The Animal Medical Center

Financial Statements

December 31, 2016

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, 2016, 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 auditors' 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, 2016, 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.

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Report on Summarized Comparative Information

We have previously audited The Animal Medical Center's December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses on page 23 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.

PKF O'Connor Davies, LLP

June 7, 2017

The Animal Medical Center

Statement of Financial Position
December 31, 2016
(with comparative amounts at December 31, 2015)

	2016	2015
ASSETS		
Cash	$ 1,965,796	$ 235,770
Accounts receivable, net	925,301	770,565
Contributions and pledges receivable, net	1,549,984	3,262,890
Prepaid expenses and other assets	1,405,783	1,439,633
Investments	29,342,515	27,877,060
Split-interest agreements - charitable remainder trusts	1,717,480	980,429
Certificate of deposit held as collateral	-	1,050,000
Property and equipment, net	38,868,521	38,394,287
Split-interest agreements - perpetual trusts	970,059	1,050,730
Prepaid pension plan cost	496,154	663,946
Restricted investments	7,595,649	7,595,649
	$ 84,837,242	$ 83,320,959
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 4,839,229	$ 4,147,106
Deferred revenue	839,443	985,054
Capital lease payable	177,601	-
Mortgage loan payable	10,228,364	9,481,029
Fair value of interest rate swap agreement	-	545,658
Accrued pension plan cost	2,127,223	2,002,538
Total Liabilities	18,211,860	17,161,385
Net Assets		
Unrestricted		
Operating	15,697,461	15,578,094
Investment in property and equipment	28,640,157	28,913,258
	44,337,618	44,491,352
Temporarily restricted	13,722,056	13,021,844
Permanently restricted	8,565,708	8,646,378
Total Net Assets	66,625,382	66,159,574
	$ 84,837,242	$ 83,320,959

See notes to financial statements

The Animal Medical Center

Statement of Activities
Year Ended December 31, 2016
(with summarized totals for the year ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
OPERATING REVENUE AND SUPPORT					
Professional services revenue	$ 35,192,954	$ -	$ -	$ 35,192,954	$32,025,180
Restricted contributions	-	1,270,330	-	1,270,330	1,106,688
Investment return	-	591,128	-	591,128	(169,312)
Donated goods	195,741	-	-	195,741	187,963
Other income	437,235	-	-	437,235	361,392
Net assets released from restrictions	3,362,496	(3,362,496)	-	-	-
Total Operating Revenue and Support	39,188,426	(1,501,038)	-	37,687,388	33,511,911
OPERATING EXPENSES					
Program Expenses					
Professional care and research	29,806,352	-	-	29,806,352	27,393,748
Management and General					
General services	5,288,451	-	-	5,288,451	5,270,802
Fiscal services	3,334,328	-	-	3,334,328	2,360,353
Administrative services	2,000,545	-	-	2,000,545	2,038,243
Depreciation	1,968,058	-	-	1,968,058	1,827,742
Total Operating Expenses	42,397,734	-	-	42,397,734	38,890,888
Loss from Operations Before Housing Revenue and Expenses	(3,209,308)	(1,501,038)	-	(4,710,346)	(5,378,977)
Housing revenue	2,109,768	-	-	2,109,768	2,095,253
Housing expenses	(1,929,077)	-	-	(1,929,077)	(1,882,658)
Depreciation - housing	(737,706)	-	-	(737,706)	(734,084)
Loss from Operations	(3,766,323)	(1,501,038)	-	(5,267,361)	(5,900,466)
NONOPERATING REVENUE AND EXPENSES					
Contributions and bequests	2,814,139	1,464,200	-	4,278,339	4,562,412
Changes in split-interest agreements	-	737,050	(80,670)	656,380	(139,598)
Special event revenue, net of costs with direct benefit to donors of $443,612 and $359,001	1,315,090	-	-	1,315,090	1,062,591
Investment return	812,625	-	-	812,625	(319,581)
Fundraising expenses	(975,238)	-	-	(975,238)	(995,461)
Change in Net Assets Before Other Changes	200,293	700,212	(80,670)	819,835	(1,730,103)
OTHER CHANGES					
Change in fair value of interest rate swap agreement	(229,342)	-	-	(229,342)	11,830
Pension liability adjustment	(124,685)	-	-	(124,685)	(99,206)
Change in Net Assets	(153,734)	700,212	(80,670)	465,808	(1,817,479)
NET ASSETS					
Beginning of the year	44,491,352	13,021,844	8,646,378	66,159,574	67,977,053
End of the year	$ 44,337,618	$ 13,722,056	$ 8,565,708	$ 66,625,382	$ 66,159,574

