-	-	-
Reclassification of net assets	1,900,000	-	(1,900,000)	-	-
Loss from Operations	<u>(5,962,537)</u>	<u>246,245</u>	<u>(1,900,000)</u>	<u>(7,616,292)</u>	<u>(13,402,419)</u>
NONOPERATING REVENUE AND EXPENSES					
Contributions, bequests, and legacies	4,405,702	1,742,705	107,376	6,255,783	3,674,947
Change in beneficial interest in trusts	-	65,389	18,747	84,136	152,639
Special event revenue, net of expenses of \$323,273 and \$169,922	1,265,763	-	-	1,265,763	928,872
Investment income	2,065,060	-	-	2,065,060	3,729,741
Fundraising expenses	(694,009)	-	-	(694,009)	(711,572)
Change in Net Assets Before Other Changes	1,079,979	2,054,339	(1,773,877)	1,360,441	(5,627,792)
Abandonment of project	-	-	-	-	(826,762)
Write off of deferred debt issuance costs	(573,172)	-	-	(573,172)	-
Change in fair value of interest swap agreement	288,939	-	-	288,939	-
Pension liability adjustment	312,291	-	-	312,291	(1,125,768)
Change in Net Assets	1,108,037	2,054,339	(1,773,877)	1,388,499	(7,580,322)
NET ASSETS					
Beginning of the year	<u>44,344,492</u>	<u>3,756,392</u>	<u>9,716,240</u>	<u>57,817,124</u>	<u>65,397,446</u>
End of the year	<u>\$ 45,452,529</u>	<u>\$ 5,810,731</u>	<u>\$ 7,942,363</u>	<u>\$ 59,205,623</u>	<u>\$ 57,817,124</u>

The Animal Medical Center
Statement of Cash Flows
Year Ended December 31, 2010
(with comparative amounts for the year ended December 31, 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,388,499	\$ (7,580,322)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,301,692	2,416,238
Write off of deferred debt issuance costs	573,172	-
Loss on abandoned project	-	826,762
Loss on disposition of property and equipment	110,630	-
Unrealized (gain) loss on swap agreement	(288,939)	-
Net realized and unrealized gain on investments	(1,900,927)	(3,618,561)
Provision for uncollectible accounts	328,294	493,986
Permanently restricted contributions	(107,376)	-
Change in fair value of beneficial interests in trusts	(84,136)	(152,639)
Pension benefit liability adjustment	(312,291)	1,125,768
Changes in operating assets and liabilities		
Accounts receivable	(502,814)	(394,007)
Contributions and pledges receivable	293,554	2,595,848
Prepaid expenses and other	146,101	87,695
Inventories	21,843	(34,371)
Accounts payable and accrued expenses	(260,531)	336,765
Deferred grant income	1,741	(12,989)
Accrued pension plan cost	(767,593)	580,459
Net Cash from Operating Activities	<u>940,919</u>	<u>(3,329,368)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificate of deposit held as collateral	(1,050,000)	-
Proceeds from the sale of investments	12,699,984	35,780,267
Purchase of investments	(10,285,139)	(30,823,869)
Proceeds from disposal of property and equipment	7,650	-
Acquisition of property and equipment	(1,513,634)	(821,627)
Net Cash from Investing Activities	<u>(141,139)</u>	<u>4,134,771</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from permanently restricted contributions	107,376	-
Payments on long term debt	(10,158,083)	-
Borrowings on long term debt	11,000,000	-
Debt issuance cost	(440,739)	-
Payments on capital lease obligation	(233,528)	(98,880)
Net Cash from Financing Activities	<u>275,026</u>	<u>(98,880)</u>
Change in Cash	1,074,806	706,523
CASH		
Beginning of year	<u>1,560,879</u>	<u>854,356</u>
End of year	<u>\$ 2,635,685</u>	<u>\$ 1,560,879</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 530,500	\$ 528,700
Assets acquired through capital lease	884,597	264,754

The Animal Medical Center

Notes to Financial Statements

1. Organization and Tax Status

The Animal Medical Center (AMC) is a not-for-profit hospital for animals and an institute for veterinary education and research.

AMC is qualified as a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is not subject to federal income taxes under Section 501(a) of the Code. AMC has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Code.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of 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 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

In the accompanying financial statements, AMC's resources have been classified into net asset classifications established according to their nature and purposes, as follows:

Unrestricted net assets represent resources that are available for support of operations, including resources expended for property and equipment and related expenditures at the discretion of AMC's management and Board of Trustees.

