

**The Animal Medical Center**

Financial Statements

December 31, 2013

## **Independent Auditors' Report**

### **Board of Trustees The Animal Medical Center**

We have audited the accompanying financial statements of The Animal Medical Center ("AMC"), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Animal Medical Center as of December 31, 2013, 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.

O'CONNOR DAVIES, LLP  
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**Board of Trustees  
The Animal Medical Center**

***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***Report on Summarized Comparative Information***

We have previously audited The Animal Medical Center's December 31, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 10, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*O'Connor Davies, LLP*

May 5, 2014

## The Animal Medical Center

### Statement of Financial Position

December 31, 2013

(with comparative amounts at December 31, 2012)

	2013	2012
<b>ASSETS</b>		
Cash	\$ 1,101,054	\$ 862,352
Accounts receivable, net	689,150	721,600
Contributions and pledges receivable, net	5,597,071	6,528,727
Prepaid expenses and other assets	1,180,022	939,787
Investments	23,853,417	20,039,045
Split-interest agreements - charitable remainder trusts	1,409,406	950,626
Deferred debt issuance costs	303,168	346,715
Certificate of deposit held as collateral	1,050,000	1,050,000
Property and equipment, net	38,666,083	39,913,244
Split-interest agreements - perpetual trusts	354,746	326,828
Prepaid pension plan cost	396,966	360,492
Restricted investments	7,595,649	7,595,649
	\$ 82,196,732	\$ 79,635,065
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 3,987,413	\$ 4,156,806
Deferred revenue	1,315,702	1,494,177
Capital lease payable	236,080	456,239
Mortgage payable	10,247,010	10,503,866
Fair value of interest rate swap agreement	349,569	1,076,301
Accrued pension plan cost	2,480,311	3,491,906
Total Liabilities	18,616,085	21,179,295
Net Assets		
Unrestricted		
Operating	15,412,917	10,726,147
Investment in property and equipment	28,419,073	29,409,378
	43,831,990	40,135,525
Temporarily restricted	11,798,262	10,397,768
Permanently restricted	7,950,395	7,922,477
Total Net Assets	63,580,647	58,455,770
	\$ 82,196,732	\$ 79,635,065

See notes to financial statements

## The Animal Medical Center

### Statement of Activities Year Ended December 31, 2013 (with summarized totals for the year ended December 31, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
<b>OPERATING REVENUE AND SUPPORT</b>					
Professional services revenue	\$27,605,710	\$ -	\$ -	\$27,605,710	\$25,925,386
Restricted contributions	-	1,415,480	-	1,415,480	5,606,571
Investment income	-	190,331	-	190,331	158,835
Donated goods	185,812	-	-	185,812	163,123
Rental income	2,034,901	-	-	2,034,901	1,991,301
Other income	356,313	-	-	356,313	351,898
Total Operating Revenue and Support	<u>30,182,736</u>	<u>1,605,811</u>	<u>-</u>	<u>31,788,547</u>	<u>34,197,114</u>
<b>OPERATING EXPENSES</b>					
Program Expenses					
Professional care and research	24,305,107	-	-	24,305,107	23,503,334
Housing expenses	1,815,221	-	-	1,815,221	1,621,141
Management and General					
General services	5,015,942	-	-	5,015,942	4,792,807
Fiscal services	2,300,326	-	-	2,300,326	2,109,869
Administrative services	1,950,015	-	-	1,950,015	1,670,627
Depreciation and amortization	2,447,397	-	-	2,447,397	2,395,397
Total Operating Expenses	<u>37,834,008</u>	<u>-</u>	<u>-</u>	<u>37,834,008</u>	<u>36,093,175</u>
Loss from Operations Before Net Assets Released from Restrictions	(7,651,272)	1,605,811	-	(6,045,461)	(1,896,061)
Net assets released from restrictions	<u>1,441,404</u>	<u>(1,441,404)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss from Operations	<u>(6,209,868)</u>	<u>164,407</u>	<u>-</u>	<u>(6,045,461)</u>	<u>(1,896,061)</u>
<b>NONOPERATING REVENUE AND EXPENSES</b>					
Contributions and bequests	4,805,317	777,307	-	5,582,624	4,991,152
Changes in split-interest agreements	-	458,780	27,918	486,698	48,793
Special event revenue, net of costs with direct benefit to donors of \$312,838 and \$372,164	1,342,898	-	-	1,342,898	1,147,165
Investment income	2,891,208	-	-	2,891,208	2,367,387
Fundraising expenses	<u>(871,417)</u>	<u>-</u>	<u>-</u>	<u>(871,417)</u>	<u>(819,811)</u>
Change in Net Assets Before Other Changes	1,958,138	1,400,494	27,918	3,386,550	5,838,625
Other Changes					
Change in fair value of interest rate swap agreement	726,732	-	-	726,732	(229,410)
Pension liability adjustment	<u>1,011,595</u>	<u>-</u>	<u>-</u>	<u>1,011,595</u>	<u>(53,804)</u>
Change in Net Assets	<u>3,696,465</u>	<u>1,400,494</u>	<u>27,918</u>	<u>5,124,877</u>	<u>5,555,411</u>
<b>NET ASSETS</b>					
Beginning of the year	<u>40,135,525</u>	<u>10,397,768</u>	<u>7,922,477</u>	<u>58,455,770</u>	<u>52,900,359</u>
End of the year	<u>\$43,831,990</u>	<u>\$11,798,262</u>	<u>\$7,950,395</u>	<u>\$63,580,647</u>	<u>\$58,455,770</u>

