

# **The Animal Medical Center**

Financial Statements

December 31, 2017

## 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, 2017, 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, 2017, 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.

***Report on Summarized Comparative Information***

We have previously audited The Animal Medical Center's December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 7, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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 20 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*

April 11, 2018

## The Animal Medical Center

### Statement of Financial Position

December 31, 2017

(with comparative amounts at December 31, 2016)

	2017	2016
<b>ASSETS</b>		
Cash	\$ 2,258,153	\$ 1,965,796
Accounts receivable, net	1,166,500	925,301
Contributions and pledges receivable, net	2,176,383	1,549,984
Prepaid expenses and other assets	1,396,400	1,405,783
Investments	36,309,558	29,342,515
Split-interest agreements - charitable remainder trusts	1,855,763	1,717,480
Property and equipment, net	37,859,068	38,868,521
Split-interest agreements - perpetual trusts	1,071,078	970,059
Prepaid pension plan cost	467,622	496,154
Restricted investments	7,595,649	7,595,649
	\$ 92,156,174	\$ 84,837,242
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 4,976,369	\$ 4,839,229
Deferred revenue	711,892	839,443
Capital lease payable	141,998	177,601
Mortgage loan payable	10,029,034	10,228,364
Accrued pension plan cost	1,086,080	2,127,223
Total Liabilities	16,945,373	18,211,860
Net Assets		
Unrestricted		
Operating	23,874,481	15,697,461
Investment in property and equipment	27,830,034	28,640,157
	51,704,515	44,337,618
Temporarily restricted	14,839,559	13,722,056
Permanently restricted	8,666,727	8,565,708
Total Net Assets	75,210,801	66,625,382
	\$ 92,156,174	\$ 84,837,242

See notes to financial statements

# The Animal Medical Center

## Statement of Activities Year Ended December 31, 2017 (with summarized totals for the year ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
<b>OPERATING REVENUE AND SUPPORT</b>					
Professional services revenue	\$ 39,479,874	\$ -	\$ -	\$ 39,479,874	\$35,192,954
Restricted contributions	-	2,569,250	-	2,569,250	1,270,330
Investment return	-	640,242	-	640,242	591,128
Donated goods	211,816	-	-	211,816	195,741
Other income	463,498	-	-	463,498	437,235
Net assets released from restrictions	2,718,056	(2,718,056)	-	-	-
Total Operating Revenue and Support	<u>42,873,244</u>	<u>491,436</u>	<u>-</u>	<u>43,364,680</u>	<u>37,687,388</u>
<b>OPERATING EXPENSES</b>					
Program Expenses					
Professional care and research	32,179,588	-	-	32,179,588	29,806,352
Management and General					
General services	5,001,424	-	-	5,001,424	5,288,451
Fiscal services	2,259,617	-	-	2,259,617	3,334,328
Administrative services	2,185,242	-	-	2,185,242	2,000,545
Depreciation	2,098,300	-	-	2,098,300	1,968,058
Total Operating Expenses	<u>43,724,171</u>	<u>-</u>	<u>-</u>	<u>43,724,171</u>	<u>42,397,734</u>
Loss from Operations Before Housing					
Revenue and Expenses	(850,927)	491,436	-	(359,491)	(4,710,346)
Housing revenue	2,039,129	-	-	2,039,129	2,109,768
Housing expenses	(1,696,718)	-	-	(1,696,718)	(1,929,077)
Depreciation - housing	(750,061)	-	-	(750,061)	(737,706)
Loss from Operations	<u>(1,258,577)</u>	<u>491,436</u>	<u>-</u>	<u>(767,141)</u>	<u>(5,267,361)</u>
<b>NONOPERATING REVENUE AND EXPENSES</b>					
Contributions and bequests	3,330,621	355,284	-	3,685,905	4,278,339
Changes in split-interest agreements	-	138,283	101,019	239,302	656,380
Special event revenue, net of costs with direct benefit to donors of \$452,177 and \$443,612	1,446,159	10,300	-	1,456,459	1,315,090
Investment return	4,035,275	-	-	4,035,275	812,625
Fundraising expenses	(1,105,524)	-	-	(1,105,524)	(975,238)
Change in Net Assets Before Other Changes	<u>6,447,954</u>	<u>995,303</u>	<u>101,019</u>	<u>7,544,276</u>	<u>819,835</u>
<b>OTHER CHANGES</b>					
Reclassification	(122,200)	122,200	-	-	-
Change in fair value of interest rate swap agreement	-	-	-	-	(229,342)
Pension liability adjustment	1,041,143	-	-	1,041,143	(124,685)
Change in Net Assets	<u>7,366,897</u>	<u>1,117,503</u>	<u>101,019</u>	<u>8,585,419</u>	<u>465,808</u>
<b>NET ASSETS</b>					
Beginning of the year	<u>44,337,618</u>	<u>13,722,056</u>	<u>8,565,708</u>	<u>66,625,382</u>	<u>66,159,574</u>
End of the year	<u>\$ 51,704,515</u>	<u>\$ 14,839,559</u>	<u>\$ 8,666,727</u>	<u>\$ 75,210,801</u>	<u>\$ 66,625,382</u>

