

**National Anti-Vivisection Society
Audit Report
For the Year Ended June 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
National Anti-Vivisection Society
Chicago, Illinois

We have audited the accompanying financial statements of **National Anti-Vivisection Society**, which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 National Anti-Vivisection Society as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Selden Fox, Ltd.

September 27, 2018

National Anti-Vivisection Society
Statement of Financial Position
June 30,

Assets	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 676,527	\$ 276,906
Investments	6,408,059	6,316,145
Royalties receivable	53,443	30,644
Accrued interest receivable	354	216
Prepaid expenses	54,809	57,358
Total current assets	<u>7,193,192</u>	<u>6,681,269</u>
Other assets - investments - restricted	<u>257,745</u>	<u>267,457</u>
Property and equipment, net	<u>46,460</u>	<u>63,020</u>
Total assets	<u>\$ 7,497,397</u>	<u>\$ 7,011,746</u>
Liabilities and Net Assets		
Current liabilities:		
Accrued vacation	\$ 47,300	\$ 48,719
Accounts payable and accrued expenses	3,327	3,584
Grant payable	150,000	250,000
Total current liabilities	<u>200,627</u>	<u>302,303</u>
Net assets:		
Unrestricted - available for operations	6,604,287	6,101,071
Temporarily restricted net assets:		
Special project	434,738	340,915
Investment	257,745	267,457
Total net assets	<u>7,296,770</u>	<u>6,709,443</u>
Total liabilities and net assets	<u>\$ 7,497,397</u>	<u>\$ 7,011,746</u>

See accompanying notes.

National Anti-Vivisection Society
Statement of Activities
For the Year Ended June 30,

	2018			2017		
	Unrestricted	Temporarily	Total	Unrestricted	Temporarily	Total
		Restricted			Restricted	
Revenues:						
Membership renewals	\$ -	\$ -	\$ -	\$ 305	\$ -	\$ 305
Donations	651,615	230,111	881,726	664,278	161,853	826,131
Foundation grant	20,000	-	20,000	20,000	-	20,000
Sale of literature and other	-	-	-	14	-	14
Net investment income (loss)	461,346	(9,712)	451,634	754,568	(9,001)	745,567
Legacies and bequests	1,283,558	-	1,283,558	896,681	-	896,681
Royalty income	371,220	-	371,220	400,824	-	400,824
Net assets released from restrictions	136,288	(136,288)	-	122,492	(122,492)	-
Miscellaneous	218	-	218	7	-	7
Total revenues	2,924,245	84,111	3,008,356	2,859,169	30,360	2,889,529
Expenses:						
Program - education	1,859,248	-	1,859,248	2,029,875	-	2,029,875
Supporting services:						
Management and general	231,996	-	231,996	282,486	-	282,486
Fund-raising	329,785	-	329,785	387,259	-	387,259
Total expenses	2,421,029	-	2,421,029	2,699,620	-	2,699,620
Increase in net assets	503,216	84,111	587,327	159,549	30,360	189,909
Net assets:						
Beginning of the year	6,101,071	608,372	6,709,443	5,941,522	578,012	6,519,534
End of the year	\$ 6,604,287	\$ 692,483	\$ 7,296,770	\$ 6,101,071	\$ 608,372	\$ 6,709,443

See accompanying notes.

