The Animal Medical Center

Financial Statements

December 31, 2014

O'CONNOR DAVIES

PKF

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, 2014, 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, 2014, 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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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, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 5, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

O'Connor Davies, LLP

April 8, 2015

The Animal Medical Center

Statement of Financial Position
December 31, 2014
(with comparative amounts at December 31, 2013)

	2014	2013
ASSETS		
Cash	$ 1,731,679	$ 1,101,054
Accounts receivable, net	601,183	689,150
Contributions and pledges receivable, net	6,233,107	5,597,071
Prepaid expenses and other assets	1,225,582	1,180,022
Investments	26,068,498	23,853,417
Split-interest agreements - charitable remainder trusts	1,024,410	1,409,406
Deferred debt issuance costs	259,620	303,168
Certificate of deposit held as collateral	1,050,000	1,050,000
Property and equipment, net	37,834,104	38,666,083
Split-interest agreements - perpetual trusts	1,146,347	354,746
Prepaid pension plan cost	553,452	396,966
Restricted investments	7,595,649	7,595,649
	$ 85,323,631	$ 82,196,732
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 3,645,850	$ 3,987,413
Deferred revenue	1,181,574	1,315,702
Capital lease payable	80,887	236,080
Mortgage loan payable	9,977,447	10,247,010
Fair value of interest rate swap agreement	557,488	349,569
Accrued pension plan cost	1,903,332	2,480,311
Total Liabilities	17,346,578	18,616,085
Net Assets		
Unrestricted		
Operating	17,794,749	15,412,917
Investment in property and equipment	27,856,657	28,419,073
	45,651,406	43,831,990
Temporarily restricted	13,583,651	11,798,262
Permanently restricted	8,741,996	7,950,395
Total Net Assets	67,977,053	63,580,647
	$ 85,323,631	$ 82,196,732

See notes to financial statements

The Animal Medical Center

Statement of Activities
Year Ended December 31, 2014
(with summarized totals for the year ended December 31, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
OPERATING REVENUE AND SUPPORT					
Professional services revenue	$ 29,462,061	$ -	$ -	$ 29,462,061	$27,605,710
Restricted contributions	-	4,077,479	-	4,077,479	1,415,480
Investment income	-	251,376	-	251,376	190,331
Donated goods	180,007	-	-	180,007	185,812
Other income	488,499	-	-	488,499	356,313
Net assets released from restrictions	3,028,402	(3,028,402)	-	-	-
Total Operating Revenue and Support	33,158,969	1,300,453	-	34,459,422	29,753,646
OPERATING EXPENSES					
Program Expenses					
Professional care and research	24,796,022	-	-	24,796,022	24,305,107
Management and General					
General services	4,744,124	-	-	4,744,124	5,014,245
Fiscal services	2,242,261	-	-	2,242,261	2,260,908
Administrative services	1,968,466	-	-	1,968,466	1,951,712
Depreciation and amortization	1,739,167	-	-	1,739,167	1,671,008
Total Operating Expenses	35,490,040	-	-	35,490,040	35,202,980
Loss from Operations Before Housing Revenue and Expenses	(2,331,071)	1,300,453	-	(1,030,618)	(5,449,334)
Housing revenue	1,981,617	-	-	1,981,617	2,034,901
Housing expenses	(1,771,332)	-	-	(1,771,332)	(1,815,221)
Depreciation housing	(774,361)	-	-	(774,361)	(759,332)
Loss from Operations	(2,895,147)	1,300,453	-	(1,594,694)	(5,988,986)
NONOPERATING REVENUE AND EXPENSES					
Contributions and bequests	3,391,113	1,188,834	-	4,579,947	5,582,624
Changes in split-interest agreements	-	(1,773)	26,161	24,388	486,698
Special event revenue, net of costs with direct benefit to donors of $370,339 and $312,838	1,422,970	63,315	-	1,486,285	1,342,898
Investment income	512,566	-	-	512,566	2,891,208
Fundraising expenses	(981,146)	-	-	(981,146)	(927,892)
Change in Net Assets Before Other Changes	1,450,356	2,550,829	26,161	4,027,346	3,386,550
OTHER CHANGES					
Change in fair value of interest rate swap agreement	(207,919)	-	-	(207,919)	726,732
Pension liability adjustment	576,979	-	-	576,979	1,011,595
Reclassification of bequest	-	(765,440)	765,440	-	-
Change in Net Assets	1,819,416	1,785,389	791,601	4,396,406	5,124,877
NET ASSETS					
Beginning of the year	43,831,990	11,798,262	7,950,395	63,580,647	58,455,770
End of the year	$ 45,651,406	$ 13,583,651	$8,741,996	$ 67,977,053	$63,580,647