## The Animal Medical Center

### Statement of Cash Flows Year Ended December 31, 2013 (with comparative amounts for the year ended December 31, 2012)

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,124,877	\$ 5,555,411
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,447,397	2,395,397
(Gain) loss on disposition of property and equipment	(11,087)	125,301
Write off of capital lease obligations	-	(342,213)
Unrealized (gain) loss on swap agreement	(726,732)	229,410
Net realized and unrealized gain on investments	(2,449,623)	(1,953,593)
Provision for uncollectible accounts	526,534	545,601
Changes in fair value of split-interest agreements	(486,698)	(48,793)
Pension benefit liability adjustment	(1,011,595)	53,804
Changes in operating assets and liabilities		
Accounts receivable	(494,084)	(668,803)
Contributions and pledges receivable	931,656	(5,031,139)
Prepaid expenses and other assets	(240,235)	18,732
Prepaid pension plan cost	(36,474)	(672,556)
Accounts payable and accrued expenses	(169,393)	713,028
Deferred revenue	(178,475)	1,244,335
Net Cash from Operating Activities	3,226,068	2,163,922
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale of investments	9,822,933	7,838,653
Purchase of investments	(11,187,682)	(8,303,664)
Proceeds from disposal of property and equipment	57,780	-
Acquisition of property and equipment	(1,203,382)	(1,200,137)
Net Cash from Investing Activities	(2,510,351)	(1,665,148)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long term debt	(256,856)	(243,345)
Payments on capital lease obligation	(220,159)	(679,347)
Net Cash from Financing Activities	(477,015)	(922,692)
Change in Cash	238,702	(423,918)
<b>CASH</b>		
Beginning of year	862,352	1,286,270
End of year	\$ 1,101,054	\$ 862,352
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	\$ 522,587	\$ 556,344
Non Cash Investing and Financing Activities		
Assets acquired through capital lease	-	128,082

See notes to financial statements

## **The Animal Medical Center**

Notes to Financial Statements  
December 31, 2013

### **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**

#### ***Basis of Presentation***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

#### ***Use of Estimates***

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

#### ***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.

#### ***Accounts Receivable***

Accounts receivable result from the professional care services provided by AMC to animals in the surrounding New York area. Accounts receivable 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 \$160,000 and \$140,000 at December 31, 2013 and 2012.

#### ***Contributions and Pledges Receivable***

Unconditional contributions and pledges receivable that are expected to be collected in future years are discounted at their net realizable value. The discount is amortized and reflected within contribution income in the statement of activities over the period in which the pledge is expected to be collected. The amount of allowance for doubtful accounts is based upon a combination of management's assessment of historical collections, aging analysis and any specific known doubtful accounts. At December 31, 2013, management has concluded that an allowance is not required.