Temporarily restricted net assets contain donor-imposed restrictions that permit AMC to use or expend the assets as specified. The restrictions are satisfied either through the passage of time or by actions of AMC.

Permanently restricted net assets include amounts that are to be maintained in perpetuity in accordance with donor intentions.

Cash and Cash Equivalents

AMC considers all highly liquid investments with a maturity of three months or less at the time of purchase which are available for operations to be cash equivalents.

The Animal Medical Center

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable result from the professional care services provided by AMC to animals in the surrounding New York area. All accounts receivable related to professional services revenue are 100% related to self-pay customers. The amount of allowance for doubtful accounts is based upon management's assessment of historical and expected net collections and overall business and economic conditions. The allowance for doubtful accounts approximated \$100,000 and \$163,000 at December 31, 2010 and 2009.

Inventories

AMC values its inventories at the lower of cost or market using the FIFO (first-in, first-out) method.

Fair Value of Financial Instruments

AMC follows Financial Accounting Standards Board (FASB) guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation

Investments are carried at fair value. The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") as reported by the management of the respective alternative investment fund. FASB guidance provides for the use of NAV as a "*Practical Expedient*" for estimating fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of AMC's interest therein and their classification within Level 2 or 3 is based on AMC's ability to redeem its interest in the near term.

AMC has invested in non-interest bearing structured notes which index the principal of the note to various currencies, exchange rates, and global equity indices. Such notes are designed to seek low market volatility risk and high returns. AMC has estimated the fair value of the structured notes by taking into consideration the credit status of the issuer of the note, maturity date, par value and associated value of the indexing feature of the note.

The Animal Medical Center

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the change in net assets.

Deferred Debt Issuance Costs

Deferred debt issuance costs represent costs incurred to obtain long term debt (see Note 10). Amortization of these costs is provided using the straight-line method, which does not differ materially from the effective interest method, over the life of the related debt. During 2010, AMC wrote off \$573,172 of deferred debt issuance costs relating to the prior mortgage, and recognized deferred debt issuance costs of \$440,739 on the current mortgage obtained in 2010. At December 31, 2010 and 2009, accumulated amortization was approximately \$123,000 and \$1,663.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets, which range from four to ten years for software and equipment and 30 years for buildings and improvements.

Endowment

On September 17, 2010, New York State adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA includes provisions that differ from previous law, including the elimination of the historic dollar value rule with respect to endowment spending, establishment of new standards governing the expenditure and modification of restrictions on endowment funds, and revision of the prudence standard for the management and investment of endowment funds.

In accordance with the adoption of UPMIFA, AMC reviewed all of its endowment funds and determined that a net asset reclassification was not necessary.

Contributions and Bequests

AMC records as revenue contributions at their fair value when they are received unconditionally. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

The Animal Medical Center

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Contributions and Bequests (continued)

AMC records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. AMC records contributions and bequests net of related discounts.

Professional Services Revenue

Professional services revenue is recorded at established rates when veterinary services are performed. As a matter of policy, AMC provides charity care to certain animals. Since payment for charity care is not sought, charity care allowances are not reported as revenue.

Donated Goods

AMC records contributions for pet food donated by major pet food manufacturers. Amounts are held in inventory until used, at which time the value of the contributed pet food is recorded as professional care and research expense. During the years ended December 31, 2010 and 2009, AMC recorded a contribution of \$157,811 and \$128,306, and professional care and research expense of \$150,150 and \$118,263.

Research and Development

Research and development activities are expensed as incurred. Research and development costs charged to operations totaled \$316,624 and \$318,258 in 2010 and 2009.

Allocation of Expenses

Certain expenses are allocated to program or supporting services based on management's estimates.

Operating Measure

The statements of activities separately report changes in net assets from operating and nonoperating activities. AMC includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities. Contributions specifically restricted by donors for operating purposes are included in operating revenue. Investment income earned on certain permanently restricted contributions is reported as operating revenue. Nonoperating activities consist of unrestricted contributions by donors, net investment return, net of investment return appropriated for operating purposes, abandonment of project costs, write off of deferred debt issuance costs, changes in the fair value of interest rate swap agreements and pension liability adjustment.

