The Animal Medical Center

Financial Statements

December 31, 2012

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, 2012, 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, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

O'CONNOR DAVIES, LLP
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Other Matter

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 21 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, 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 12, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

O'Connor Davies, LLP

New York, New York
April 10, 2013

The Animal Medical Center

Statement of Financial Position
December 31, 2012
(with comparative amounts at December 31, 2011)

	2012	2011
ASSETS		
Cash	$ 862,352	$ 1,286,270
Accounts receivable, net	640,519	512,104
Contributions and pledges receivable	6,528,727	1,497,588
Prepaid expenses and other assets	1,020,868	1,044,813
Investments	20,039,045	17,655,517
Split-interest agreements - charitable remainder trusts	950,626	876,862
Deferred debt issuance costs	346,715	390,262
Certificate of deposit held as collateral	1,050,000	1,050,000
Property and equipment, net	39,913,244	41,062,175
Split-interest agreements - perpetual trusts	326,828	351,799
Restricted investments	7,595,649	7,560,574
	$ 79,274,573	$ 73,287,964
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 4,156,806	$ 3,443,778
Deferred revenue	1,494,177	249,842
Capital lease payable	456,239	1,349,717
Mortgage payable	10,503,866	10,747,211
Fair value of interest swap agreement	1,076,301	846,891
Accrued pension plan cost	3,131,414	3,750,166
Total Liabilities	20,818,803	20,387,605
Net Assets		
Unrestricted		
Operating	10,726,147	8,638,288
Investment in property and equipment	29,409,378	30,314,964
	40,135,525	38,953,252
Temporarily restricted	10,397,768	6,034,734
Permanently restricted	7,922,477	7,912,373
Total Net Assets	58,455,770	52,900,359
	$ 79,274,573	$ 73,287,964

See notes to financial statements

The Animal Medical Center

Statement of Activities
Year Ended December 31, 2012
(with summarized totals for the year ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
OPERATING REVENUE AND SUPPORT					
Professional services revenue	$25,925,386	$ -	$ -	$25,925,386	$23,905,437
Restricted contributions	-	5,606,571	-	5,606,571	1,105,858
Investment income	158,835	-	-	158,835	210,022
Donated goods	163,123	-	-	163,123	161,100
Rental income	1,991,301	-	-	1,991,301	1,861,944
Other income	351,898	-	-	351,898	251,915
Total Operating Revenue	28,590,543	5,606,571	-	34,197,114	27,496,276
OPERATING EXPENSES					
Program Expenses					
Professional care and research	23,124,962	-	-	23,124,962	22,405,137
Housing expenses	1,665,461	-	-	1,665,461	1,690,340
Management and General					
General services	5,198,216	-	-	5,198,216	4,911,107
Fiscal services	2,176,065	-	-	2,176,065	1,901,383
Administrative services	1,576,622	-	-	1,576,622	1,259,593
Depreciation	2,351,849	-	-	2,351,849	2,288,237
Total Expenses	36,093,175	-	-	36,093,175	34,455,797
Loss from Operations Before Net Assets Released from Restrictions	(7,502,632)	5,606,571	-	(1,896,061)	(6,959,521)
Net assets released from restrictions	1,366,852	(1,366,852)	-	-	-
Loss from Operations	(6,135,780)	4,239,719	-	(1,896,061)	(6,959,521)
NONOPERATING REVENUE AND EXPENSES					
Contributions, bequests, and legacies	4,906,526	84,626	-	4,991,152	4,116,429
Changes in split-interest agreements	-	38,689	10,104	48,793	(123,994)
Special event revenue, net of expenses of $372,164 and $264,256	1,147,165	-	-	1,147,165	1,006,465
Investment income (loss)	2,367,387	-	-	2,367,387	(1,172,734)
Fundraising expenses	(819,811)	-	-	(819,811)	(973,565)
Change in Net Assets Before Other Changes	1,465,487	4,363,034	10,104	5,838,625	(4,106,920)
Other Changes					
Change in fair value of interest swap agreement	(229,410)	-	-	(229,410)	(1,135,830)
Pension liability adjustment	(53,804)	-	-	(53,804)	(1,062,514)
Change in Net Assets	1,182,273	4,363,034	10,104	5,555,411	(6,305,264)
NET ASSETS					
Beginning of the year	38,953,252	6,034,734	7,912,373	52,900,359	59,205,623
End of the year	$40,135,525	$10,397,768	$7,922,477	$58,455,770	$52,900,359