See notes to financial statements

The Animal Medical Center

Statement of Cash Flows
Year Ended December 31, 2016
(with comparative amounts for the year ended December 31, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 465,808	$ (1,817,479)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	2,727,510	2,581,961
Amortization of debt issuance costs	218,943	43,546
Unrealized loss (gain) on swap agreement	229,342	(11,830)
Net realized and unrealized (gain) loss on investments	(809,800)	870,857
Provision for uncollectible accounts	1,623,303	635,329
Changes in fair value of split-interest agreements	(656,380)	139,598
Pension benefit liability adjustment	124,685	99,206
Changes in operating assets and liabilities		
Accounts receivable	(1,778,039)	(804,711)
Contributions and pledges receivable	1,712,906	2,970,217
Prepaid expenses and other assets	33,850	(211,427)
Prepaid pension plan cost	167,792	(110,494)
Accounts payable and accrued expenses	692,123	498,632
Deferred revenue	(145,611)	(196,520)
Net Cash from Operating Activities	4,606,432	4,686,885
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	25,815,865	9,340,588
Purchase of investments	(26,471,520)	(12,020,007)
Proceeds from the sale of certificate of deposit	1,050,000	-
Acquisition of property and equipment	(3,009,788)	(3,142,143)
Net Cash from Investing Activities	(2,615,443)	(5,821,562)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long term debt	(9,796,405)	(280,345)
Borrowings on long term debt	10,377,797	-
Payment on swap termination cost	(775,000)	-
Payment debt issuance cost	(53,000)	-
Payments on capital lease obligation	(14,355)	(80,887)
Net Cash from Financing Activities	(260,963)	(361,232)
Change in Cash	1,730,026	(1,495,909)
CASH		
Beginning of year	235,770	1,731,679
End of year	$ 1,965,796	$ 235,770
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 412,647	$ 499,172
Equipment acquired under capital lease	191,956	-

See 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

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 professional care services provided by AMC to animals in the surrounding New York area. Accounts receivable are 100% related to self-pay customers. The 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 $200,000 and $160,000 at December 31, 2016 and 2015.

Contributions and Pledges Receivable

Unconditional contributions and pledges receivable that are expected to be collected in future years are discounted to 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 allowance for doubtful accounts is based upon a combination of management's assessment of historical collections, aging analysis and any specific known doubtful account. The allowance for doubtful accounts was $1,000,000 and $0 at December 31, 2016 and 2015. At December 31, 2016, all contributions and pledges receivable are due in 2017.

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 employs a three-level fair value hierarchy, based upon the valuation inputs and assumptions used, to measure the fair value of its financial assets. These levels are defined as follows:

- Level 1 measurements have the highest reliability and are related to assets with unadjusted quoted prices in active markets.

- Level 2 measurements relate to assets with other-than-quoted prices in active markets, which may include quoted prices for similar assets or liabilities or other inputs that can be corroborated by observable market data.

- Level 3 measurements make the use of unobservable inputs and are used to the extent that observable inputs do not exist.

The level in the fair value hierarchy within which a fair value measurement falls in its entirety is based on the lowest level input that is significant to the fair value measurement.

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. U.S. GAAP guidance provides for the use of NAV as a *"Practical Expedient"* for estimating fair value of alternative investments.

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. AMC liquidated all non-interest bearing structured notes at December 31, 2015.

Pursuant to U.S. GAAP guidance, alternative investments where fair value is measured using the Net Asset Value ("NAV") per share as a practical expedient is not categorized within the fair value hierarchy.