See notes to financial statements

The Animal Medical Center

Statement of Cash Flows
Year Ended December 31, 2014
(with comparative amounts for the year ended December 31, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 4,396,406	$ 5,124,877
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,530,585	2,447,397
Gain on sale of assets	(47,951)	(11,087)
Unrealized (gain) loss on swap agreement	207,919	(726,732)
Net realized and unrealized gain on investments	(420,852)	(2,449,623)
Provision for uncollectible accounts	534,710	526,534
Addition to split-interest agreements	(382,217)	-
Changes in fair value of split-interest agreements	(24,388)	(486,698)
Pension benefit liability adjustment	(576,979)	(1,011,595)
Changes in operating assets and liabilities		
Accounts receivable	(446,743)	(494,084)
Contributions and pledges receivable	(636,036)	931,656
Prepaid expenses and other assets	(45,560)	(240,235)
Prepaid pension plan cost	(156,486)	(36,474)
Accounts payable and accrued expenses	(341,563)	(169,393)
Deferred revenue	(134,128)	(178,475)
Net Cash from Operating Activities	4,456,717	3,226,068
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	7,211,564	9,822,933
Purchase of investments	(9,005,793)	(11,187,682)
Proceeds from disposal of property and equipment	259,090	57,780
Acquisition of property and equipment	(1,866,197)	(1,203,382)
Net Cash from Investing Activities	(3,401,336)	(2,510,351)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long term debt	(269,563)	(256,856)
Payments on capital lease obligation	(155,193)	(220,159)
Net Cash from Financing Activities	(424,756)	(477,015)
Change in Cash	630,625	238,702
CASH		
Beginning of year	1,101,054	862,352
End of year	$ 1,731,679	$ 1,101,054
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 499,172	$ 522,587

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 is $160,000 at December 31, 2014 and 2013.

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 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, 2014, management concluded that an allowance is not required.

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, 2014 and 2013, accumulated amortization was $175,852 and $132,304.

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 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 2014 and 2013, AMC received contributions of pet food valued at $180,007 and $185,812, and used $181,853 and $180,124 during the same periods.

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 $191,462 and $229,722 in 2014 and 2013.

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, pension liability adjustment, and reclassification of bequest.

2013 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, 2013 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 2011.

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

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 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 April 8, 2015.

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 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. 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 3% on payments due in future years. Contributions and pledges receivable are due as follows at December 31, 2014:

2015	$ 5,018,038
2016	635,000
2017	635,000
	6,288,038
Discount to present value	(54,931)
	$ 6,233,107

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:

	2014			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 5,669,395	$ -	$ -	$ 5,669,395
Mutual funds				
Large cap equity funds	6,988,775	-	-	6,988,775
Mid cap equity funds	1,798,810	-	-	1,798,810
Non US equity funds	2,224,445	-	-	2,224,445
Global equity funds	1,115,683	-	-	1,115,683
Bond funds	287,246	-	-	287,246
Commodity funds	16,350	-	-	16,350
Emerging market equity funds	118,528	-	-	118,528
Other	16,510	-	-	16,510
Fixed income funds	-	7,731,246	-	7,731,246
Structured notes	-	-	386,358	386,358
Alternative investments	-	-	7,310,801	7,310,801
Total Investments	18,235,742	7,731,246	7,697,159	33,664,147
Split-interest agreements	-	-	2,170,757	2,170,757
Interest rate swap agreement	-	(557,488)	-	(557,488)
Total	$ 18,235,742	$ 7,173,758	$ 9,867,916	$ 35,277,416

	2013			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 5,025,935	$ -	$ -	$ 5,025,935
Mutual funds				
Large cap equity funds	5,278,970	-	-	5,278,970
Mid cap equity funds	1,467,521	-	-	1,467,521
Small cap equity funds	22,050	-	-	22,050
Non US equity funds	2,447,064	-	-	2,447,064
Bond funds	407,120	-	-	407,120
Commodity funds	367,650	-	-	367,650
Emerging market equity funds	441,974	-	-	441,974
Fixed income funds	-	7,925,083	-	7,925,083
Structured notes	-	-	341,067	341,067
Alternative investments	-	-	7,724,632	7,724,632
Total Investments	15,458,284	7,925,083	8,065,699	31,449,066
Split interest agreements	-	-	1,764,152	1,764,152
Interest rate swap agreement	-	(349,569)	-	(349,569)
Total	$ 15,458,284	$ 7,575,514	$ 9,829,851	$ 32,863,649

During 2014 and 2013, there were no transfers between levels 2 or 3 of the fair value hierarchy.