See notes to financial statements

## The Animal Medical Center

### Statement of Cash Flows Year Ended December 31, 2017 (with comparative amounts for the year ended December 31, 2016)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 8,585,419	\$ 465,808
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	2,857,012	2,727,510
Amortization of debt issuance costs	5,300	218,943
Unrealized loss on swap agreement	-	229,342
Net realized and unrealized gain on investments	(3,989,142)	(809,800)
Provision for uncollectible accounts	965,450	1,623,303
Changes in fair value of split-interest agreements	(239,302)	(656,380)
Pension benefit liability adjustment	(1,041,143)	124,685
Changes in operating assets and liabilities		
Accounts receivable	(1,206,649)	(1,778,039)
Contributions and pledges receivable	(626,399)	1,712,906
Prepaid expenses and other assets	9,383	33,850
Prepaid pension plan cost	28,532	167,792
Accounts payable and accrued expenses	137,140	692,123
Deferred revenue	(127,551)	(145,611)
Net Cash from Operating Activities	5,358,050	4,606,432
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale of investments	84,454,453	25,815,865
Purchase of investments	(87,432,354)	(26,471,520)
Proceeds from the sale of certificate of deposit	-	1,050,000
Acquisition of property and equipment	(1,847,559)	(3,009,788)
Net Cash from Investing Activities	(4,825,460)	(2,615,443)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long term debt	(204,630)	(9,796,405)
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	(35,603)	(14,355)
Net Cash from Financing Activities	(240,233)	(260,963)
Change in Cash	292,357	1,730,026
<b>CASH</b>		
Beginning of year	1,965,796	235,770
End of year	\$ 2,258,153	\$ 1,965,796
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	\$ 349,750	\$ 412,647
Equipment acquired under capital lease	-	191,956

See notes to financial statements

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2017

### 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 and included in investments on the statement of financial position, 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 \$250,000 and \$200,000 at December 31, 2017 and 2016.

#### ***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 Animal Medical Center

Notes to Financial Statements  
December 31, 2017

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

#### ***Inventories***

AMC values its inventories at the lower of cost or net realizable value 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.

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

#### ***Debt Issuance Costs***

Debt issuance costs are reported on the statement of financial position as a direct deduction from the face amount of the mortgage loan payable. 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 \$53,000 on the refinanced mortgage obtained in 2016. At December 31, 2017 and 2016, amortization expense related to the current debt issuance costs was \$5,300 and \$2,870.

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2017

### 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 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, 2017 and 2016.

#### ***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.

#### ***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 is 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 recorded net of related discounts.

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2017

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

#### ***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 2017 and 2016, AMC received contributions of pet food valued at \$211,816 and \$195,741, and used \$206,603 and \$195,426 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 \$232,468 and \$244,233 in 2017 and 2016.