The Animal Medical Center

Notes to Financial Statements

2. Summary of Significant Accounting Policies *(continued)*

Reclassifications

Certain amounts in the December 31, 2009 financial statements have been reclassified for comparative purposes only.

2009 Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AMC's financial statements for the year ended December 31, 2009 from which the summarized information was derived.

Accounting for Uncertainty in Income Taxes

AMC recognizes the effect of income tax positions only when they are more than likely than not of being sustained. Management of AMC is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax. Management has determined that AMC had no uncertain tax positions that would require financial statement recognition. AMC is no longer subject to audits by the applicable taxing jurisdictions for periods prior to December 31, 2007.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is April 13, 2011.

3. Concentration of Credit Risk

Financial instruments that potentially subject AMC to concentrations of credit risk consist principally of cash, investments and contributions and pledges receivable. AMC places its cash with various financial institutions and limits the amount of credit exposure by any one financial institution. At times, the cash balance may be in excess of the federally insured limits. Investments are diversified by type and industry concentrations so that no individual or group of investments represents a significant concentration of credit risk. Contributions and pledges receivable are from limited sources, subjecting AMC to a concentration of credit risk.

The Animal Medical Center

Notes to Financial Statements

4. Contributions and Pledges Receivable

Contributions and pledges receivable are shown in the accompanying statement of financial position net of a discount to present value of 5% on payments due in future years.

Contributions and pledges receivable are due as follows at December 31, 2010:

2011	\$ 1,209,923
2012	250,000
2013	250,000
2014	250,000
2015	<u>250,007</u>
	2,209,930
Discount to present value	<u>(112,799)</u>
	<u><u>\$ 2,097,131</u></u>

5. Fair Value Measurements

The following are major categories of assets at December 31, grouped by the fair value hierarchy for those assets measured at fair value on a recurring basis:

	2010			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Money market funds	\$ 6,292,199	\$ -	\$ -	\$ 6,292,199
Mutual funds				
Large Cap equity funds	4,101,445	-	-	4,101,445
Mid cap/small cap equity funds	1,302,043	-	-	1,302,043
Emerging markets equity funds	167,865	-	-	167,865
Non US equity funds	1,265,580	-	-	1,265,580
Bond fund	148,410	-	-	148,410
Fixed income funds	-	8,012,291	-	8,012,291
Structured notes	-	-	338,513	338,513
Limited partnerships	-	-	3,356,296	3,356,296
Total Investments	<u>13,277,542</u>	<u>8,012,291</u>	<u>3,694,809</u>	<u>24,984,642</u>
Beneficial interests in trusts	-	-	1,352,655	1,352,655
Total	<u><u>\$ 13,277,542</u></u>	<u><u>\$ 8,012,291</u></u>	<u><u>\$ 5,047,464</u></u>	<u><u>\$ 26,337,297</u></u>

The Animal Medical Center

Notes to Financial Statements

5. Fair Value Measurements *(continued)*

During 2010, there were no transfers between levels 1, 2 or 3 of the fair value hierarchy.

	2009			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Money market funds	\$ 10,876,091	\$ -	\$ -	\$ 10,876,091
Marketable equity securities	3,109,737	-	-	3,109,737
Common trust - fixed income	-	2,154,624	-	2,154,624
Common trust - other	-	1,444,682	-	1,444,682
Mutual funds	1,489,517	-	-	1,489,517
Limited partnerships	-	-	5,425,274	5,425,274
Total Investments	15,475,345	3,599,306	5,425,274	24,499,925
Beneficial interests in trusts	-	-	1,268,519	1,268,519
Total	<u>\$ 15,475,345</u>	<u>\$ 3,599,306</u>	<u>\$ 6,693,793</u>	<u>\$ 25,768,444</u>

The following is a reconciliation of the beginning and ending balances for Level 3 assets during the period ended December 31:

	2010			2009	
	Limited Partnerships	Structured Notes	Beneficial Interest in Trusts	Limited Partnerships	Beneficial Interest in Trusts
Beginning balance	\$ 5,425,274	\$ -	\$ 1,268,519	\$ 7,168,161	\$ 1,115,880
Purchases	-	315,000	-	-	-
Total unrealized gain	931,022	23,513	84,136	2,255,748	152,639
Redemptions	(3,000,000)	-	-	(3,998,635)	-
Ending balance	<u>\$ 3,356,296</u>	<u>\$ 338,513</u>	<u>\$ 1,352,655</u>	<u>\$ 5,425,274</u>	<u>\$ 1,268,519</u>

Gains included in the statement of activities that are attributable to Level 3 investments held at December 31, 2010 and 2009 were \$1,038,671 and \$953,064.