**National Anti-Vivisection Society
Statement of Functional Expenses
For the Year Ended June 30, 2018**

	Program Services					Supporting Services			Total	
	Public Awareness and General Education	Student/Teacher Programs	Legal and Legislative	Science Programs	Cooperative Efforts and Grants	Total	Management and General	Fund-raising		
Salaries	\$ 376,680	\$ 59,948	\$ 195,309	\$ 115,524	\$ 39,072	\$ 786,533	\$ 96,751	\$ 75,191	\$ 171,942	\$ 958,475
Payroll taxes	26,074	4,150	13,519	7,997	2,705	54,445	6,097	5,205	11,902	66,347
Total salaries and related expenses	402,754	64,098	208,828	123,521	41,777	840,978	103,448	80,396	183,844	1,024,822
Professional and consulting fees	216,559	-	8,799	-	-	225,358	23,287	189,158	212,445	437,803
Educational material	972	-	251	-	-	1,223	-	-	-	1,223
Telephone	7,418	175	263	263	175	8,294	992	376	1,368	9,662
Postage	65,677	-	-	-	-	65,677	911	32,824	33,735	99,412
Occupancy	82,208	-	-	-	-	82,208	11,853	3,852	15,705	97,913
Repairs and maintenance	10,887	525	1,033	1,024	516	13,985	959	737	1,696	15,681
Insurance	42,480	5,040	14,378	10,410	5,744	78,052	19,197	6,212	25,409	103,461
Printing and publication	94,509	-	-	-	-	94,509	4,783	14,212	18,995	113,504
Dues and subscriptions	3,237	-	371	90	-	3,698	1,024	1,024	2,048	5,746
Special services	-	-	-	-	-	-	1,900	-	1,900	1,900
Conferences, conventions, and meetings	7,473	6,607	5,563	5,590	690	25,923	714	-	714	26,637
Office expense	887	-	-	-	-	887	279	-	279	1,166
Grants	475	17,500	95,000	154,500	136,471	403,946	-	-	-	403,946
Miscellaneous	4,574	-	-	-	-	4,574	57,019	-	57,019	61,593
Total expenses before depreciation	940,110	93,945	334,486	295,398	185,373	1,849,312	226,366	328,791	555,157	2,404,469
Depreciation	9,936	-	-	-	-	9,936	5,630	994	6,624	16,560
Total expenses	\$ 950,046	\$ 93,945	\$ 334,486	\$ 295,398	\$ 185,373	\$ 1,859,248	\$ 231,996	\$ 329,785	\$ 561,781	\$ 2,421,029

See accompanying notes.

**National Anti-Vivisection Society
Statement of Functional Expenses
For the Year Ended June 30, 2017**

	Program Services						Supporting Services		
	Public Awareness and General Education	Student/Teacher Programs	Legal and Legislative	Science Programs	Cooperative Efforts and Grants	Total	Management and General	Fund-raising	Total
Salaries	\$ 419,825	\$ 49,071	\$ 146,827	\$ 100,995	\$ 24,046	\$ 740,764	\$ 138,264	\$ 52,623	\$ 190,887
Payroll taxes	28,501	3,331	9,968	6,856	1,632	50,288	9,386	3,572	12,958
Total salaries and related expenses	448,326	52,402	156,795	107,851	25,678	791,052	147,650	56,195	203,845
Professional and consulting fees	226,034	-	7,984	-	-	234,018	24,986	239,214	264,200
Educational material	372	-	25	-	-	397	-	-	397
Telephone	6,527	207	335	336	207	7,612	937	381	1,318
Postage	67,213	-	-	-	-	67,213	819	43,016	43,835
Occupancy	79,382	-	-	-	-	79,382	10,427	3,711	14,138
Repairs and maintenance	9,126	773	1,528	1,519	764	13,710	1,206	985	2,191
Insurance	45,767	5,187	17,511	12,922	6,725	88,112	20,290	6,518	26,808
Printing and publication	69,462	-	-	-	-	69,462	3,961	35,172	39,133
Dues and subscriptions	702	-	-	574	450	1,726	7,377	1,377	8,754
Special services	-	-	-	-	-	-	2,100	-	2,100
Conferences, conventions, and meetings	8,933	14,010	2,943	84	50	26,020	568	-	568
Office expense	3,000	-	-	-	-	3,000	1,035	-	1,035
Grants	375	10,000	95,000	405,000	125,491	635,866	-	-	635,866
Miscellaneous	4,409	1,000	-	-	-	5,409	57,222	-	57,222
Total expenses before depreciation	969,628	83,579	282,121	528,286	159,365	2,022,979	278,578	386,569	665,147
Depreciation	6,896	-	-	-	-	6,896	3,908	690	4,598
Total expenses	\$ 976,524	\$ 83,579	\$ 282,121	\$ 528,286	\$ 159,365	\$ 2,029,875	\$ 282,486	\$ 387,259	\$ 669,745
									\$ 2,699,620

See accompanying notes.