See notes to financial statements

The Animal Medical Center

Statement of Cash Flows
Year Ended December 31, 2012
(with comparative amounts for the year ended December 31, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 5,555,411	$ (6,305,264)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	2,395,396	2,331,784
Loss on disposal of software	125,301	42,034
Write off of capital lease obligations	(342,213)	-
Gain on disposition of property and equipment	-	(45,000)
Unrealized loss on swap agreement	229,410	1,135,830
Net realized and unrealized (gain) loss on investments	(1,953,593)	1,613,532
Provision for uncollectible accounts	545,601	419,837
Permanently restricted contributions	-	(5,085)
Changes in fair value of split-interest agreements	(48,793)	123,994
Pension benefit liability adjustment	53,804	1,062,514
Changes in operating assets and liabilities		
Accounts receivable	(674,016)	(520,584)
Contributions and pledges receivable	(5,031,139)	599,543
Prepaid expenses and other assets	23,945	(103,333)
Accounts payable and accrued expenses	713,028	306,519
Deferred revenue	1,244,335	84,971
Accrued pension plan cost	(672,556)	(100,995)
Net Cash from Operating Activities	2,163,921	640,297
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	7,838,653	5,127,258
Purchase of investments	(8,303,663)	(3,972,239)
Proceeds from disposal of property and equipment	-	45,000
Acquisition of property and equipment	(1,200,137)	(2,741,551)
Net Cash from Investing Activities	(1,665,147)	(1,541,532)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from permanently restricted contributions	-	5,085
Payments on long term debt	(243,345)	(234,706)
Debt issuance cost	-	5,267
Payments on capital lease obligation	(679,347)	(223,826)
Net Cash from Financing Activities	(922,692)	(448,180)
Change in Cash	(423,918)	(1,349,415)
CASH		
Beginning of year	1,286,270	2,635,685
End of year	$ 862,352	$ 1,286,270
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 556,344	$ 548,936
Non Cash Investing and Financing Activities		
Assets acquired through capital lease	128,082	7,358

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.

Use of Estimates

The preparation of financial statements 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 and Allowance for Doubtful Accounts

Accounts receivable result from the professional care services provided by AMC to animals in the surrounding New York area. Accounts receivable are 100% related to self-pay customers. The amount of allowance for doubtful accounts is based upon management's assessment of historical and expected net collections and overall business and economic conditions. The allowance for doubtful accounts approximated $140,000 and $100,000 at December 31, 2012 and 2011.

Inventories

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

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

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, 2012 and 2011, accumulated amortization was approximately $88,757 and $45,210.

Property and Equipment

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

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

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 statements of activities as net assets released from restrictions.

Permanently restricted – Net assets that are subject to donor-imposed stipulations that do not expire by 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 certain animals. 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 for pet food donated by major pet food manufacturers. Amounts are held in inventory until used, at which time the value of the contributed pet food is recorded as professional care and research expense. During 2012 and 2011, AMC received contributions of $163,123 and $161,100, and professional care and research expense of $160,871 and $159,585.

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 and Development

Research and development activities are expensed as incurred. Research and development costs charged to operations totaled $188,390 and $191,954 in 2012 and 2011.

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 bequests and legacies, unrestricted contributions by donors, temporarily restricted contributions by donors for the purchase of equipment, changes in split-interest agreements, net special event revenue and fundraising expenses, investment return net of amounts appropriated for operating purposes, changes in the fair value of interest rate swap agreements and pension liability adjustment.

2011 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, 2011 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 2009.

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

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 10, 2013.

3. Concentration of Credit Risk

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

4. Contributions and Pledges Receivable

Contributions and pledges receivable are shown in the accompanying statement of financial position net of a discount to present value of 5% on payments due in future years. Contributions and pledges receivable are due as follows at December 31, 2012:

2013	$2,964,850
2014	1,916,666
2015	1,916,674
	6,798,190
Discount to present value	(269,463)
	$6,528,727

5. Fair Value Measurements

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

	2012			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 3,204,892	$ -	$ -	$ 3,204,892
Mutual funds				
Large cap equity funds	5,385,692	-	-	5,385,692
Mid cap equity funds	1,161,061	-	-	1,161,061
Small cap equity funds	441,151	-	-	441,151
Non US equity funds	1,616,374	-	-	1,616,374
Emerging market equity funds	226,990	-	-	226,990
Fixed income funds	-	10,695,355	-	10,695,355
Structured notes	-	-	398,932	398,932
Limited partnerships	-	-	4,504,247	4,504,247
Total Investments	12,036,160	10,695,355	4,903,179	27,634,694
Split-interest agreements	-	-	1,277,454	1,277,454
Total	$ 12,036,160	$ 10,695,355	$ 6,180,633	$ 28,912,148