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2013

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

#### ***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.

#### ***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 10 year life of the related debt. AMC recognized deferred debt issuance costs of \$435,472 on the mortgage obtained in 2010. At December 31, 2013 and 2012, accumulated amortization was \$132,304 and \$88,757.

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2013

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

#### ***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 three to ten years for software and equipment and ten to thirty years for buildings and improvements.

#### ***Net Asset Presentation***

AMC's financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets. Net assets consist of the following:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in achieving the primary objective of AMC.

*Temporarily restricted* – Net assets that are subject to donor-imposed stipulations that will be met either by passage of time or by actions of AMC. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statement of activities as net assets released from restrictions.

*Permanently restricted* – Net assets that are subject to donor-imposed stipulations that do not expire with passage of time.

#### ***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 animals of certain clients. Since payment for charity care is not sought, charity care allowances are not reported as revenue.

#### ***Contributions and Bequests***

Contributions are recorded at their fair value when they are received unconditionally. Conditional contributions are recognized as support when the conditions on which they depend have been substantially met.

Contributions are 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. Contributions and bequests are net of related discounts.

#### ***Donated Goods***

AMC records contributions of pet food donated by major pet food manufacturers. Food received is valued at fair value at date of donation and 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 2013 and 2012, AMC received contributions of pet food valued at \$185,812 and \$163,123, and used \$180,124 and \$160,871 during the same periods.

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2013

### 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.

#### ***Research***

Research activities are expensed as incurred. Research costs charged to operations totaled \$229,722 and \$188,390 in 2013 and 2012.

#### ***Allocation of Expenses***

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

#### ***Operating Measure***

The statement of activities separately reports changes in net assets from operating and nonoperating activities. AMC includes in its definition of operations all revenue, support 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 and support. Investment income earned on certain permanently restricted contributions is reported as operating revenue. Nonoperating activities consist of unrestricted contributions, bequests and legacies, temporarily restricted contributions for the purchase of equipment, changes in split-interest agreements, net special event revenue and fundraising expenses, investment return net of amounts appropriated for operating purposes, changes in the fair value of the interest rate swap agreement and pension liability adjustment.

#### ***2012 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, 2012 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 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 there are 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 2010.

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2013

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

#### ***Reclassifications***

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

#### ***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 May 5, 2014.

### 3. Concentration of Credit Risk

Financial instruments that potentially subject AMC to concentrations of credit risk consist principally of cash and investments. AMC places its cash with 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.

### 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, 2013:

2014	\$3,733,536
2015	<u>1,956,673</u>
	5,690,209
Discount to present value	<u>(93,138)</u>
	<u>\$5,597,071</u>



## The Animal Medical Center

### Notes to Financial Statements December 31, 2013

#### 5. Fair Value Measurements *(continued)*

The following is a reconciliation of the beginning and ending balances for Level 3 assets during 2013:

	Balance, January 1, 2013	Purchases	Realized gain	Unrealized gain	Redemptions	Balance, December 31, 2013
Alternative investments	\$ 4,504,247	\$ 2,543,176	\$ -	\$ 677,209	\$ -	\$ 7,724,632
Structured notes	398,932	535,940	(59,293)	1,663	(536,175)	341,067
Split-interest agreements	<u>1,277,454</u>	<u>-</u>	<u>-</u>	<u>486,698</u>	<u>-</u>	<u>1,764,152</u>
	<u>\$ 6,180,633</u>	<u>\$ 3,079,116</u>	<u>\$ (59,293)</u>	<u>\$ 1,165,570</u>	<u>\$ (536,175)</u>	<u>\$ 9,829,851</u>

Information regarding alternative investments measured at NAV at December 31, 2013 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge Fund of Funds (see "a" below)	\$ 3,978,349	\$ -	Monthly	60 days
Hedge Fund of Funds (see "b" below)	1,115,714	-	Quarterly	95 days
Hedge Fund (see "c" below)	542,722	-	Monthly	45 days
Hedge Fund (see "d" below)	514,512	-	Monthly	90 days
Hedge Fund (see "e" below)	525,222	-	Annual	60 days
Hedge Fund (see "f" below)	500,000	-	Monthly	30 days
Hedge Fund (see "g" below)	500,000	-	Quarterly	45 days
Hedge Fund of Funds (see "h" below)	<u>48,113</u>	<u>448,895</u>	N/A	N/A
Total	<u>\$ 7,724,632</u>	<u>\$ 448,895</u>		

- a. This category includes an investment in a hedge fund of funds ("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.

