

FINANCIAL STATEMENTS



**NATIONAL VETERANS LEGAL
SERVICES PROGRAM, INC.**

**FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2016**

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.**CONTENTS**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors
National Veterans Legal Services Program, Inc.
Washington, D.C.

We have audited the accompanying financial statements of the National Veterans Legal Services Program, Inc. (NVLSP), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and change in net assets, functional expenses 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.

Auditor's 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 NVLSP as of December 31, 2017, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited NVLSP's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Gelman Rosenberg & Freedman". The signature is written in a cursive, flowing style.

June 7, 2018

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

ASSETS

ASSETS	2017	2016
Cash and cash equivalents	\$ 347,011	\$ 264,324
Investments	4,326,134	3,268,347
Accounts receivable	429,876	647,433
Prepaid expenses	153,377	94,844
Property and equipment, net of accumulated depreciation and amortization of \$764,132 and \$718,322 in 2017 and 2016, respectively	91,870	135,069
Deposits	36,182	36,182
TOTAL ASSETS	\$ 5,384,450	\$ 4,446,199

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued liabilities	\$ 304,263	\$ 254,081
Deferred revenue	18,122	18,122
Incentive from lessor	61,870	79,978
Deferred rent	170,050	198,371
Total liabilities	554,305	550,552

NET ASSETS

Unrestricted	4,830,145	3,874,547
Temporarily restricted	-	21,100
Total net assets	4,830,145	3,895,647
TOTAL LIABILITIES AND NET ASSETS	\$ 5,384,450	\$ 4,446,199

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE AND SUPPORT				
Attorneys' fees	\$ 3,690,898	\$ -	\$ 3,690,898	\$ 1,806,853
Grants and contracts	883,881	-	883,881	922,619
Publications	302,826	-	302,826	188,485
Contributions	932,514	-	932,514	775,343
Training	40,303	-	40,303	33,824
Investment income	322,819	-	322,819	185,852
Net assets released from donor restrictions	<u>21,100</u>	<u>(21,100)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>6,194,341</u>	<u>(21,100)</u>	<u>6,173,241</u>	<u>3,912,976</u>
EXPENSES				
Program Services:				
Lawyers Serving Warriors	1,259,786	-	1,259,786	971,238
The American Legion	1,456,856	-	1,456,856	1,428,448
General Fund	1,728,223	-	1,728,223	1,485,203
Legal Services Corporation - Pro Bono Program	167,114	-	167,114	216,607
Publications	<u>156,677</u>	<u>-</u>	<u>156,677</u>	<u>157,681</u>
Total program services	<u>4,768,656</u>	<u>-</u>	<u>4,768,656</u>	<u>4,259,177</u>
Supporting Services:				
Fundraising	<u>470,087</u>	<u>-</u>	<u>470,087</u>	<u>464,903</u>
Total expenses	<u>5,238,743</u>	<u>-</u>	<u>5,238,743</u>	<u>4,724,080</u>
Change in net assets	955,598	(21,100)	934,498	(811,104)
Net assets at beginning of year	<u>3,874,547</u>	<u>21,100</u>	<u>3,895,647</u>	<u>4,706,751</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,830,145</u>	<u>\$ -</u>	<u>\$ 4,830,145</u>	<u>\$ 3,895,647</u>

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017						2016		
	Program Services					Supporting Services			
	Lawyers Serving Warriors	The American Legion	General Fund	Legal Services Corporation-Pro Bono Program	Publications	Total Program Services	Fundraising	Total Expenses	Total Expenses
Salaries	\$ 683,142	\$ 842,278	\$ 801,790	\$ 99,028	\$ 88,732	\$ 2,514,970	\$ 210,074	\$ 2,725,044	\$ 2,169,956
Employee benefits	153,189	181,273	157,213	19,782	19,777	531,234	45,200	576,434	487,881
Consultants	1,257	-	190,309	-	2,112	193,678	11,071	204,749	130,274
Travel	1,756	13,977	23,651	5,020	-	44,404	1,319	45,723	36,688
Communications	14,403	22,907	24,016	1,195	1,778	64,299	3,004	67,303	70,837
Printing and production	3,523	3,436	2,164	3,802	331	13,256	783	14,039	18,775
Office supplies	16,569	17,454	32,578	2,669	2,163	71,433	6,003	77,436	75,214
Occupancy	107,873	122,800	137,264	11,582	13,086	392,605	28,858	421,463	332,099
Equipment rental and maintenance	13,669	14,034	28,588	1,402	1,376	59,069	3,267	62,336	57,325
Books and reference materials	1,134	2,002	5,053	189	241	8,619	9,376	17,995	13,574
Other costs	63,931	7,847	28,584	389	3,085	103,836	6,614	110,450	118,920
Depreciation and amortization	2,187	-	48,326	-	-	50,513	-	50,513	54,387
Event costs	-	-	-	-	-	-	80,828	80,828	73,564
Staff Development	1,212	615	14,159	-	32	16,018	1,064	17,082	22,733
Licenses, permits and fees	400	3,500	3,306	-	-	7,206	10,297	17,503	13,836
General and administrative expenses	<u>195,541</u>	<u>224,733</u>	<u>231,222</u>	<u>22,056</u>	<u>23,964</u>	<u>697,516</u>	<u>52,329</u>	<u>749,845</u>	<u>1,048,017</u>
TOTAL	<u>\$1,259,786</u>	<u>\$ 1,456,856</u>	<u>\$ 1,728,223</u>	<u>\$ 167,114</u>	<u>\$ 156,677</u>	<u>\$ 4,768,656</u>	<u>\$ 470,087</u>	<u>\$ 5,238,743</u>	<u>\$ 4,724,080</u>