The Animal Medical Center

Notes to Financial Statements

5. Fair Value Measurements *(continued)*

Information regarding investments measured at NAV at December 31, 2010 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge Fund of Funds (see "a" below)	\$ 3,356,296	\$ -	Annual	60 days

a. This category includes an investment in a hedge fund of funds (the "Partnership") that invests in managed funds, registered open-end and closed-end investment companies and other investment vehicles that invest or trade primarily in the securities of non-U.S. companies. The Partnership may also make direct investments in such securities. The Partnership selects and allocates its funds among professional money managers with specialized expertise in investing globally who utilize different investment strategies. The Partnership anticipates that the investment strategies to be employed by such money managers will include investing and trading in marketable securities both long and short, leverage, (including margin borrowing) hedging, currencies, and to a limited extent, futures.

Investments Risks and Uncertainties

Management of the Partnership has the ability to shift its direct investments in securities into different style strategies, from small to large capitalization stocks, and from a net long position to a net short position. The ability of the Partnership to shift among investments in managed funds is subject to the redemption terms of its existing fund investments and the subscription terms of new fund investments. The fair value of AMC's investment in the Partnership has been estimated using the net asset value reported by the manager. This investment can be redeemed once a year at December 31st, with 60 days advance notice.

Structured notes held at December 31, 2010 are debt obligations of one of the largest U.S. banks. These notes contain varying degrees of risk whereby changes in the fair value of the credit status of the issuer bank, which represents a concentrated counterparty risk, and the index features of the notes, may result in the fair market value being less than the amount stated in the statement of financial position. The investments of AMC contain varying degrees of risk whereby changes in the fair value of the securities underlying the investment are limited to the amount recognized in the statement of financial position.

The Animal Medical Center

Notes to Financial Statements

6. Investment Return

Investment returns for the years ended December 31 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Interest income	\$ 28,706	\$ 30,131
Dividend income	293,167	230,974
Realized (loss)	(81,863)	(4,170,712)
Unrealized gain	1,982,790	7,789,273
Investment-related expenses	<u>(77,497)</u>	<u>(117,661)</u>
	<u>\$ 2,145,303</u>	<u>\$ 3,762,005</u>

7. Beneficial Interests in Trusts

AMC is a beneficiary in a number of charitable-remainder trusts established by donors. Under the provisions of these trusts, AMC may receive income generated from donated assets controlled by third parties and may share this income with the donor or the donor's designee until such time as stated in the arrangement (usually upon the death of the donor or the donor's designee) at which time the remaining assets are generally unrestricted for AMC's use.

AMC records as beneficial interests in trusts its share of assets controlled by third parties based on the present value of the estimated future distributions expected to be received by AMC over the expected term of the arrangement using a discount rate of 5%. At December 31, 2010 and 2009, beneficial interests in trusts relating to such arrangements were \$1,352,655 and \$1,268,519.

8. Property and Equipment

	<u>2010</u>	<u>2009</u>
Land	\$ 1,676,075	\$ 1,676,075
Buildings and building improvements	50,364,868	49,359,466
Equipment	7,808,054	6,918,196
Software	<u>1,974,654</u>	<u>1,937,102</u>
	61,823,651	59,890,839
Accumulated depreciation	<u>(21,473,992)</u>	<u>(19,334,573)</u>
	40,349,659	40,556,266
Capital projects in process	<u>308,594</u>	<u>98,065</u>
	<u>\$ 40,658,253</u>	<u>\$ 40,654,331</u>

The Animal Medical Center

Notes to Financial Statements

8. Property and Equipment (continued)

Depreciation expense was \$2,276,029 and \$2,392,238 for the years ended December 31, 2010 and 2009, including \$106,831 and \$84,860 of depreciation on capitalized equipment.

9. Capital Lease Obligations

AMC leases equipment under various capital lease arrangements. The aggregate capitalized cost of this equipment under obligation at December 31, 2010 and 2009 was \$1,952,911 and \$1,068,314 less accumulated depreciation of \$224,993 and \$118,162. Depreciation expense amounted to \$106,831 and \$84,680 for 2010 and 2009. This equipment is included in property and equipment, net in the accompanying statement of financial position.