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2013

### 5. Fair Value Measurements (*continued*)

- b. This category includes an investment in a 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.
- c. This category includes an investment in a hedge fund ("Fund") that is an open-ended, long/short investment fund. The Fund seeks capital appreciation by utilizing a variety of investment strategies including, but not limited to, sector based fundamental long/short equity, short and medium term equity trading portfolios, global macro trading, special situations, distressed companies and arbitrage opportunities. The Fund generally maintains diverse exposure across sectors, and while it primarily focuses on investments in the U.S., it allocates capital outside of the U.S. where it sees the most attractive opportunities.
- d. This category includes an investment in a Fund that seeks to achieve positive absolute returns over time by investing across the capital structure of individual companies, indices and structured products.
- e. This category includes an investment in a Fund that invests in securities that are subject to corporate events such as restructurings, re-financings, liquidations, bankruptcy or other insolvency proceedings, debt or equity exchange offers, spin-offs, recapitalizations, transfers of assets, mergers, consolidations, acquisitions, or tender offers for debt or equity. The Fund also invests in other types of special situation and value oriented opportunities and longer term investments in both public and private securities. The Fund may also invest in illiquid securities and transactions whereby the Fund might structure, negotiate, and originate loans and other transactions.
- f. This category includes an investment in a Fund that seeks sustainable capital growth through stock selection while protecting capital with its robust active risk management system. The Fund's core competency and focus is on selecting individual equity securities.
- g. This category includes an investment in a Fund that specializes in corporate credit, with an emphasis on hybrid and preferred securities. The Fund intends to capitalize on pricing inefficiencies in the hybrid capital/preferred stock market by leveraging the Fund's extensive experience analyzing, trading and managing credit risk.
- h. This category includes an investment in a Partnership that is designed to aggregate private equity, private lending and real estate offerings into a single vehicle. The Partnership is seeking high absolute returns, both in terms of internal rate of return and multiple of invested capital.

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2013

### 5. Fair Value Measurements (*continued*)

#### *Investment Risks and Uncertainties*

Structured notes held at December 31, 2013 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. These investments 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.

### 6. Investment Return

Investment return is summarized as follows:

	<u>2013</u>	<u>2012</u>
Interest income	\$ 65,844	\$ 57,648
Dividend income	662,051	591,126
Realized gain	813,912	432,682
Unrealized gain	1,635,711	1,520,911
Investment related expenses	<u>(95,979)</u>	<u>(76,145)</u>
	<u>\$ 3,081,539</u>	<u>\$ 2,526,222</u>
Allocated investment income		
Operating investment income	\$ 190,331	\$ 158,835
Nonoperating investment income	<u>2,891,208</u>	<u>2,367,387</u>
	<u>\$3,081,539</u>	<u>\$2,526,222</u>

### 7. Split-Interest Agreements

AMC has the following split-interest agreements with donors:

Charitable remainder 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 reports these trusts as an asset and temporarily restricted contributions revenue at the present value of the estimated future benefits to be received. Adjustments to the receivable to reflect amortization of the discount and changes in actuarial assumptions are recognized in the nonoperating section of the statement of activities as changes in value of split-interest agreements.

**The Animal Medical Center**

Notes to Financial Statements  
December 31, 2013

**7. Split-Interest Agreements (continued)**

Perpetual trusts – Interests in perpetual trusts are recognized as permanently restricted contributions at the present value of estimated future cash receipts from the trust asset, which generally has been determined to approximate the fair value of AMC’s portion of the trust assets. Subsequent changes in the value of perpetual trusts are recorded as nonoperating support. Income received from the trusts is recorded as unrestricted revenue, unless specifically restricted by the donor.