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 934,498	\$ (811,104)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	50,513	54,387
Unrealized gain on investments	(255,753)	(125,538)
Realized loss on investments	2,315	4,722
Loss on disposal of asset	-	80
Decrease (increase) in:		
Accounts receivable	217,557	(336,956)
Prepaid expenses	(58,533)	(64,209)
Deposits	-	(4,500)
Increase (decrease) in:		
Accounts payable and accrued liabilities	50,182	10,227
Deferred revenue	-	(4,734)
Incentive from lessor	(18,108)	(18,108)
Deferred rent	(28,321)	(14,806)
Net cash provided (used) by operating activities	<u>894,350</u>	<u>(1,310,539)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(7,314)	(8,216)
Purchase of investments	(1,740,362)	(1,749,081)
Proceeds from sale of investments	<u>936,013</u>	<u>2,898,789</u>
Net cash (used) provided by investing activities	<u>(811,663)</u>	<u>1,141,492</u>
Net increase (decrease) in cash and cash equivalents	82,687	(169,047)
Cash and cash equivalents at beginning of year	<u>264,324</u>	<u>433,371</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 347,011</u>	<u>\$ 264,324</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Donated Securities	<u>\$ 1,082</u>	<u>\$ -</u>

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization -

The National Veterans Legal Services Program, Inc. (NVLSP), is a non-profit organization located in the District of Columbia, which serves as a veterans service organization and national support center in the area of veterans law. The services of NVLSP are available to veterans and their families, veterans service organizations, state and county veterans offices, community-based veterans organizations, volunteer attorneys, private bar attorneys, Legal Service Corporation (LSC)-funded programs and other veterans advocates.

During 2017, NVLSP had contracts and grants with the American Legion, Military Order of the Purple Heart, and other veterans services organizations. NVLSP also has a contract with the Veterans Consortium Pro Bono Program for nationwide training of pro bono attorneys.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with NVLSP's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Cash and cash equivalents -

NVLSP considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, NVLSP maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Dividends, interest and realized and unrealized gains and losses are included in investment income in the Statement of Activities and Change in Net Assets.

Accounts receivable -

Accounts receivable are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible within one-year. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment are stated at cost. Property and equipment costing \$1,000 or more are depreciated on a straight-line basis, over the estimated useful lives of the related assets, generally three to ten years. Leasehold improvements are amortized over the remaining life of the lease. The cost of maintenance and repairs is recorded as expenses are incurred.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20171. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of NVLSP and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of NVLSP and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Contributions: Contributions are recognized when notification of the contribution has been received by the donor. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are recorded as temporarily restricted support.

When donor restriction expire, that is, when a stipulated time restriction ends or purpose for the donor restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as unrestricted support.

Grants and contracts: NVLSP receives grants and contracts from various grantors and funding agencies for direct or indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Deferred revenue: Deferred revenue represent contract funding received in advance of incurring the related expense. As of December 31, 2017, deferred revenue was \$18,122.

Income taxes -

NVLSP is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. NVLSP is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2017, NVLSP has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Use of estimates -

The preparation of the financial statements in conformity 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 and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

NVLSP invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of NVLSP's financial statements, it is not expected to alter NVLSP's reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. NVLSP has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 20171. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

New accounting pronouncements (not yet adopted) (continued) -

The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

NVLSP plans to adopt the new ASUs at the respective required implementation dates.

Fair value measurement -

NVLSP adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. NVLSP accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. INVESTMENTS

Investments consisted of the following at December 31, 2017:

	<u>Cost</u>	<u>Fair Value</u>
Money market mutual funds	\$ 1,564,096	\$ 1,564,096
Fixed income mutual funds	1,162,807	1,149,500
Exchange-traded funds	<u>1,294,879</u>	<u>1,612,538</u>
TOTAL INVESTMENTS	<u>\$ 4,021,782</u>	<u>\$ 4,326,134</u>

Included in investment income are the following for the year ended December 31, 2017:

Interest and dividends	\$ 69,381
Unrealized gain on investments	255,753
Realized loss on investments	<u>(2,315)</u>
TOTAL INVESTMENT INCOME	<u>\$ 322,819</u>

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2017:

Furniture and equipment	\$ 303,307
Computer software	10,346
Leasehold improvements	<u>542,349</u>
Total property and equipment	856,002
Less: Accumulated depreciation and amortization	<u>(764,132)</u>
PROPERTY AND EQUIPMENT, NET	<u>\$ 91,870</u>

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

4. LEASE COMMITMENT

NVLSP leases office space in K Street, Washington, D.C., under an operating lease. In February 2011, the lease term was extended for another ten years until May 2021. The lease contains escalation clauses providing for a 2.5% annual increase in the base rent and increases in taxes and operating expenses.