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

Debt Issuance Costs

In 2016 AMC adopted new U.S. GAAP guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the statement of financial position as a direct deduction from the face amount of the mortgage loan payable. Previously, such costs were shown as deferred debt issuance costs. 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 original mortgage obtained in 2010, which was refinanced in 2016. As a result of the refinancing, deferred debt issuance costs of $197,928 were written off. AMC recognized deferred debt issuance costs of $53,000 on the refinanced mortgage obtained in 2016. AMC reflects amortization of deferred issuance costs within interest expense, in accordance with the new guidance. At December 31, 2016 and 2015, accumulated amortization was $21,016 and $219,399.

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 computer hardware and software and furniture and equipment and ten to thirty years for buildings and improvements.

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value. There were no asset impairments for the years ended December 31, 2016 and 2015.

Net Asset Presentation

AMC's financial statements distinguish between unrestricted, temporarily restricted and permanently restricted net assets.

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.

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

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 a major pet food manufacturer. Food received is recorded at fair value at the date of donation and is held in inventory until used, at which time the value of the contributed pet food is recorded as professional care and research expense. During 2016 and 2015, AMC received contributions of pet food valued at $195,741 and $187,963, and used $195,426 and $187,599 during the same periods.

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 $244,233 and $228,667 in 2016 and 2015.

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.

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

Operating Measure (continued)

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 temporarily restricted contributions for the purchase of equipment and capital improvements, 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.

2015 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 U.S GAAP. Accordingly, such information should be read in conjunction with AMC's financial statements as of and for the year ended December 31, 2015 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 or disclosure. AMC is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2013.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 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 June 7, 2017.

3. Concentration of Credit Risk

Financial instruments that potentially subject AMC to concentrations of credit risk consist principally of cash and investments with a major New York 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.

3. Concentration of Credit Risk *(continued)*

Concentrations of credit risk with respect to contributions and pledges receivable are generally diversified due to the large number of entities and individuals composing AMC's donor base. AMC performs ongoing credit evaluations and provides an allowance for uncollectible amounts as they become known.

4. Fair Value Measurements

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

	2016			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 2,604,023	$ -	$ -	$ 2,604,023
Mutual Funds				
Large cap equity funds	8,601,905	-	-	8,601,905
Mid cap equity funds	1,880,534	-	-	1,880,534
Non US equity funds	3,932,770	-	-	3,932,770
Global equity funds	1,749,573	-	-	1,749,573
Fixed income funds	-	13,073,617	-	13,073,617
Subtotal	$ 18,768,805	$ 13,073,617	$ -	31,842,422
Alternative investments (1)				5,095,742
Total Investments at Fair Value				$ 36,938,164
Split-interest agreements	$ -	$ -	$ 2,687,539	$ 2,687,539

(1) As discussed in Note 2, investments that are measured using the practical expedient are not classified within the far value hierarchy.

4. Fair Value Measurements *(continued)*

	2015			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 9,846,887	$ -	$ -	$ 9,846,887
Mutual Funds				
Large cap equity funds	6,806,425	-	-	6,806,425
Mid cap equity funds	2,425,541	-	-	2,425,541
Non US equity funds	5,342,699	-	-	5,342,699
Global equity funds	1,166,817	-	-	1,166,817
Bond funds	493,747	-	-	493,747
Fixed income funds	-	4,813,239	-	4,813,239
Subtotal	$ 26,082,116	$ 4,813,239	$ -	$ 30,895,355
Alternative investments				4,577,354
Total Investments at Fair Value				$ 35,472,709
Other Assets and Liabilites				
Split-interest agreements	$ -	$ -	$ 2,031,159	$ 2,031,159
Interest rate swap agreement	-	(545,658)	-	(545,658)
Total Other Assets and Liabilties	$ -	$ (545,658)	$ 2,031,159	$ 1,485,501

During 2016 and 2015, there were no transfers between levels 2 or 3 of the fair value hierarchy.