National Anti-Vivisection Society
Statement of Cash Flows
For the Year Ended June 30,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 587,327	\$ 189,909
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	16,560	11,494
Unrealized gain on investments	(18,574)	(481,621)
Realized gain on investments	(320,638)	(173,301)
Changes in operating assets and liabilities:		
Royalties receivable	(22,937)	9,066
Prepaid expenses	2,549	(1,252)
Accounts payable and accrued expenses	(1,676)	587
Grants payable	(100,000)	250,000
Cash from operating activities	<u>142,611</u>	<u>(195,118)</u>
Cash flows from investing activities:		
Purchases of property and equipment	-	(40,636)
Proceeds from the sale of investments	2,251,351	2,863,858
Purchases of investments	(1,994,341)	(3,258,603)
Cash from investing activities	<u>257,010</u>	<u>(435,381)</u>
Increase (decrease) in cash	399,621	(630,499)
Cash and cash equivalents, beginning of the year	<u>276,906</u>	<u>907,405</u>
Cash and cash equivalents, end of the year	<u>\$ 676,527</u>	<u>\$ 276,906</u>

See accompanying notes.

National Anti-Vivisection Society Notes to the Financial Statements

1. Summary of Significant Accounting Policies

Organization and Purpose – The National Anti-Vivisection Society (NAVS) is incorporated under the laws of the state of Illinois as of 1929, as a not-for-profit corporation.

NAVS is dedicated to abolishing the exploitation of animals used in research, education, and product testing.

NAVS promotes greater compassion, respect, and justice for animals through educational programs based on respected ethical and scientific theory and supported by extensive documentation of the cruelty and waste of Vivisection. NAVS' educational programs are directed at increasing public awareness about Vivisection, identifying humane solutions to human problems, developing alternatives to the use of animals, and working with like-minded individuals and groups to effect changes that help to end the suffering inflicted on innocent animals.

Basis of Accounting – These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on NAVS as a whole to present balances and transactions according to the existence or absence of donor imposed restrictions. This has been accomplished by classification of net assets and transactions into two classes: temporarily restricted and unrestricted.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by the actions of NAVS or the passage of time.

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Royalty income is received from a gas and oil lease agreement on land owned by NAVS. Revenue is recognized on the accrual basis.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

National Anti-Vivisection Society
Notes to the Financial Statements (cont'd)

1. Summary of Significant Accounting Policies (cont'd)

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and activities and the related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

NAVS records investments at fair value. The ultimate realization of the investments is based upon future economic factors related to the investments. For this estimate, it is reasonably possible that the recorded amount or related disclosure could significantly change in the near future, as new information is available.

Donated Services – Revenues and expenses are recorded when the services are actually received and used by NAVS.

Cash and Cash Equivalents – For purposes of the statement of cash flows, NAVS considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment – Betterments and replacements of major items of property are capitalized. Maintenance, repairs and minor replacements are expensed. The cost of property sold or retired is removed from the related property and accumulated depreciation accounts, and the resultant gain or loss is recorded. Depreciation of property and equipment is provided by the straight-line method over the following estimated useful lives:

Leasehold improvements	5 - 15 years
Furniture and equipment	3 - 10 years
Automobile	5 years
Computer software	3 years

Income Taxes – NAVS is a not-for-profit entity, as described under Section 501(c)(3) of the Internal Revenue Code, and is exempt from income taxes, except for taxes on unrelated business income generated from unrelated or trade business activities. NAVS had no unrelated or trade business activity in 2018 or 2017. Accordingly, no provision for income taxes is included in the financial statements.

NAVS' tax returns for the years ended June 30, 2015 through 2017, are open years for purposes of any future IRS or applicable state examinations.

Professional and Consulting Fees – During the years ended June 30, 2018 and 2017, NAVS incurred additional and unexpected professional and consulting fees associated with fund-raising efforts to secure an interest in an estate. Total professional and consulting fees associated with fund-raising activities amounted to \$189,158 for the year ended June 30, 2018 (\$239,214 for the year ended June 30, 2017).

Subsequent Events – Subsequent events have been evaluated through September 27, 2018, which is the date the financial statements were available to be issued.

