

FINANCIAL STATEMENTS



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

**FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017**

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Statement of Financial Position, as of December 31, 2018, with Summarized Financial Information for 2017	4
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended December 31, 2018, with Summarized Financial Information for 2017	5
EXHIBIT C - Statement of Functional Expenses, for the Year Ended December 31, 2018, with Summarized Financial Information for 2017	6
EXHIBIT D - Statement of Cash Flows, for the Year Ended December 31, 2018, with Summarized Financial Information for 2017	7
NOTES TO FINANCIAL STATEMENTS	8 - 15

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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 7, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Friedman

June 12, 2019

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 169,380	\$ 347,011
Investments	5,510,400	4,326,134
Accounts receivable	547,134	429,876
Prepaid expenses	151,294	153,377
Property and equipment, net of accumulated depreciation and amortization of \$794,245 and \$764,132 in 2018 and 2017, respectively	72,306	91,870
Deposits	<u>36,182</u>	<u>36,182</u>
TOTAL ASSETS	<u>\$ 6,486,696</u>	<u>\$ 5,384,450</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 366,443	\$ 304,263
Deferred revenue	35,250	18,122
Incentive from lessor	43,762	61,870
Deferred rent	<u>132,023</u>	<u>170,050</u>
Total liabilities	577,478	554,305
NET ASSETS		
Without donor restrictions	<u>5,909,218</u>	<u>4,830,145</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,486,696</u>	<u>\$ 5,384,450</u>

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017

	<u>2018</u>	<u>2017</u>
	<u>Without Donor Restrictions</u>	
REVENUE AND SUPPORT		
Attorneys' fees	\$ 5,504,576	\$ 3,690,898
Grants and contracts	393,531	883,881
Publications	201,793	302,826
Contributions	943,973	932,514
Training	69,146	40,303
Investment (loss) income, net of investment expenses	<u>(165,631)</u>	<u>306,663</u>
Total revenue and support	<u>6,947,388</u>	<u>6,157,085</u>
EXPENSES		
Program Services:		
Lawyers Serving Warriors	1,371,749	1,259,786
The American Legion	1,312,787	1,456,856
General Fund	2,414,685	1,712,067
Legal Services Corporation - Pro Bono Program	138,499	167,114
Publications	<u>161,762</u>	<u>156,677</u>
Total program services	<u>5,399,482</u>	<u>4,752,500</u>
Supporting Services:		
Fundraising	<u>468,833</u>	<u>470,087</u>
Total expenses	<u>5,868,315</u>	<u>5,222,587</u>
Change in net assets	1,079,073	934,498
Net assets at beginning of year	<u>4,830,145</u>	<u>3,895,647</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,909,218</u>	<u>\$ 4,830,145</u>

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018						2017		
	Program Services					Supporting Services		Total Expenses	Total Expenses
	Lawyers Serving Warriors	The American Legion	General Fund	Legal Services Corporation-Pro Bono Program	Publications	Total Program Services	Fundraising		
Salaries	\$ 748,116	\$ 804,758	\$ 1,156,942	\$ 84,497	\$ 86,012	\$ 2,880,325	\$ 202,456	\$ 3,082,781	\$ 2,725,044
Employee benefits	174,176	169,774	241,346	17,449	19,114	621,859	43,516	665,375	576,434
Consultants	12,837	-	245,920	1,375	16,075	276,207	4,014	280,221	204,749
Travel	9,731	760	11,400	6,497	23	28,411	1,294	29,705	45,723
Communications	15,367	14,219	33,524	719	1,705	65,534	2,905	68,439	67,303
Printing and production	1,903	2,003	40,956	165	230	45,257	417	45,674	14,039
Office supplies	15,482	19,646	93,719	1,334	2,273	132,454	4,282	136,736	77,436
Occupancy	115,128	104,619	167,792	9,373	11,919	408,831	25,490	434,321	421,463
Equipment rental and maintenance	28,747	22,598	29,156	1,933	2,540	84,974	5,616	90,590	62,336
Books and reference materials	1,132	1,665	14,593	143	188	17,721	7,455	25,176	17,995
Other costs	43,799	10,866	63,740	344	3,680	122,429	8,015	130,444	94,294
Depreciation and amortization	25,790	-	4,323	-	-	30,113	-	30,113	50,513
Event costs	-	-	-	-	-	-	105,318	105,318	80,828
Staff development	2,348	281	21,223	-	-	23,852	6,320	30,172	17,082
Licenses, permits and fees	-	1,800	8,720	-	-	10,520	11,755	22,275	17,503
General and administrative expenses	<u>177,193</u>	<u>159,798</u>	<u>281,331</u>	<u>14,670</u>	<u>18,003</u>	<u>650,995</u>	<u>39,980</u>	<u>690,975</u>	<u>749,845</u>
TOTAL	<u>\$1,371,749</u>	<u>\$ 1,312,787</u>	<u>\$ 2,414,685</u>	<u>\$ 138,499</u>	<u>\$ 161,762</u>	<u>\$ 5,399,482</u>	<u>\$ 468,833</u>	<u>\$ 5,868,315</u>	<u>\$ 5,222,587</u>