	2011			
	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	$ 3,227,577	$ -	$ -	$ 3,227,577
Mutual funds				
Large cap equity funds	4,912,220	-	-	4,912,220
Mid cap equity funds	1,169,442	-	-	1,169,442
Small cap equity funds	385,859	-	-	385,859
Non US equity funds	995,184	-	-	995,184
Commodities broad basket	515,495	-	-	515,495
Fixed income funds	-	9,661,987	-	9,661,987
Structured notes	-	-	458,088	458,088
Limited partnerships	-	-	3,890,239	3,890,239
Total Investments	11,205,777	9,661,987	4,348,327	25,216,091
Split-interest agreements	-	-	1,228,661	1,228,661
Total	$ 11,205,777	$ 9,661,987	$ 5,576,988	$ 26,444,752

During 2012 and 2011, 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 2012:

	Balance, January 1, 2012	Purchases	Realized gain	Unrealized gain	Redemptions	Balance, December 31, 2012
Hedge fund of funds	$ 3,890,239	$ -	$ -	$ 614,008	$ -	$ 4,504,247
Structured notes	458,088	392,055	29,995	6,878	(488,084)	398,932
Split-interest agreements	1,228,661	-	-	48,793	-	1,277,454
	$ 5,576,988	$ 392,055	$ 29,995	$ 669,679	$ (488,084)	$ 6,180,633

Information regarding investments measured at NAV at December 31, 2012 is as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Hedge Fund of Funds (see "a" below)	$ 3,481,180	$ -	Monthly	60 days
Hedge Fund of Funds (see "b" below)	1,023,067	-	Quarterly	95 days
Total	$ 4,504,247			

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

b. This category includes an investment in a hedge fund of funds ("Hedge Fund Strategies") that invests in single and diversified strategy hedge funds. Hedge Fund Strategies 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.

5. Fair Value Measurements *(continued)*

Investments Risks and Uncertainties

Structured notes held at December 31, 2012 are debt obligations of one of the largest U.S. banks. These notes contain varying degrees of risk whereby changes in the fair value of the credit status of the issuer bank, which represents a concentrated counterparty risk, and the index features of the notes, may result in the fair market value being less than the amount stated in the statement of financial position. These investments contain varying degrees of risk whereby changes in the fair value of the securities underlying the investment are limited to the amount recognized in the statement of financial position.

6. Investment Return

Investment return is summarized as follows:

	2012	2011
Interest income	$ 57,648	$ 23,149
Dividend income	591,126	702,016
Realized gain (loss)	432,682	(70,959)
Unrealized gain (loss)	1,520,911	(1,542,573)
Investment related expenses	(76,145)	(74,345)
	$2,526,222	$ (962,712)
Allocated investment income		
Operating investment income	$ 158,835	$ 210,022
Nonoperating investment income (loss)	2,367,387	(1,172,734)
	$2,526,222	$ (962,712)

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.

7. Split-Interest Agreements *(continued)*

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

8. Property and Equipment

	2012	2011
Land	$ 1,676,075	$ 1,676,075
Buildings and building improvements	53,226,237	52,649,185
Equipment	6,576,982	6,462,516
Equipment under capital lease	1,960,269	1,952,911
Software	2,505,310	2,001,337
	65,944,873	64,742,024
Accumulated depreciation	(25,690,618)	(23,939,749)
Accumulated depreciation, equipment under capital lease	(375,988)	224,993
	39,878,267	41,027,268
Capital projects in process	34,977	34,907
	$39,913,244	$41,062,175

Depreciation expense was $2,351,849 and $2,288,237 for 2012 and 2011, including $146,602 and $150,995 of depreciation on equipment under capital leases.

9. Capital Lease Obligations

Future minimum lease payments and the net present value of future minimum lease payments related to capital leases are payable as follows at December 31, 2012:

2013	$ 248,506
2014	162,035
2015	80,350
Total Lease Payments	490,891
Amount representing interest	(34,652)
Present Value of Future Minimum Payments	456,239
Current portion	(224,378)
	$ 231,861

10. Mortgage Payable

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

Future annual principal payments are payable as follows at December 31, 2012:

2013	$ 256,856
2014	269,563
2015	280,345
2016	298,162
2017	311,560
2018 and thereafter	9,087,380
	$10,503,866

AMC has entered into an interest rate swap agreement (SWAP) with JP Morgan Chase in which AMC has fixed the interest rate at 4.75% on its floating rate debt. The terms of the SWAP require AMC to pay a fixed rate of interest of 4.75% and to receive a floating rate of interest based on LIBOR with payments being calculated on a notional amount which, throughout the life of the SWAP, mirrors the outstanding balance of the outstanding debt. The difference between the SWAP fixed and floating rate of interest is settled on a monthly basis and is either paid or received, with the net result being recorded within interest expense. The SWAP is recorded at fair value each reporting period with changes in such fair value being recognized within the change in net assets. At December 31, 2012 and 2011, the fair value of the SWAP approximated $(1,076,301) and $(846,891) and the change in unrealized loss of the SWAP recognized in the accompanying statement of activities was $(229,410) and $(1,135,830) 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.

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.