Future minimum lease payments and the net present value of future minimum lease payments related to capital leases are payable as follows at December 31, 2010:

2011	\$ 388,658
2012	483,299
2013	443,560
2014	314,192
2015	<u>148,237</u>
Total Lease Payments	1,777,946
Amount representing interest	<u>(197,045)</u>
Present Value of Future Minimum Payments	1,580,901
Current portion	<u>(316,856)</u>
	<u>\$ 1,264,045</u>

10. Mortgage Payable

In September 2003, AMC entered into a 30-year mortgage agreement (the Agreement) in the amount of \$10,140,000 that was issued by the New York City Housing Development Corporation (HDC) to fund a portion of the purchase price of a residential building. As a result, HDC Residential Revenue 2003 Series A bonds were issued, consisting of \$970,000 serial bonds with interest rates ranging from 4.25% to 4.50%, due in 2014 to 2016, \$720,000 term bonds with an interest rate of 4.75%, due in 2018, \$2,625,000 term bonds with an interest rate of 5.0%, due in 2024, and \$5,825,000 term bonds with an interest rate of 5.50%, due in 2033.

The Animal Medical Center

Notes to Financial Statements

10. Mortgage Payable *(continued)*

In November 2010, AMC obtained a 10-year mortgage loan from JP Morgan Chase in the amount of \$11,000,000, with a maturity date of December 31, 2020. The mortgage loan was used to redeem the existing New York City HDC Residential Revenue 2003 Series A bonds and will be amortized in equal monthly principal payments on a twenty-five year straight line basis with an interest rate calculated using the 30 day LIBOR rate plus 2 percent. The mortgage loan is secured by a conforming mortgage on the property, a debt service reserve fund in the amount of \$1,050,000 and marketable securities held at the Bank.

Future annual principal payments are payable as follows at December 31, 2010:

2011	\$	234,706
2012		243,345
2013		256,856
2014		269,563
2015		280,345
2016 and thereafter		<u>9,697,102</u>
	\$	<u>10,981,917</u>

AMC has entered into an interest rate swap agreement (SWAP) with a major financial institution in which AMC has fixed the interest rate at 4.75% on its floating rate debt. The terms of the SWAP require AMC to pay a fixed rate of interest of 4.75% and to receive a floating rate of interest based on LIBOR with payments being calculated on a notional amount which, throughout the life of the SWAP, mirrors the outstanding balance of the outstanding debt. The difference between the SWAP fixed and floating rate of interest is settled on a monthly basis and is either paid or received, with the net result being recorded within interest expense. The SWAP is recorded at fair value each reporting period with changes in such fair value being recognized within the change in net assets. At December 31, 2010, the fair value of the SWAP approximated \$288,939 and the change in unrealized gain of the SWAP recognized in the accompanying statement of activities was \$288,939 for the year then ended. Because the SWAP fair values are based predominantly on observable inputs corroborated by market data, they are valued using Level 2 inputs in the fair value hierarchy.

11. Pension Plans

Defined Benefit Plan

AMC maintains a noncontributory defined benefit pension plan (the Plan) covering substantially all employees. The Plan provides benefits based on the participants' years of service and compensation.

The Animal Medical Center

Notes to Financial Statements

11. Pension Plans (continued)

Defined Benefit Plan (continued)

The funding policy is based on valuations using the projected unit credit actuarial cost method which are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Plan was amended as of January 1, 1998 to a cash balance account plan.

Effective October 25, 2009 the plan was frozen. Participants as of that date no longer receive future service credits. Employees who did not meet the eligibility requirements of the plan as of that date will not be eligible in the future. The plan freeze reduced the projected benefit obligation by \$460,210 due to the curtailment. As such reduction was less than the combination of actuarial loss, prior service cost and net transition asset as of October 25, 2009 there was no curtailment gain recognized in earnings.