See accompanying notes to financial statements.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,079,073	\$ 934,498
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	30,113	50,513
Unrealized loss (gain) on investments	269,279	(255,753)
Realized loss on investments	90	2,315
(Increase) decrease in:		
Accounts receivable	(117,258)	217,557
Prepaid expenses	2,083	(58,533)
Increase (decrease) in:		
Accounts payable and accrued liabilities	62,180	50,182
Deferred revenue	17,128	-
Incentive from lessor	(18,108)	(18,108)
Deferred rent	<u>(38,027)</u>	<u>(28,321)</u>
Net cash provided by operating activities	<u>1,286,553</u>	<u>894,350</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(10,549)	(7,314)
Purchase of investments	(4,523,421)	(1,740,362)
Proceeds from sale of investments	<u>3,069,786</u>	<u>936,013</u>
Net cash used by investing activities	<u>(1,464,184)</u>	<u>(811,663)</u>
Net (decrease) increase in cash and cash equivalents	(177,631)	82,687
Cash and cash equivalents at beginning of year	<u>347,011</u>	<u>264,324</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 169,380</u>	<u>\$ 347,011</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Donated Securities	<u>\$ -</u>	<u>\$ 1,082</u>

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 2018, NVLSP had contracts and grants with the 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 the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended December 31, 2018 and applied retrospectively.

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, 2017, 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, except for money market funds.

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. Interest, dividends, realized and unrealized gains and losses are included in investment income net of investment expenses provided by external investment advisors in the Statement of Activities and Change in Net Assets.

Investments acquired by gift are recorded at their fair value at the date of the gift. NVLSP's policy is to liquidate all gifts of investments as soon as possible after the gift.

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.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Property and equipment -

Property and equipment in excess of \$2,000 are capitalized and stated at cost. Property and equipment 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.

Depreciation and amortization expense for the year ended December 31, 2018 totaled \$30,113.

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as net assets without donor restrictions. Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. There were no net assets with donor restrictions as of December 31, 2018.

Contributions and grants -

Contributions: Contributions received are recorded as revenue in the year notification is received from the donor. Contributions with donor restrictions are recognized as without donor restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as net assets with donor restriction in the accompanying financial statements. Contributions with donor restrictions received in the same year in which the restrictions are met are recorded as contributions without donor restriction.

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 awards are recorded as revenue "without donor restrictions" to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Contributions and grants (continued) -

Deferred revenue: Deferred revenue represent contract funding received in advance of incurring the related expense. As of December 31, 2018, deferred revenue was \$35,250.