During October 2016, NVLSP entered into a lease for office space at 17th Street, Washington, D.C. The lease commenced on November 1, 2016 and expired on October 31, 2017. The base monthly rent was \$4,500, together with an additional \$90 per month for internet services. Upon expiration of the lease, NVLSP agreed to continue use of the office space on a month-to-month basis until January 31, 2019, at a monthly rent of \$4,590, including internet service.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is being deferred. Such amount will be amortized over the term of the lease agreement. As of December 31, 2017, the deferred rent liability was \$170,050.

Additionally, the landlord provided a tenant allowance of \$434,928 used for costs of construction and design of the initial tenant improvements. Any unused balance shall be used by NVLSP for office furniture, equipment, relocation expenses and free rent. Accounting principles generally accepted in the United States of America require that the total deferred leasehold improvement account, herein referred to as "incentive from lessor" in the accompanying Statement of Financial Position, be amortized on a straight-line basis over the life of the lease. The remaining unamortized amount at December 31, 2017 was \$61,870; the current portion of the unamortized amount totaled \$18,108.

Occupancy expenses for the year ended December 31, 2017 totaled \$487,097. The difference between total occupancy expense per the Statement of Functional Expenses and total occupancy per this note results from a portion of the rent expense being allocated to general and administrative expenses.

The following are the future minimum lease payments:

<u>Year Ending December 31,</u>	
2018	\$ 441,015
2019	450,938
2020	461,084
2021	<u>193,896</u>
	<u>\$ 1,546,933</u>

5. TEMPORARILY RESTRICTED NET ASSETS

During 2012, NVLSP received donated computer equipment and related maintenance. The value of the equipment and maintenance was recorded as temporarily restricted revenue which is released annually in the amount equal to depreciation and maintenance expense for the given year.

The donated computer equipment was fully depreciated as of December 31, 2017. Hence, there are no temporarily restricted net assets at December 31, 2017.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

5. TEMPORARILY RESTRICTED NET ASSETS (Continued)

The following temporarily restricted net assets were released from restrictions by incurring depreciation and maintenance expenses:

Donated Equipment and Maintenance	\$ <u>21,100</u>
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6. PUBLISHING AGREEMENTS

NVLSP has three longstanding agreements with a publisher. The publisher produces and markets specific works authored by NVLSP. NVLSP receives royalties from the publisher, calculated as a percentage of sales and the royalty payments are made to NVLSP semi-annually. During the year ended December 31, 2017, NVLSP earned royalties, included in publications income in the accompanying Statement of Activities and Change in Net Assets, totaling \$302,826, of which \$153,149 is included in accounts receivables in the accompanying Statement of Financial Position. Subsequent to year-end, the receivable balance was fully collected.

7. RETIREMENT PLAN

NVLSP has a profit sharing plan that covers all full-time employees who are 21 and older and have completed one year of service. Annual contributions to the plan are at the discretion of NVLSP's management and the Board of Directors. Vesting under the plan is graduated based on years of service, and contributions become fully vested following six years of service.

NVLSP also has a plan under Internal Revenue Code Section 401(k), covering the same employees that are eligible for the profit sharing plan. Contributions to the plan are at the discretion of NVLSP employees. NVLSP provides a matching contribution equal to 25% of the employee's contribution, up to an amount equal to 2% of the employee's salary. Employer and employee contributions under this plan are immediately fully vested.

For the year ended December 31, 2017, the employee benefit expense associated with these plans totaled \$97,805.

In addition, NVLSP adopted a plan under Internal Revenue Code Section 403(b) that covers all full-time employees without restriction as to age or years of service. Contributions to the Plan are at the discretion of NVLSP employees with no employer contribution.

8. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, Fair Value Measurement, NVLSP has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market NVLSP has the ability to access.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

8. FAIR VALUE MEASUREMENT (Continued)

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

- *Money market funds* - Valued at the daily closing price as reported by the fund. The money market fund is an open-end mutual fund that is registered with the Securities and Exchange Commission (SEC). This fund is required to publish its daily net asset value (NAV) and to transact at that price. The money market fund is deemed to be actively traded.
- *Exchange-traded funds* - Valued at the closing price reported on the active market in which the individual funds are traded.
- *Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by NVLSP are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value and to transact at that price. Mutual funds held by NVLSP are deemed to be actively traded.

The table below summarizes, by level within the fair value hierarchy, NVLSP's investments as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class: Investments				
Money market mutual funds	\$ 1,564,096	\$ -	\$ -	\$ 1,564,096
Exchange-traded funds	1,612,538	-	-	1,612,538
Fixed income mutual funds	<u>1,149,500</u>	<u>-</u>	<u>-</u>	<u>1,149,500</u>
TOTAL	<u>\$ 4,326,134</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,326,134</u>

9. SUBSEQUENT EVENTS

In preparing these financial statements, NVLSP has evaluated events and transactions for potential recognition or disclosure through June 7, 2018, the date the financial statements were issued.