The following is a reconciliation of the beginning and ending balances for Level 3 assets during 2016 and 2015:

	Balance, January 1, 2016	Purchases/ Additions	Realized Gain	Unrealized (Loss)	Redemptions	Balance, December 31, 2016
Split-interest agreements	$ 2,031,159	$ 669,717	$ -	$ (13,337)	$ -	$ 2,687,539

	Balance, January 1, 2015	Purchases/ Additions	Realized (Loss)	Unrealized Gain (Loss)	Redemptions	Balance, December 31, 2015
Structured notes	$ 386,358	$ -	$ (77,767)	$ 63,642	$ (372,233)	$ -
Split-interest agreements	2,170,757	-	-	(139,598)	-	2,031,159
	$ 2,557,115	$ -	$ (77,767)	$ (75,956)	$ (372,233)	$ 2,031,159

4. Fair Value Measurements *(continued)*

Information regarding alternative investments measured at NAV at December 31, 2016 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge Fund (see "a" below)	$ 507,487	$ -	Monthly	45 days
Hedge Fund (see "b" below)	503,708	-	Annual	60 days
Hedge Fund (see "c" below)	240,592	-	Monthly	60 days
Hedge Fund (see "d" below)	551,603	-	Monthly	30 days
Hedge Fund (see "e" below)	840,349	-	Quarterly	45 days
Hedge Fund (see "f" below)	744,772	-	Quarterly	70 days
Hedge Fund (see "g" below)	497,984	-	Quarterly	65 days
Hedge Fund (see "h" below)	506,771	-	Quarterly	50 days
Hedge Fund of Funds (see "i" below)	702,476	-	N/A	N/A
Total	$ 5,095,742	$ -		

a. This category includes an investment in a 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.

b. 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.

c. This category includes an investment in a fund that is fundamental bottom-up long/short, global equities strategy with roughly half of exposure from outside the U.S. and an emphasis on mid-caps. The fund runs a fundamentally driven, bottom-up, long/short strategy that maintains a geographically diversified exposure with strong long-term views. Once a transitional theme is identified, the fund then conducts analysis to single out companies poised to both benefit and suffer the most from this thematic change.

4. Fair Value Measurements *(continued)*

d. 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.

e. This category includes an investment in a combination of three funds that invests in equities, fixed income, commodities and currency markets. The fund has a long history of institutional portfolio management using a fundamental, systematic investment process that seeks to generate attractive, risk-adjusted returns through diversification across asset classes and global markets. By combining the three funds, the investors seek to enable clients to benefit from global macroeconomic exposure with lower volatility than could be achieved by investing exclusively in either strategy.

f. This category includes an investment in a multi-strategy fund with an absolute return orientation that seeks to deliver attractive, risk adjusted returns over a multi-year period. The fund takes a multi-disciplinary approach to identify investment opportunities that fall within and between traditional investment silos or that require the application of diverse skill sets. The fund collaborates across regions and functions to manage market and operational risks.

g. This category includes an investment in a fund that is an event-driven hedge fund that targets companies it believes are undervalued and have a catalyst for change. The fund maintains a long-biased, equity-oriented approach, but may invest long and short across the capital structure.

h. This category includes an investment in a fund that is focused primarily on technology, media and telecommunications. The fund seeks absolute returns over the long term through stock picking based on proprietary research and seeks profit from investment ideas on both the long and short side.

i. This category includes an investment in three partnerships that are 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.

5. Investment Return

Investment return is summarized as follows:

	2016	2015
Interest income	$ 137,605	$ 60,425
Dividend income	598,971	450,362
Realized gain (loss)	368,959	(67,053)
Unrealized gain (loss)	440,841	(803,804)
Investment related expenses	(142,623)	(128,823)
	$ 1,403,753	$ (488,893)
Allocated investment return		
Operating investment return	$ 591,128	$ (169,312)
Nonoperating investment return	812,625	(319,581)
	$ 1,403,753	$ (488,893)

6. 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.

Perpetual trusts – Interests in perpetual trusts are recognized as permanently restricted contributions at the present value of estimated future cash receipts from the trust, 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.