The following table provides information about the Plan as of and for the year ended December 31:

	2010	2009
Projected benefit obligation	\$ 9,878,928	\$ 9,986,331
Fair value of plan assets	<u>7,090,281</u>	<u>6,117,800</u>
Unfunded status	<u>\$ (2,788,647)</u>	<u>\$ (3,868,531)</u>
Accrued benefit cost recognized in the statement of financial position	\$ (2,788,647)	\$ (3,868,531)
Accumulated benefit obligation	9,878,928	9,986,331
Net periodic benefit cost recognized in the statement of activities	80,528	580,457
Amortization of amounts previously not recognized as a component of net periodic benefit cost	2,206	22,972
Employer contributions to plan during the year	848,121	-
Benefits paid during the year	491,865	1,645,533
Expected employer contributions to the Plan in 2011	128,500	-
Weighted average assumptions as of December 31		
Discount rate	4.96%	5.52%
Rate of compensation increase	N/A	N/A
Expected long-term rate on plan assets	7.00%	7.00%

The Animal Medical Center

Notes to Financial Statements

11. Pension Plans (continued)

Defined Benefit Plan (continued)

The table below reflects the amounts recognized as other changes in unrestricted net assets arising from the Plan at December 31, 2010 and 2009 that have not yet been recognized in net periodic pension cost and the portion of such amounts that are expected to be recognized in net periodic pension cost during the year ending December 31, 2011:

	2010	2009	2011
Transition asset	\$ (31,186)	\$ (62,370)	\$ (31,184)
Prior service cost	(218,711)	(267,847)	(49,136)
Net actuarial loss	2,625,486	3,018,096	-
	<u>\$ 2,375,589</u>	<u>\$ 2,687,879</u>	<u>\$ (80,320)</u>

The following table shows estimated future benefits expected to be paid from the Plan for each of the years in the period ended December 31:

2011	\$ 245,245
2012	579,207
2013	272,342
2014	839,666
2015	1,405,661
2016-2020	2,906,949

The 7.0% long-term rate of return on plan assets is determined by calculating a total fund return estimate based on a weighted-average of estimated returns for each asset class. Asset class returns are estimated using current and projected economic factors such as real rates of return, inflation, credit spreads, equity risk premiums and excess return expectations. The value of the Plan's investments has a direct impact on its funded status. The actual impact on the Plan's funded status and future required contributions cannot be determined at this time.

Plan Assets

The pension plan's strategy is to invest in a prudent manner for the exclusive purpose of providing benefits to participants. The strategy is targeted to produce a total return that, when combined with contributions to the Plan, will maintain the Plan's ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in equities and fixed income.

The Animal Medical Center

Notes to Financial Statements

11. Pension Plans *(continued)*

Defined Benefit Plan (continued)

The fair value of AMC's pension plan assets at December 31, 2010, by asset category are as follows:

	<u>2010</u>
Money market funds	\$ 123,798
Mutual Funds	
Large cap equity funds	2,737,535
Mid cap/small cap equity funds	786,713
Bond funds	3,073,589
Emerging markets equity funds	142,059
REITS	<u>226,587</u>
	<u>\$ 7,090,281</u>

AMC's pension plan assets consist of money market funds and publicly traded mutual funds which were valued using level 1 inputs under FASB guidance.

Defined Contribution Plan

AMC has adopted a defined contribution plan for all eligible employees. The defined contribution plan is funded with employee and matching employer contributions. AMC did not make any contributions to the defined contribution plan during 2010 and 2009.

12. Endowment Funds

Interpretation of Law

The Board of Directors of AMC has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, AMC classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by AMC in a manner consistent with the standard of prudence prescribed by NYPMIFA.

The Animal Medical Center

Notes to Financial Statements

12. Endowment Funds *(continued)*

Return Objectives and Risk Parameters

AMC's endowment investment policy is to invest in a multi-asset class portfolio based on an asset allocation to satisfy overall endowment financial and investment objectives such as to preserve the principal, protect against inflation, receive stable returns and achieve long term growth. AMC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The following is a reconciliation of the activity in the donor-restricted endowment funds (under the Board's control) for the years ended December 31:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, December 31, 2008	\$ (2,963,962)	\$ 16,428	\$ 9,383,188	\$ 6,435,654
Investment income	32,264	-	-	32,264
Capital appreciation	951,261	-	-	951,261
Restoration of prior year underwater losses	<u>16,428</u>	<u>(16,428)</u>	-	-
Balance, December 31, 2009	(1,964,009)	-	9,383,188	7,419,179
Reclassifications (see Note 14)	-	-	(1,900,000)	(1,900,000)
Contributions	-	-	107,376	107,376
Investment income	80,243	-	-	80,243
Capital appreciation	<u>682,356</u>	<u>-</u>	<u>-</u>	<u>682,356</u>
Balance, December 31, 2010	<u>\$ (1,201,410)</u>	<u>\$ -</u>	<u>\$ 7,590,564</u>	<u>\$ 6,389,154</u>

AMC's beneficial interest in trusts are not displayed above since those funds are held by third parties and the Board of Trustees has no discretion over those funds.