11. Pension Plans *(continued)*

Defined Benefit Plan (continued)

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

Effective October 25, 2009 the plan was frozen. Participants as of that date no longer receive future service credits. Employees who did not meet the eligibility requirements of the plan as of that date will not be eligible in the future.

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

	2012	2011
Projected benefit obligation	$10,781,336	$10,565,736
Fair value of plan assets	7,649,922	6,815,570
Unfunded status	$ (3,131,414)	$ (3,750,166)
Accrued benefit cost recognized in the statement of financial position	$ (3,131,414)	$ (3,750,166)
Accumulated benefit obligation	10,781,336	10,565,736
Net periodic benefit cost recognized in the statement of activities	30,918	1,105
Amortization of amounts previously not recognized as a component of net periodic benefit cost	(81,127)	5,328
Employer contributions to plan during the year	703,474	102,100
Benefits paid during the year	658,928	265,677
Expected employer contributions to the Plan in 2013	120,000	700,607
Weighted average assumptions as of December 31		
Discount rate	3.80%	4.19%
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, 2012 and 2011 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, 2013:

	2012	2011	2013
Prior service cost	$ (120,439)	$ (169,575)	$(49,136)
Net actuarial loss	3,612,345	3,607,677	-
	$3,491,906	$3,438,102	$(49,136)

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:

2013	$ 526,860
2014	583,978
2015	763,392
2016	885,850
2017	1,057,798
2018-2022	8,364,300

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

Plan Assets

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

11. Pension Plans *(continued)*

Defined Benefit Plan (continued)

The fair value of AMC's pension plan assets at December 31, 2012, by asset category are as follows:

Money market funds	$ 38,051
Mutual Funds	
Large cap equity funds	2,440,203
Mid cap/small cap equity funds	1,000,211
Bond funds	3,362,408
Commodities	377,508
Emerging markets equity funds	142,106
REITS	289,435
	$7,649,922

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 2012 and 2011.

12. Endowment Funds

Interpretation of Law

The Board of Directors of AMC has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, 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, 2010	$ (1,201,410)	$ -	$ 7,590,564	$ 6,389,154
2011 Activity				
Contributions	-	-	5,085	5,085
Investment income	210,022	-	-	210,022
Capital depreciation	(533,151)	-	-	(533,151)
Balance, December 31, 2011	(1,524,539)	-	7,595,649	6,071,110
2012 Activity				
Investment income	158,835	-	-	158,835
Capital appreciation	592,145	-	-	592,145
Balance, December 31, 2012	$ (773,559)	$ -	$ 7,595,649	$ 6,822,090

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 the program. Generally accepted accounting principles 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 and 2011 amounted to $773,559 and $1,524,539.

13. Temporarily Restricted Net Assets

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

	2012	2011
Charity care	$ 1,464,925	$1,486,054
Research/case studies	616,558	802,578
Equipment and supplies	386,076	710,509
Education and other	837,579	759,656
Time restricted	7,092,630	2,275,937
	$ 10,397,768	$6,034,734

Net assets were released from donor restrictions which satisfied the restricted purposes specified by the donors or the passage of time as follows:

	2012	2011
Charity care	$ 476,975	$ 461,826
Research/case studies	434,604	386,643
Equipment and supplies	375,439	304,026
Education and other	42,740	143,942
Time restricted	37,094	36,000
	$ 1,366,852	$1,332,437

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, 2012 and 2011.

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The Animal Medical Center

Supplemental Information

December 31, 2012
(With summarized totals for the year
Ended December 31, 2011)

The Animal Medical Center

Schedule of Functional Expenses
Year Ended December 31, 2012
(with summarized totals for the year ended December 31, 2011)

	Professional Care and Research	Housing	General Services	Fiscal Services	Administrative Services	2012 Total	2011 Total
Salaries and benefits	$ 16,397,441	$ 197,367	$ 3,085,153	$ 761,301	$ 1,152,014	$ 21,593,276	$ 20,577,214
Purchased services	1,214,810	190,221	374,211	833,799	209,408	2,822,449	2,444,848
Supplies	3,246,420	8,887	172,826	91,487	63,003	3,582,623	3,339,993
Utilities	12,912	398,252	913,582	351,166	139	1,676,051	1,748,122
Repairs and maintenance	507,533	110,169	206,992	121,953	8,880	955,527	923,372
Other	1,745,846	760,565	445,452	16,359	143,178	3,111,400	3,134,011
	23,124,962	1,665,461	5,198,216	2,176,065	1,576,622	33,741,326	32,167,560
Depreciation	1,651,836	700,013	-	-	-	2,351,849	2,288,237
Total Expenses	$ 24,776,798	$ 2,365,474	$ 5,198,216	$ 2,176,065	$ 1,576,622	$ 36,093,175	$ 34,455,797

See independent auditors' report