National Anti-Vivisection Society
Notes to the Financial Statements (cont'd)

2. Investments

Investments classified as current assets in the statement of financial position are summarized as follows:

	June 30, 2018		June 30, 2017	
	Cost	Market Value	Cost	Market Value
Common stock and mutual funds	\$ 5,642,528	\$ 6,407,959	\$ 5,578,900	\$ 6,316,045
Other - cost	100	100	100	100
	<u>\$ 5,642,628</u>	<u>\$ 6,408,059</u>	<u>\$ 5,579,000</u>	<u>\$ 6,316,145</u>

Net investment income for the year ended June 30, 2018, consists of an unrealized gain of \$28,286 (\$490,622 of unrealized gain for the year ended June 30, 2017), realized gain of \$320,638 (\$173,301 of realized gain for the year ended June 30, 2017), interest and dividends of \$160,818 (\$140,810 for the year ended June 30, 2017), and investment expenses of \$48,396 (\$50,165 for the year ended June 30, 2017).

3. Restricted Investments

NAVS received a restricted bequest in 1995. Per the terms of the donor's will, the principal is held in the name of NAVS, and all income is paid to a third-party beneficiary for life. Upon the death of the third-party beneficiary, the principal will be owned by NAVS free of all claims.

The fair value of the restricted investments is summarized as follows:

	June 30, 2018		June 30, 2017	
	Cost	Market Value	Cost	Market Value
Cash	\$ 8,481	\$ 8,481	\$ 56,720	\$ 56,720
Mortgage-backed securities	249,264	249,264	210,737	210,737
	<u>\$ 257,745</u>	<u>\$ 257,745</u>	<u>\$ 267,457</u>	<u>\$ 267,457</u>

Net investment income for the year ended June 30, 2018, consists of unrealized losses of \$9,712 (\$9,001 of unrealized losses for the year ended June 30, 2017).

National Anti-Vivisection Society
Notes to the Financial Statements (cont'd)

4. Investments Hierarchy

A significant number of NAVS' financial instruments are carried at fair value with changes in fair value recognized in net assets each period. NAVS makes estimates regarding valuation of assets measured at fair value in preparing the financial statements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is broken down into a three-level valuation hierarchy based on the reliability of observable and unobservable inputs as follows:

Level 1 – Valuations are based on quoted prices in active markets for identical assets or liabilities that NAVS has the ability to access at the measurement date.

Level 2 – Valuations are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose significant inputs are observable.

Level 3 – Valuations are based on unobservable inputs for the asset or liability that reflect the reporting entity's own data and assumptions that market participants would use in pricing the asset or liability.

Following is a description of the valuation methodologies used for investments measured at fair value, as well as the general classification of such investments pursuant to the valuation hierarchy.

Common stock and mutual funds are valued using quoted market prices. Accordingly, these assets are categorized in Level 1 of the fair value hierarchy.

Mortgage-backed securities are valued using inter-broker prices, bid evaluations from active markets and a spread scale. Accordingly, these assets are categorized in Level 2 of the fair value hierarchy.

National Anti-Vivisection Society
Notes to the Financial Statements (cont'd)

4. Investments Hierarchy (cont'd)

Description	2018			Balance, June 30
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds:				
U.S. Large Cap	\$ 607,164	\$ -	\$ -	\$ 607,164
U.S. Mid Cap	444,581	-	-	444,581
U.S. Small Cap	100,064	-	-	100,064
Diversified	298,227	-	-	298,227
International	123,255	-	-	123,255
Fixed Income	1,013,867	-	-	1,013,867
Other	542,088	-	-	542,088
Common stocks:				
Domestic	3,193,245	-	-	3,193,245
Foreign	85,568	-	-	85,568
Restricted:				
Mortgage-backed securities	-	249,264	-	249,264
Cash	8,481	-	-	8,481
	<u>\$ 6,416,540</u>	<u>\$ 249,264</u>	<u>\$ -</u>	<u>\$ 6,665,804</u>

Description	2017			Balance, June 30
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Mutual funds:				
U.S. Large Cap	\$ 544,908	\$ -	\$ -	\$ 544,908
U.S. Mid Cap	356,703	-	-	356,703
U.S. Small Cap	74,969	-	-	74,969
Diversified	193,698	-	-	193,698
International	211,174	-	-	211,174
Fixed Income	1,175,970	-	-	1,175,970
Other	707,909	-	-	707,909
Common stocks:				
Domestic	3,032,570	-	-	3,032,570
Foreign	18,244	-	-	18,244
Restricted:				
Mortgage-backed securities	-	210,737	-	210,737
Cash	56,720	-	-	56,720
	<u>\$ 6,372,865</u>	<u>\$ 210,737</u>	<u>\$ -</u>	<u>\$ 6,583,602</u>