Funds with Deficiencies

Certain of the AMC's donor restricted endowments have experienced losses due to market fluctuations and the continuing requirements of funding the program. Generally accepted accounting principals require that such excess losses be absorbed by the unrestricted net assets of the AMC and that future gains be allocated to unrestricted net assets until such losses have been restored. Aggregate cumulative losses absorbed by the unrestricted net assets at December 31, 2010 and 2009 amounted to \$1,201,410 and \$1,964,009.

The Animal Medical Center

Notes to Financial Statements

13. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted by time and purpose as follows at December 31:

	<u>2010</u>	<u>2009</u>
Charity care	\$ 1,505,541	\$ 1,245,988
Research/case studies	720,639	794,978
Equipment and supplies	686,154	609,132
Education and other	697,540	170,827
Time restricted	<u>2,200,857</u>	<u>935,467</u>
	<u>\$ 5,810,731</u>	<u>\$ 3,756,392</u>

Net assets were released from donor restrictions during the years ended December 31, which satisfied the restricted purposes specified by the donors or the passage of time as follows:

	<u>2010</u>	<u>2009</u>
Charity care	\$ 290,267	\$ 439,884
Research/case studies	380,387	1,193,227
Equipment and supplies	344,429	1,102,886
Education and other	201,925	15,059
Time restricted	<u>-</u>	<u>100,000</u>
	<u>\$ 1,217,008</u>	<u>\$ 2,851,056</u>

14. Permanently Restricted Net Assets

Permanently restricted net assets are to be held in perpetuity in accordance with donor intentions. Income from these net assets is either unrestricted or restricted by donors to be used primarily to offset the cost of charity care provided by AMC.

At December 31, future income earned on permanently restricted net assets will be allocated for the following purposes:

	<u>2010</u>	<u>2009</u>
Restricted as to purpose	\$ 7,590,564	\$ 9,383,188
Unrestricted as to use	<u>351,799</u>	<u>333,052</u>
	<u>\$ 7,942,363</u>	<u>\$ 9,716,240</u>

The Animal Medical Center

Notes to Financial Statements

14. Permanently Restricted Net Assets (*continued*)

During the year ended December 31, 2010, AMC received approval from certain donors to unrestrict \$1,900,000 of previously permanently restricted contributions.

The Animal Medical Center

Supplementary Information

December 31, 2010

The Animal Medical Center
Schedule of Functional Expenses
Year Ended December 31, 2010

(with summarized totals for the year ended December 31, 2009)

	Professional Care and Research	Rental	General Services	Fiscal Services	Administrative Services	2010 Total	2009 Total
Salaries and benefits	\$ 15,399,717	\$ 197,079	\$ 2,425,355	\$ 1,351,923	\$ 1,014,839	\$ 20,388,913	\$ 22,807,984
Purchased services	1,316,572	276,857	300,775	163,368	396,915	2,454,487	2,899,503
Supplies	3,147,461	11,339	151,469	68,088	51,544	3,429,901	2,973,265
Utilities	8,432	371,209	996,963	454,243	-	1,830,847	1,818,816
Repairs and maintenance	533,621	112,303	136,922	185,506	3,616	971,968	904,239
Other	1,594,642	963,323	573,583	44,836	57,508	3,233,892	3,276,585
	<u>22,000,445</u>	<u>1,932,110</u>	<u>4,585,067</u>	<u>2,267,964</u>	<u>1,524,422</u>	<u>32,310,008</u>	<u>34,680,392</u>
Depreciation	<u>1,600,845</u>	<u>675,184</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,276,029</u>	<u>2,392,238</u>
Total Expenses	<u>\$ 23,601,290</u>	<u>\$ 2,607,294</u>	<u>\$ 4,585,067</u>	<u>\$ 2,267,964</u>	<u>\$ 1,524,422</u>	<u>\$ 34,586,037</u>	<u>\$ 37,072,630</u>