5. Fair Value Measurements *(continued)*

The following is a reconciliation of the beginning and ending balances for Level 3 assets during 2014:

	Balance, January 1, 2014	Purchases/ Additions	Realized gain	Unrealized gain	Redemptions	Balance, December 31, 2014
Alternative investments	$ 7,724,632	$ 596,959	$ (33,635)	$ (45,790)	$ (931,365)	$ 7,310,801
Structured notes	341,067	671,128	64,357	(134,066)	(556,128)	386,358
Split-interest agreements	1,764,152	382,217	-	24,388	-	2,170,757
	$ 9,829,851	$ 1,650,304	$ 30,722	$ (155,468)	$ (1,487,493)	$ 9,867,916

Information regarding alternative investments measured at NAV at December 31, 2014 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge Fund of Funds (see "a" below)	$ 3,848,474	$ -	Monthly	60 days
Hedge Fund of Funds (see "b" below)	643,085	-	Quarterly	95 days
Hedge Fund (see "c" below)	576,277	-	Monthly	45 days
Hedge Fund (see "d" below)	505,646	-	Monthly	90 days
Hedge Fund (see "e" below)	556,409	-	Annual	60 days
Hedge Fund (see "f" below)	474,920	-	Monthly	60 days
Hedge Fund (see "g" below)	23,230	-	Monthly	30 days
Hedge Fund (see "h" below)	506,604		Quarterly	45 days
Hedge Fund of Funds (see "i" below)	176,156	823,844	N/A	N/A
Total	$ 7,310,801	$ 823,844		

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.

5. Fair Value Measurements *(continued)*

b. This category includes an investment in a Partnership that invests in single and diversified strategy hedge funds. The Partnership seeks to achieve long-term capital appreciation by investing its assets in hedge funds and other pooled investment vehicles managed by investment managers. The investment manager may select investment vehicles using a variety of investment strategies, including both multi-strategy and single-strategy approaches. Specific strategies that may be used include, but are not limited to, long/short equity, convertible bond arbitrage, event-driven investing, distressed securities, emerging markets, fixed income arbitrage, statistical equity arbitrage, commodities and global macro trading.

c. 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.

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 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. While the investment process is bottom-up, the fund will also invest around several core themes that reflect the team's strongest long-term views. Once a transitional theme is identified, the investment team then conducts analysis to single out companies poised to both benefit and suffer the most from this thematic change.

g. 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.

5. Fair Value Measurements *(continued)*

h. 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.

i. This category includes an investment in two 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.

Investment Risks and Uncertainties

Structured notes held at December 31, 2014 are debt obligations of several multinational 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:

	2014	2013
Interest income	$ 17,323	$ 65,844
Dividend income	424,782	662,051
Realized gain	492,342	813,912
Unrealized gain (loss)	(71,490)	1,635,711
Investment related expenses	(99,015)	(95,979)
	$ 763,942	$ 3,081,539
Allocated investment income		
Operating investment income	$ 251,376	$ 190,331
Nonoperating investment income	512,566	2,891,208
	$ 763,942	$ 3,081,539

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.

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.

A reclassification of $765,440 was made in 2014 as a result of information received by AMC clarifying the perpetual nature of a trust previously reported as temporarily restricted.

8. Property and Equipment

	2014	2013
Land	$ 1,676,075	$ 1,676,075
Buildings and building improvements	53,576,977	53,427,840
Furniture and equipment	7,299,032	6,703,782
Equipment under capital lease	803,560	1,023,558
Computer hardware and software	3,917,838	3,958,019
	67,273,482	66,789,274
Accumulated depreciation	(30,351,717)	(27,945,420)
Accumulated depreciation, equipment under capital lease	(515,838)	(483,050)
	36,405,927	38,360,804
Capital projects in process	1,428,177	305,279
	$ 37,834,104	$ 38,666,083

Depreciation expense was $2,487,038 and $2,403,850 for 2014 and 2013, including $80,356 and $107,062 of depreciation on equipment under capital leases.

9. Capital Lease Obligation

The net present value of future minimum lease payments related to a capital lease is payable at December 31, 2014 in the amount of $80,887.