7. Property and Equipment

	2016	2015
Land	$ 1,676,075	$ 1,676,075
Buildings and building improvements	58,799,947	56,752,686
Furniture and equipment	10,263,119	8,826,337
Equipment under capital lease	191,956	-
Computer hardware and software	4,053,827	3,958,584
	74,984,924	71,213,682
Accumulated depreciation	(36,170,627)	(33,449,516)
Accumulated depreciation, equipment under capital lease	(6,399)	-
	38,807,898	37,764,166
Capital projects in process	60,623	630,121
	$ 38,868,521	$ 38,394,287

Depreciation expense was $2,727,510 and $2,581,961 for 2016 and 2015, including $6,399 and $80,887 of depreciation on equipment under capital leases in 2016 and 2015.

8. Capital Lease Obligation

Future minimum lease payments and the net present value of future minimum lease payments related to capital leases are payable as follows for the years ending December 31:

2017	$ 43,086
2018	43,086
2019	43,086
2020	43,086
2021	25,134
Total Lease Payments	197,478
Amount representing interest	(19,877)
Present Value of Future Minimum Payments	$ 177,601

9. Mortgage Loan 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 amortized in equal monthly principal payments on a twenty-five year straight line basis with a balloon payment of $8,120,363 at the date of maturity. The interest rate was calculated using the 30 day LIBOR rate plus 2 percent. At this time AMC entered into an interest rate swap agreement (SWAP) with the Bank which fixed the interest rate at 4.75% on its floating rate debt. The terms of the SWAP required 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, mirrored the outstanding balance of the debt. The difference between the SWAP fixed and floating rate of interest was settled on a monthly basis and was either paid or received, with the net result being recorded within interest expense. The SWAP was recorded at fair value each reporting period with changes in such fair value recognized within the change in net assets. At December 31, 2016 and 2015, the fair value of the SWAP amounted to $0 and $(545,658) and the change in unrealized (loss) gain of the SWAP recognized in the accompanying statement of activities was ($229,342) and $11,830 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. (see note 5)

In June 2016, AMC refinanced their mortgage with the Bank, increasing the existing amount of the loan to $10,377,797, extending the maturity date to June 16, 2026 and converting the interest rate on the loan to a fixed rate of 3.3%. The SWAP was terminated at this time and the fair value of $775,000 was incorporated into the new mortgage. The new mortgage resulted in a release of $1,050,000 certificates of deposit held by the Bank as collateral.

9. Mortgage Loan Payable *(continued)*

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

2017	$ 204,630
2018	211,582
2019	218,771
2020	225,301
2021	233,859
2022 - 2026	9,184,351
Total	$ 10,278,494

As discussed in Note 2, debt issuance costs are shown as deductions from mortgage loan payable. At December 31, mortgage loan payable and debt issuance costs are as follows:

	2016	2015
Mortgage loan payable	$ 10,278,494	$ 9,697,102
Less debt issuance costs	(50,130)	(216,073)
Mortgage loan payable, net	$ 10,228,364	$ 9,481,029

10. 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 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.

10. Pension Plans *(continued)*

Defined Benefit Plan (continued)

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

	2016	2015
Projected benefit obligation	$ 8,960,544	$ 9,393,076
Fair value of plan assets	7,329,475	8,054,484
Unfunded status	$ (1,631,069)	$ (1,338,592)
Accrued benefit cost recognized in the statement of financial position	$ (1,631,069)	$ (1,338,592)
Accumulated benefit obligation	8,960,544	9,393,076
Net periodic benefit (income) recognized in the statement of activities	(21,145)	(110,494)
Amortization of amounts previously not recognized as a component of net periodic benefit cost	(72,257)	(45,086)
Benefits paid during the year	126,466	160,970
Weighted average assumptions as of December 31		
Discount rate	3.90%	4.42%
Rate of compensation increase	N/A	N/A
Expected long-term rate on plan assets	7.00%	7.00%

At December 31, 2016 and 2015, AMC was not required to make contributions to the Plan.

The table below reflects the amounts recognized as other changes in unrestricted net assets arising from the Plan at December 31, 2016 and 2015 that have not yet been recognized in net periodic pension cost:

	2016	2015	2017
Net acturial loss	$ 2,127,223	$ 2,002,538	$ -

Prior pension service cost was fully amortized at December 31, 2016.