#### ***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 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.

#### ***2016 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, 2016 from which the summarized information was derived.

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2017

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

#### ***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 examinations by the applicable taxing jurisdictions for periods prior to 2014.

#### ***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 11, 2018.

### 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.

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

### 4. Contributions and Pledges Receivable

Contributions and pledges receivable from donors that are due within one year are considered current. Contributions and pledges receivable as of December 31, 2017 with payments to be received after December 31, 2018 are discounted to their present value using an interest rate of 3%. The interest rate has been calculated using discount factors that approximate the risk and expected timing of future contribution payments. The receivables are due as follows:

2018	\$ 2,412,665
2019	270,000
2020	270,000
2021	270,000
	<u>3,222,665</u>
Discount to present value	(46,275)
Allowance for doubtful accounts	<u>(1,000,007)</u>
	<u>\$ 2,176,383</u>

## The Animal Medical Center

### Notes to Financial Statements December 31, 2017

#### 5. 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:

	2017			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds	\$ 9,933,739	\$ -	\$ -	\$ 9,933,739
Mutual funds	27,362,067	-	-	27,362,067
Fixed income funds	-	5,374,221	-	5,374,221
Subtotal	<u>\$ 37,295,806</u>	<u>\$ 5,374,221</u>	<u>\$ -</u>	42,670,027
Alternative investments (1)				1,235,180
Total Investments at Fair Value				<u>\$ 43,905,207</u>
Split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,926,841</u>	<u>\$ 2,926,841</u>
	2016			Total
	Level 1	Level 2	Level 3	
Investments				
Money market funds	\$ 2,604,023	\$ -	\$ -	\$ 2,604,023
Mutual funds	16,164,782	-	-	16,164,782
Fixed income funds	-	13,073,617	-	13,073,617
Subtotal	<u>\$ 18,768,805</u>	<u>\$ 13,073,617</u>	<u>\$ -</u>	31,842,422
Alternative investments (1)				5,095,742
Total Investments at Fair Value				<u>\$ 36,938,164</u>
Split-interest agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,687,539</u>	<u>\$ 2,687,539</u>

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

During 2017 and 2016, there were no transfers between levels 1, 2 or 3 of the fair value hierarchy.

The following is a reconciliation of the beginning and ending balances for Level 3 assets during 2017 and 2016:

	Balance, January 1, 2017	Purchases/ Additions	Change in Fair Value	Redemptions	Balance, December 31, 2017
Split-interest agreements	<u>\$ 2,687,539</u>	<u>\$ -</u>	<u>\$ 286,918</u>	<u>\$ (47,616)</u>	<u>\$ 2,926,841</u>
	Balance, January 1, 2016	Purchases/ Additions	Change in Fair Value	Redemptions	Balance, December 31, 2016
Split-interest agreements	<u>\$ 2,031,159</u>	<u>\$ -</u>	<u>\$ 777,704</u>	<u>\$ (121,324)</u>	<u>\$ 2,687,539</u>

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2017

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

Information regarding alternative investments measured at NAV at December 31, 2017 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge fund (see "a" below)	\$ 1,073,100	\$ -	N/A	N/A
Hedge fund (see "b" below)	162,080	-	N/A	N/A
Total	<u>\$ 1,235,180</u>	<u>\$ -</u>		

- a. 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.
- b. This category includes the proceeds of hedge fund liquidations which currently are in holdback status pending each funds final year end accounting.

### 6. Investment Return

Investment return is summarized as follows:

	2017	2016
Interest income	\$ 142,233	\$ 137,605
Dividend income	710,844	598,971
Realized gain	3,882,366	368,959
Unrealized gain	106,776	440,841
Investment related expenses	(166,702)	(142,623)
	<u>\$ 4,675,517</u>	<u>\$ 1,403,753</u>
Allocated investment return		
Operating investment return	\$ 640,242	\$ 591,128
Nonoperating investment return	4,035,275	812,625
	<u>\$ 4,675,517</u>	<u>\$ 1,403,753</u>

## The Animal Medical Center

Notes to Financial Statements  
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### 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 asset 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.