10. 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 will be 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 is calculated using the 30 day LIBOR rate plus 2 percent and 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:

2015	$ 280,345
2016	298,162
2017	311,560
2018	326,991
2019	343,161
2020 and thereafter	8,417,228
	$ 9,977,447

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 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, 2014 and 2013, the fair value of the SWAP approximated $(557,488) and $(349,569) and the change in unrealized (loss) gain of the SWAP recognized in the accompanying statement of activities was $(207,919) and $726,732 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 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:

	2014	2013
Projected benefit obligation	$ 9,806,638	$ 10,437,849
Fair value of plan assets	8,456,758	8,354,504
Unfunded status	$ (1,349,880)	$ (2,083,345)
Accrued benefit cost recognized in the statement of financial position	$ (1,349,880)	$ (2,083,345)
Accumulated benefit obligation	9,806,638	10,437,849
Net periodic benefit cost recognized in the statement of activities	(156,486)	23,526
Amortization of amounts previously not recognized as a component of net periodic benefit cost	12,051	(129,330)
Employer contributions to plan during the year	-	60,000
Benefits paid during the year	444,467	310,218
Expected employer contributions to the Plan in 2015 and 2014	203,000	60,000
Weighted average assumptions as of December 31		
Discount rate	4.02%	4.30%
Rate of compensation increase	N/A	N/A
Expected long-term rate on plan assets	7.00%	7.00%

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, 2014 and 2013 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, 2015:

	2014	2013	2015
Prior service cost	$ (22,129)	$ (71,303)	$ (49,174)
Net actuarial loss	1,925,461	2,551,614	-
	$ 1,903,332	$ 2,480,311	$ (49,174)

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:

2015	$ 203,000
2016	210,000
2017	211,000
2018	231,000
2019	374,000
2020-2024	2,216,000

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.

11. Pension Plans *(continued)*

Defined Benefit Plan (continued)

The fair value of AMC's pension plan assets at December 31, 2014, by asset category are as follows:

Money market funds	$ 433,425
Mutual Funds	
Large cap equity funds	3,114,181
Mid cap/small cap equity funds	823,210
Non-US equity funds	1,210,786
Bond funds	2,473,505
Emerging markets equity funds	134,318
REITS	267,333
	$ 8,456,758

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 2014 and 2013.

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.

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, 2012	$ (773,559)	$ -	$ 7,595,649	$ 6,822,090
Investment income	3,357	190,331	-	193,688
Capital appreciation	770,202	-	-	770,202
Balance, December 31, 2013	-	190,331	7,595,649	7,785,980
Investment income	-	109,728	-	109,728
Capital appreciation	-	141,648	-	141,648
Balance, December 31, 2014	$ -	$ 441,707	$ 7,595,649	$ 8,037,356

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 had been replenished in 2013.

13. Temporarily Restricted Net Assets

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

	2014	2013
Charity care	$ 1,390,444	$ 1,050,047
Research/case studies	1,153,375	933,717
Equipment and supplies	1,222,510	1,054,315
Education and other	974,450	1,080,883
Time restricted	8,842,872	7,679,300
	$ 13,583,651	$ 11,798,262

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

	2014	2013
Charity care	$ 772,592	$ 795,035
Research/case studies	204,304	52,007
Equipment and supplies	236,455	308,139
Education and other	641,444	117,788
Time restricted	1,173,607	168,435
	$ 3,028,402	$ 1,441,404

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, 2014 and 2013.

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The Animal Medical Center

Supplementary Information

December 31, 2014

The Animal Medical Center

Schedule of Functional Expenses
Year Ended December 31, 2014
(with summarized totals for the year ended December 31, 2013)

	Professional Care and Research	Housing	General Services	Fiscal Services	Administrative Services	Fundraising	2014 Total	2013 Total
Salaries and benefits	$ 17,212,763	$ 195,306	$ 2,956,833	$ 1,196,272	$ 1,551,699	$ 493,584	$ 23,606,457	$ 23,070,287
Purchased services	1,484,208	436,770	640,185	762,149	221,735	289,983	3,835,030	4,128,321
Supplies	3,632,265	13,906	170,250	49,722	22,876	4,830	3,893,849	3,691,636
Utilities	585,680	277,994	366,050	109,815	73,210	36,605	1,449,354	1,586,931
Repairs and maintenance	413,381	144,673	337,668	104,643	14,642	-	1,015,007	991,391
Other	1,467,725	702,683	273,138	19,660	84,304	139,087	2,686,597	2,789,462
	24,796,022	1,771,332	4,744,124	2,242,261	1,968,466	964,089	36,486,294	36,258,028
Depreciation and amortization	1,357,752	774,361	175,933	163,556	41,926	17,057	2,530,585	2,447,397
Total Expenses	$ 26,153,774	$ 2,545,693	$ 4,920,057	$ 2,405,817	$ 2,010,392	$ 981,146	$ 39,016,879	$ 38,705,425

See independent auditors' report