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10. Pension Plans *(continued)*

Defined Benefit Plan (continued)

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

2017	$ 434,000
2018	530,000
2019	194,000
2020	687,000
2021	484,000
2022-2026	2,340,000

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 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 fair value of AMC’s pension plan assets by asset category at December 31, 2016 and 2015, are as follows:

	2016	2015
Money market funds	$ 227,146	$ 624,475
Mutual Funds		
Large cap equity funds	2,837,920	3,426,503
Mid cap/small cap equity funds	885,821	695,552
Non-US equity funds	844,192	1,324,296
Bond funds	2,534,396	1,924,781
Commodity linked funds	-	58,877
	$ 7,329,475	$ 8,054,484

AMC’s Plan assets consist of money market funds and publicly traded mutual funds which were valued using level 1 inputs under U.S. GAAP guidance.

10. Pension Plans *(continued)*

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 2016 and 2015.

11. 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.

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).

11. Endowment Funds *(continued)*

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, December 31, 2014	$ -	$ 441,707	$ 7,595,649	$ 8,037,356
Investment income	-	107,268	-	107,268
Capital depreciation	(58,886)	(217,695)	-	(276,581)
Appropriation of funds	-	(331,280)	-	(331,280)
Balance, December 31, 2015	(58,886)	-	7,595,649	7,536,763
Investment income	-	126,312	-	126,312
Capital appreciation	58,886	156,233	-	215,119
Balance, December 31, 2016	$ -	$ 282,545	$ 7,595,649	$ 7,878,194

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 requires 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, 2015 amounted to $58,886 and were replenished during 2016.

12. Temporarily Restricted Net Assets

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

	2016	2015
Charity care	$ 1,548,339	$ 1,294,357
Research/case studies	1,497,431	1,076,612
Equipment and supplies	6,469,517	2,995,976
Education and other	616,250	482,678
Time restricted	3,307,974	7,172,221
Unappropriated endowment earnings	282,545	-
	$ 13,722,056	$ 13,021,844

12. Temporarily Restricted Net Assets *(continued)*

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

	2016	2015
Charity care	$ 895,797	$ 726,040
Research/case studies	72,344	195,453
Equipment and supplies	2,161,353	678,386
Education and other	184,922	532,129
Time restricted	48,080	1,666,822
	$ 3,362,496	$ 3,798,830

13. 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 for specific purposes.

Permanently restricted net assets that have restrictions as to use of earnings are $7,595,649 as of December 31, 2016 and 2015.

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The Animal Medical Center

Supplementary Information

December 31, 2016

The Animal Medical Center

Schedule of Functional Expenses
Year Ended December 31, 2016
(with summarized totals for the year ended December 31, 2015)

	Professional Care and Research	Housing	General Services	Fiscal Services	Administrative Services	Fundraising	2016 Total	2015 Total
Salaries and benefits	$ 20,650,687	$ 176,102	$ 3,338,954	$ 1,349,953	$ 1,533,293	$ 560,213	$ 27,609,202	$ 25,556,646
Purchased services	1,698,292	437,951	814,276	580,758	246,755	213,147	3,991,179	4,507,403
Supplies	4,521,927	17,154	145,314	26,299	17,054	15,905	4,743,653	4,189,823
Utilities	623,112	240,713	389,445	116,834	77,889	38,945	1,486,938	1,466,451
Repairs and maintenance	602,872	168,595	360,451	118,066	13,608	957	1,264,549	1,165,322
Other	1,709,462	888,562	240,011	1,142,418	111,946	124,325	4,216,724	3,035,485
	29,806,352	1,929,077	5,288,451	3,334,328	2,000,545	953,492	43,312,245	39,921,130
Depreciation and amortization	1,611,232	737,706	175,515	139,010	42,301	21,746	2,727,510	2,581,961
Total Expenses	$ 31,417,584	$ 2,666,783	$ 5,463,966	$ 3,473,338	$ 2,042,846	$ 975,238	$ 46,039,755	$ 42,503,091

See independent auditors' report