### 8. Property and Equipment

	<u>2017</u>	<u>2016</u>
Land	\$ 1,676,075	\$ 1,676,075
Buildings and building improvements	58,896,100	58,799,947
Furniture and equipment	10,877,128	10,263,119
Equipment under capital lease	191,956	191,956
Computer hardware and software	<u>4,194,642</u>	<u>4,053,827</u>
	75,835,901	74,984,924
Accumulated depreciation	(39,008,444)	(36,170,627)
Accumulated depreciation, equipment under capital lease	<u>(25,594)</u>	<u>(6,399)</u>
	36,801,863	38,807,898
Capital projects in process	<u>1,057,205</u>	<u>60,623</u>
	<u>\$ 37,859,068</u>	<u>\$ 38,868,521</u>

Depreciation expense was \$2,857,012 and \$2,727,510 for 2017 and 2016, including \$19,195 and \$6,399 of depreciation on equipment under capital leases in 2017 and 2016.

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2017

### 9. 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:

2018		\$	43,086
2019			43,086
2020			43,086
2021			25,134
Total Lease Payments			154,392
Amount representing interest			(12,394)
Present Value of Future Minimum Payments			\$ 141,998

### 10. Mortgage Loan Payable

AMC has a mortgage with JPMorgan Chase, in the original amount of \$10,377,797 with a maturity date to June 16, 2026, and a fixed interest rate of 3.3%.

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

2018		\$	211,582
2019			218,771
2020			225,301
2021			233,859
2022			241,805
2023 - 2026			8,942,546
Total			\$ 10,073,864

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:

	2017	2016
Mortgage loan payable	\$ 10,073,864	\$ 10,278,494
Less unamortized debt issuance costs	(44,830)	(50,130)
Mortgage loan payable, net	\$ 10,029,034	\$ 10,228,364

**The Animal Medical Center**

Notes to Financial Statements  
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**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 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:

	2017	2016
Projected benefit obligation	\$ 8,441,734	\$ 8,960,544
Fair value of plan assets	7,823,276	7,329,475
Unfunded status	\$ (618,458)	\$ (1,631,069)
Accrued benefit cost recognized in the statement of financial position	\$ (618,458)	\$ (1,631,069)
Accumulated benefit obligation	8,441,734	8,960,544
Net periodic benefit (income) recognized in the statement of activities	(20,268)	(21,145)
Amortization of amounts previously not recognized as a component of net periodic benefit cost	(86,921)	(72,257)
Benefits paid during the year	126,466	126,466
Weighted average assumptions as of December 31		
Discount rate	3.48%	3.90%
Rate of compensation increase	N/A	N/A
Expected long-term rate on plan assets	7.00%	7.00%

At December 31, 2017 and 2016, AMC was not required to make contributions to the Plan.

**The Animal Medical Center**

Notes to Financial Statements  
December 31, 2017

**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, 2017 and 2016 that have not yet been recognized in net periodic pension cost:

	2017	2016	2018
Net actuarial loss	\$ 1,086,080	\$ 2,127,223	\$ -

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

2018	\$ 362,000
2019	741,000
2020	576,000
2021	241,000
2022	265,000
2023-2027	2,359,000

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, 2017 and 2016, are as follows:

	2017	2016
Money market funds	\$ 369,807	\$ 227,146
Mutual funds	7,453,469	7,102,329
	\$ 7,823,276	\$ 7,329,475

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2017

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

#### *Plan Assets (continued)*

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.