**8. Property and Equipment**

	2013	2012
Land	\$ 1,676,075	\$ 1,676,075
Buildings and building improvements	53,427,840	53,226,237
Furniture and equipment	6,703,782	5,124,273
Equipment under capital lease	1,023,558	1,960,269
Computer hardware and software	3,958,019	3,958,019
	66,789,274	65,944,873
Accumulated depreciation	(27,945,420)	(25,690,618)
Accumulated depreciation, equipment under capital lease	(483,050)	(375,988)
	38,360,804	39,878,267
Capital projects in process	305,279	34,977
	\$ 38,666,083	\$ 39,913,244

Depreciation expense was \$2,403,850 and \$2,351,850 for 2013 and 2012, including \$107,062 and \$150,995 of depreciation on equipment under capital leases.

**9. Capital Lease Obligations**

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:

2014	\$ 155,080
2015	81,000
Total Lease Payments	\$ 236,080

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2013

### 10. Mortgage Payable

In November 2010, AMC obtained a 10-year mortgage loan from JP Morgan Chase (the "Bank") in the amount of \$11,000,000, with a maturity date of December 31, 2020. The mortgage loan was used to redeem its previously 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 of \$1,050,000 and marketable securities held at the Bank.

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

2014	\$ 269,563
2015	280,345
2016	298,162
2017	311,560
2018	326,991
2019 and thereafter	<u>8,760,389</u>
	<u>\$10,247,010</u>

AMC has entered into an interest rate swap agreement ("SWAP") with the Bank 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, 2013 and 2012, the fair value of the SWAP approximated \$(349,569) and \$(1,076,301) and the change in unrealized loss of the SWAP recognized in the accompanying statement of activities was a decrease of \$726,732 and an increase of \$(229,410) for the years 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  
December 31, 2013

**11. Pension Plans (continued)**

***Defined Benefit Plan (continued)***

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

	2013	2012
Projected benefit obligation	\$ 10,437,849	\$ 10,781,336
Fair value of plan assets	8,354,504	7,649,922
Unfunded status	\$ (2,083,345)	\$ (3,131,414)
Accrued benefit cost recognized in the statement of financial position	\$ (2,083,345)	\$ (3,131,414)
Accumulated benefit obligation	10,437,849	10,781,336
Net periodic benefit cost recognized in the statement of activities	23,526	30,918
Amortization of amounts previously not recognized as a component of net periodic benefit cost	(129,330)	(81,127)
Employer contributions to plan during the year	60,000	703,474
Benefits paid during the year	310,218	658,928
Expected employer contributions to the Plan in 2014	60,000	120,000
Weighted average assumptions as of December 31		
Discount rate	4.30%	3.80%
Rate of compensation increase	N/A	N/A

**The Animal Medical Center**

Notes to Financial Statements  
December 31, 2013

**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, 2013 and 2012 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, 2014:

	2013	2012	2014
Prior service cost	\$ (71,303)	\$ (120,439)	\$ (49,136)
Net actuarial loss	<u>2,551,614</u>	<u>3,612,345</u>	<u>-</u>
	<u><u>\$2,480,311</u></u>	<u><u>\$ 3,491,906</u></u>	<u><u>\$ (49,136)</u></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:

2014	\$ 875,000
2015	728,000
2016	880,000
2017	365,000
2018	55,600
2019-2023	1,943,000

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 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  
December 31, 2013

### 11. Pension Plans *(continued)*

#### *Defined Benefit Plan (continued)*

The fair value of AMC's pension plan assets at December 31, 2013, by asset category are as follows:

Money market funds	\$ 485,523
Mutual Funds	
Large cap equity funds	2,459,697
Mid cap/small cap equity funds	1,294,527
Bond funds	1,239,794
Commodities	2,530,936
Emerging markets equity funds	140,490
REITS	<u>203,537</u>
	<u>\$8,354,504</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 2013 and 2012.