National Anti-Vivisection Society
Notes to the Financial Statements (cont'd)

5. Property and Equipment

Property and equipment is comprised of the following at June 30:

	2018	2017
Furniture and equipment	\$ 350,997	\$ 350,997
Computer software	111,389	111,389
Automobile	40,636	40,636
Leasehold improvement	10,458	10,458
	513,480	513,480
Less accumulated depreciation and amortization	467,020	450,460
	\$ 46,460	\$ 63,020

Depreciation of property and equipment for the year ended June 30, 2018, was \$16,560 (\$11,494 in 2017).

6. Commitments

Operating Lease – NAVS leases office space under an operating lease, which expires in February 2021. The lease provides for basic monthly rentals. Rental expense under the lease totaled \$94,435 for the year ended June 30, 2018 (\$90,955 for the year ended June 30, 2017).

Future minimum lease payments are as follows:

Fiscal Year Ending June 30,	Amount
2019	\$ 98,370
2020	101,321
2021	68,885
	\$ 268,576

National Anti-Vivisection Society
Notes to the Financial Statements (cont'd)

7. Related Parties

The Executive Director of NAVS is also an officer for the International Foundation for Ethical Research (IFER), to which NAVS granted \$150,000 during the year ended June 30, 2018, and \$400,000 during the year ended June 30, 2017. At June 30, 2018, \$150,000 remains payable to IFER (\$250,000 as of June 30, 2017). Also, a member of NAVS' Board of Directors is the Executive Director of IFER, which is a non-profit corporation, organized under the laws of the state of Massachusetts, and was issued a certificate of incorporation by the state of Massachusetts on May 26, 1985. IFER fulfills its mission by awarding research grants to scientists who are developing credible alternatives, and to postgraduate students seeking to incorporate animal welfare issues into their studies. In addition, IFER disseminates information designed to increase awareness of alternatives through seminars, publications, and workshops.

8. Allocation of Joint Costs

During the years ended June 30, 2018 and 2017, NAVS incurred joint costs for informational materials and activities that included fund-raising appeals. The allocation of those costs was as follows:

	<u>2018</u>	<u>2017</u>
Public awareness and general education	\$ 234,927	\$ 272,987
Cooperative efforts and grants	136,288	122,492
Fund-raising	<u>74,240</u>	<u>114,201</u>
Total	<u>\$ 445,455</u>	<u>\$ 509,680</u>

9. Temporarily Restricted Net Assets

Temporarily restricted net asset balances consist of unexpended revenues and gains available for the following at June 30:

	<u>2018</u>	<u>2017</u>
Special project – Sanctuary fund	\$ 434,738	\$ 340,915
Investment	<u>257,745</u>	<u>267,457</u>
	<u>\$ 692,483</u>	<u>\$ 608,372</u>

The sources of net other assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes, or by the occurrence of events specified by the donor, were as follows at June 30:

	<u>2018</u>	<u>2017</u>
Special project – Sanctuary fund	<u>\$ 136,288</u>	<u>\$ 122,492</u>

National Anti-Vivisection Society
Notes to the Financial Statements (cont'd)

10. Retirement Benefits

NAVS established an employees' benefit plan that allows all full-time employees to voluntarily defer current taxation of up to 16.6% to a maximum \$18,000 for calendar years 2018 and 2017, of current income.

11. Royalty Income

In a previous year, NAVS received a bequest of the 320 acres of land. In a lease executed during the year ended June 30, 2008, with an unrelated third party, NAVS will receive royalty income of 15% on all oil produced, saved, and marketed from the leased premises, and 15% of the market value for gas produced from the leased premises. The lease shall remain in force as long as oil or gas is produced from the leased premises. Total royalty income recorded in the statement of activities for the year ended June 30, 2018, amounted to \$371,220 (\$400,824 for the year ended June 30, 2017).