#### *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 2017 and 2016.

### 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.

#### *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 Animal Medical Center**

Notes to Financial Statements  
December 31, 2017

**12. 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:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, December 31, 2015	\$ (58,886)	\$ -	\$ 7,595,649	\$ 7,536,763
Investment income	-	126,312	-	126,312
Capital appreciation	<u>58,886</u>	<u>156,233</u>	-	<u>215,119</u>
Balance, December 31, 2016	-	282,545	7,595,649	7,878,194
Investment income	-	33,004	-	33,004
Capital appreciation	-	417,098	-	417,098
Appropriations for operations	211,907	(211,907)	-	-
Expenditures for operations	<u>(211,907)</u>	<u>-</u>	<u>-</u>	<u>(211,907)</u>
Balance, December 31, 2017	<u>\$ -</u>	<u>\$ 520,740</u>	<u>\$ 7,595,649</u>	<u>\$ 8,116,389</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.

**13. Temporarily Restricted Net Assets**

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

	<u>2017</u>	<u>2016</u>
Charity care	\$ 1,332,002	\$ 1,548,339
Research/case studies	1,418,549	1,497,431
Equipment and supplies	6,099,118	6,469,517
Education and other	897,930	616,250
Time restricted	4,571,220	3,307,974
Unappropriated endowment earnings	<u>520,740</u>	<u>282,545</u>
	<u>\$ 14,839,559</u>	<u>\$ 13,722,056</u>

## The Animal Medical Center

Notes to Financial Statements  
December 31, 2017

### 13. Temporarily Restricted Net Assets *(continued)*

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

	<u>2017</u>	<u>2016</u>
Charity care	\$ 1,031,904	\$ 895,797
Research/case studies	178,017	72,344
Equipment and supplies	825,684	2,161,353
Education and other	574,980	184,922
Time restricted	107,471	48,080
	<u>\$ 2,718,056</u>	<u>\$ 3,362,496</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 for specific purposes.

Permanently restricted net assets that have restrictions as to use of earnings are \$7,595,649 as of December 31, 2017 and 2016.

### 15. Subsequent Event

During 2018, the Finance Committee of AMC approved a motion to terminate the noncontributory defined benefit pension plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

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# **The Animal Medical Center**

Supplementary Information

December 31, 2017

## The Animal Medical Center

### Schedule of Functional Expenses

Year Ended December 31, 2017

(with summarized totals for the year ended December 31, 2016)

	Professional Care and Research	Housing	General Services	Fiscal Services	Administrative Services	Fundraising	2017 Total	2016 Total
Salaries and benefits	\$ 21,951,202	\$ 213,954	\$ 3,090,881	\$ 1,334,138	\$ 1,735,483	\$ 733,552	\$ 29,059,210	\$ 27,609,202
Purchased services	1,770,355	410,082	719,980	555,169	291,850	184,167	3,931,603	3,991,179
Supplies	4,982,320	11,000	127,844	42,606	6,917	4,959	5,175,646	4,743,653
Utilities	603,532	236,966	377,208	113,162	75,442	37,721	1,444,031	1,486,938
Repairs and maintenance	654,319	200,369	409,778	100,913	12,910	-	1,378,289	1,264,549
Other	2,217,860	624,347	275,733	113,629	62,640	136,474	3,430,683	4,216,724
	<u>32,179,588</u>	<u>1,696,718</u>	<u>5,001,424</u>	<u>2,259,617</u>	<u>2,185,242</u>	<u>1,096,873</u>	<u>44,419,462</u>	<u>43,312,245</u>
Depreciation	<u>838,470</u>	<u>750,061</u>	<u>1,130,628</u>	<u>123,039</u>	<u>6,163</u>	<u>8,651</u>	<u>2,857,012</u>	<u>2,727,510</u>
Total Expenses	<u>\$ 33,018,058</u>	<u>\$ 2,446,779</u>	<u>\$ 6,132,052</u>	<u>\$ 2,382,656</u>	<u>\$ 2,191,405</u>	<u>\$ 1,105,524</u>	<u>\$ 47,276,474</u>	<u>\$ 46,039,755</u>

See independent auditors' report