Income taxes -

NVLSP is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Beginning January 1, 2018, it is subject to unrelated business income taxes on qualified transportation fringe benefits provided to its employees. The amount of the tax for the year ended December 31, 2018 totaled \$6,546, and is reflected under "Licenses, permits, and fees" in the Statement of Functional Expenses. NVLSP is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2018, NVLSP has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

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. Expenses directly attributed to a specific functional area of NVLSP are reported as direct expenses to the programmatic area and those expenses that benefit more than one functional are allocated on a basis of actual time and effort.

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.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of Accounting Standards Update 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Reclassification (continued) -

Net assets previously classified as of December 31, 2017, as unrestricted net assets in the amount of \$4,830,145 are now classified as without donor restrictions.

New accounting pronouncements (not yet adopted) -

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 June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. NVLSP has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

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. 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.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. INVESTMENTS

Investments consisted of the following at December 31, 2018:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 1,136,649	\$ 1,136,649
Fixed income mutual funds	2,350,022	2,285,774
Exchange-traded funds	<u>1,988,657</u>	<u>2,087,977</u>
TOTAL INVESTMENTS	<u>\$ 5,475,328</u>	<u>\$ 5,510,400</u>

Included in investment loss are the following for the year ended December 31, 2018:

Interest and dividends	\$ 123,524
Unrealized loss on investments	(269,279)
Realized loss on investments	(90)
Investment fees	<u>(19,786)</u>
TOTAL INVESTMENT LOSS	<u>\$ (165,631)</u>

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2018:

Furniture and equipment	\$ 303,307
Computer software	20,895
Leasehold improvements	<u>542,349</u>
Total property and equipment	866,551
Less: Accumulated depreciation and amortization	<u>(794,245)</u>
PROPERTY AND EQUIPMENT, NET	<u>\$ 72,306</u>

4. LEASE COMMITMENT

NVLSP leases office space on 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.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

4. LEASE COMMITMENT (Continued)

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, 2018, the deferred rent liability was \$132,023.

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, 2018 was \$43,762; the current portion of the unamortized amount totaled \$18,108.

Occupancy expenses for the year ended December 31, 2018 totaled \$492,663. 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.

In January 2019, NVLSP signed an extension of their current lease until December 31, 2022, with total future lease payments of \$962,344. They also signed an amendment to the lease that includes the construction of additional office space. This lease will take effect upon the completion of construction and will last until December 31, 2022.

The following are the future minimum lease payments:

Year Ending December 31,

2019	\$ 450,938
2020	461,084
2021	471,457
2022	<u>482,064</u>
	<u>\$ 1,865,543</u>

5. LIQUIDITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position, comprise the following at December 31, 2018:

Cash and cash equivalents	\$ 169,380
Investments	5,510,400
Accounts receivable	<u>547,134</u>

**FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS
FOR GENERAL EXPENDITURES WITHIN ONE YEAR** **\$ 6,226,914**

NVLSP has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2018, NVLSP has financial assets equal to approximately thirteen months of operating expenses.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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, 2018, NVLSP earned royalties, included in publications income in the accompanying Statement of Activities and Change in Net Assets, totaling \$201,793, of which \$120,317 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, 2018, the employee benefit expense associated with these plans totaled \$127,186.

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.

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.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

8. FAIR VALUE MEASUREMENT (Continued)

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, 2018.

- *Money market funds* - The money market fund is an open-end funds that are registered with the Securities and Exchange Commission (SEC) and is deemed to be actively 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.
- *Exchange-traded funds* - Valued at the closing price reported on the active market in which the individual funds are traded.

The table below summarizes, by level within the fair value hierarchy, NVLSP's investments as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class: Investments				
Money market funds	\$ 1,136,649	\$ -	\$ -	\$ 1,136,649
Fixed income mutual funds	2,285,774	-	-	2,285,774
Exchange-traded funds	<u>2,087,977</u>	<u>-</u>	<u>-</u>	<u>2,087,977</u>
TOTAL	<u>\$ 5,510,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,510,400</u>

9. SUBSEQUENT EVENTS

In preparing these financial statements, NVLSP has evaluated events and transactions for potential recognition or disclosure through June 12, 2019, the date the financial statements were issued.