### 12. Endowment Funds

#### *Interpretation of Law*

AMC has interpreted the New York Prudent Management of Institutional Funds Act ("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, and except in those cases where the law allows appropriation for spending of the original gift amounts. 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  
December 31, 2013

**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, 2011	\$ (1,524,539)	\$ -	\$ 7,595,649	\$ 6,071,110
Contributions	-	-	-	-
Investment income	158,835	-	-	158,835
Capital depreciation	<u>592,145</u>	<u>-</u>	<u>-</u>	<u>592,145</u>
Balance, December 31, 2012	(773,559)	-	7,595,649	6,822,090
Investment income	3,357	190,331	-	193,688
Capital appreciation	<u>770,202</u>	<u>-</u>	<u>-</u>	<u>770,202</u>
Balance, December 31, 2013	<u>\$ -</u>	<u>\$ 190,331</u>	<u>\$ 7,595,649</u>	<u>\$ 7,785,980</u>

AMC's split interest agreements 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 AMC's donor restricted endowments have experienced losses due to market fluctuations and the continuing requirements of funding certain programs. U.S. GAAP require that such excess losses be absorbed by the unrestricted net assets of AMC and that future gains be allocated to unrestricted net assets until such losses have been restored. Aggregate cumulative losses absorbed by unrestricted net assets at December 31, 2012 amounted to \$773,559. All aggregate cumulative losses absorbed by unrestricted net assets have been replenished at December 31, 2013.

**The Animal Medical Center**

Notes to Financial Statements  
December 31, 2013

**13. Temporarily Restricted Net Assets**

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

	<u>2013</u>	<u>2012</u>
Charity care	\$ 1,037,520	\$ 1,336,196
Research/case studies	923,880	678,344
Equipment and supplies	1,054,315	585,148
Education and other	1,103,247	705,450
Time restricted	<u>7,679,300</u>	<u>7,092,630</u>
	<u>\$ 11,798,262</u>	<u>\$ 10,397,768</u>

Net assets were released from donor restrictions which satisfied the following restrictions for the year ended December 31:

	<u>2013</u>	<u>2012</u>
Charity care	\$ 795,035	\$ 463,461
Research/case studies	52,007	110,260
Equipment and supplies	308,139	308,334
Education and other	117,788	447,703
Time restricted	<u>168,435</u>	<u>37,094</u>
	<u>\$ 1,441,404</u>	<u>\$ 1,366,852</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.

Permanently restricted net assets that have restrictions as to use of earnings are \$7,595,649 as of December 31, 2013 and 2012.

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**The Animal Medical Center**

Supplementary Information

December 31, 2013  
(With summarized totals for the year  
Ended December 31, 2012)

**The Animal Medical Center**  
Schedule of Functional Expenses  
Year Ended December 31, 2013  
(with summarized totals for the year ended December 31, 2012)

	Professional Care and Research	Housing	General Services	Fiscal Services	Administrative Services	2013 Total	2012 Total
Salaries and benefits	\$ 17,018,634	\$ 209,573	\$ 3,072,632	\$ 922,052	\$ 1,419,557	\$ 22,642,448	\$ 21,508,751
Purchased services	1,431,128	408,196	619,069	1,016,500	308,168	3,783,061	3,595,148
Supplies	3,356,866	16,706	167,177	83,154	57,426	3,681,329	3,581,137
Utilities	630,697	325,196	394,186	157,674	78,837	1,586,590	1,500,661
Repairs and maintenance	489,790	161,588	233,128	93,369	6,903	984,778	930,606
Other	<u>1,377,992</u>	<u>693,962</u>	<u>529,750</u>	<u>27,577</u>	<u>79,124</u>	<u>2,708,405</u>	<u>2,581,475</u>
	24,305,107	1,815,221	5,015,942	2,300,326	1,950,015	35,386,611	33,697,778
Depreciation and amortization	<u>1,274,260</u>	<u>759,322</u>	<u>181,260</u>	<u>189,589</u>	<u>42,966</u>	<u>2,447,397</u>	<u>2,395,397</u>
<b>Total Expenses</b>	<b><u>\$ 25,579,367</u></b>	<b><u>\$ 2,574,543</u></b>	<b><u>\$ 5,197,202</u></b>	<b><u>\$ 2,489,915</u></b>	<b><u>\$ 1,992,981</u></b>	<b><u>\$ 37,834,008</u></b>	<b><u>\$ 36,093,175</u></b>

See independent auditors' report