

FINANCIAL STATEMENTS



NVLSP

NATIONAL VETERANS LEGAL SERVICES PROGRAM

**FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2019**

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

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CPAs & ADVISORS

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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 7, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Friedman

June 23, 2021

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

ASSETS

ASSETS	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 401,284	\$ 396,024
Investments	6,060,615	5,612,978
Accounts receivable	635,781	702,493
Prepaid expenses	155,305	103,752
Property and equipment, net of accumulated depreciation and amortization of \$757,262	36,593	69,315
Deposits	<u>41,465</u>	<u>41,142</u>
TOTAL ASSETS	<u>\$ 7,331,043</u>	<u>\$ 6,925,704</u>

LIABILITIES AND NET ASSETS**LIABILITIES**

Loan payable	\$ 901,459	\$ -
Accounts payable and accrued liabilities	473,174	508,868
Deferred revenue	-	29,000
Incentive from lessor	7,545	25,653
Deferred rent	<u>84,764</u>	<u>84,075</u>
Total liabilities	1,466,942	647,596

NET ASSETS

Without donor restrictions	<u>5,864,101</u>	<u>6,278,108</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,331,043</u>	<u>\$ 6,925,704</u>

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	<u>Without Donor Restrictions</u>	
	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
Attorneys' fees	\$ 4,428,425	\$ 4,491,825
Grants and contracts	388,842	355,077
Publications	354,132	289,352
Contributions	1,252,313	1,299,041
Training	71,297	73,860
Investment income, net	<u>382,854</u>	<u>747,589</u>
Total revenue and support	<u>6,877,863</u>	<u>7,256,744</u>
EXPENSES		
Program Services:		
Lawyers Serving Warriors	1,554,218	1,531,990
Work for Veteran Service Organizations	2,872,015	2,449,332
General Fund	318,124	571,422
Nehmer	565,290	685,237
Publications	<u>190,153</u>	<u>177,310</u>
Total program services	<u>5,499,800</u>	<u>5,415,291</u>
Supporting Services:		
Management and General	1,324,404	990,041
Fundraising	<u>467,666</u>	<u>482,522</u>
Total supporting services	<u>1,792,070</u>	<u>1,472,563</u>
Total expenses	<u>7,291,870</u>	<u>6,887,854</u>
Change in net assets	(414,007)	368,890
Net assets at beginning of year	<u>6,278,108</u>	<u>5,909,218</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,864,101</u>	<u>\$ 6,278,108</u>

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

	2020						2019				
	Program Services					Supporting Services			Total Expenses	Total Expenses	
Lawyers Serving Warriors	Work for Veteran Service Organizations	General Fund	Nehmer	Publications	Total Program Services	Management and General	Fundraising	Total Supporting Services			
Salaries	\$ 1,072,891	\$ 2,015,665	\$ 152,464	\$ 368,091	\$ 113,982	\$ 3,723,093	\$ 822,654	\$ 297,009	\$ 1,119,663	\$ 4,842,756	\$ 4,417,658
Employee benefits	243,481	445,677	35,923	88,461	24,117	837,659	176,948	67,297	244,245	1,081,904	934,775
Occupancy	113,095	196,322	10,288	64,095	10,877	394,677	73,695	28,675	102,370	497,047	501,732
Equipment rental and maintenance	52,787	82,106	4,633	4,800	11,453	155,779	30,702	12,001	42,703	198,482	160,692
Other costs	-	-	-	-	-	-	137,786	6,333	144,119	144,119	36,550
Office supplies	15,854	35,048	24,361	3,353	2,455	81,071	26,572	5,411	31,983	113,054	183,634
Consultants	2,506	6,079	5,433	27,450	14,450	55,918	34,002	2,826	36,828	92,746	244,317
Communications	17,509	32,525	1,444	6,334	1,472	59,284	9,892	3,731	13,623	72,907	79,118
Temporary help	1,714	32,709	34,880	-	3,083	72,386	-	-	-	72,386	-
Licenses, permits and fees	-	8,230	896	14	26	9,166	11,957	12,227	24,184	33,350	45,263
Depreciation and amortization	25,654	-	7,068	-	-	32,722	-	-	-	32,722	31,897
Event costs	-	-	-	-	5,284	5,284	-	24,253	24,253	29,537	94,087
Grants and contributions	-	-	25,000	-	-	25,000	-	-	-	25,000	-
Books and reference materials	4,360	4,599	8,621	680	297	18,557	-	5,853	5,853	24,410	20,130
Insurance	4,023	9,280	38	2,012	518	15,871	-	1,385	1,385	17,256	23,053
Staff development	-	-	6,885	-	-	6,885	-	174	174	7,059	23,542
Travel	44	3,263	156	-	-	3,463	-	416	416	3,879	51,244
Bank fees	-	-	-	-	2,111	2,111	-	-	-	2,111	-
Printing and production	300	512	34	-	28	874	196	75	271	1,145	40,162
TOTAL	\$ 1,554,218	\$ 2,872,015	\$ 318,124	\$ 565,290	\$ 190,153	\$ 5,499,800	\$ 1,324,404	\$ 467,666	\$ 1,792,070	\$ 7,291,870	\$ 6,887,854

See accompanying notes to financial statements.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (414,007)	\$ 368,890
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	32,722	31,897
Unrealized gain on investments	(266,516)	(311,024)
Realized loss (gain) on investments	33,991	(286,621)
Decrease (increase) in:		
Accounts receivable	66,712	(155,359)
Prepaid expenses	(51,553)	47,542
Deposits	(323)	(4,960)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(35,694)	142,425
Deferred revenue	(29,000)	(6,250)
Incentive from lessor	(18,108)	(18,109)
Deferred rent	<u>689</u>	<u>(47,948)</u>
Net cash used by operating activities	<u>(681,087)</u>	<u>(239,517)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(28,906)
Purchases of investments	(2,024,749)	(2,091,026)
Proceeds from sale of investments	<u>1,809,637</u>	<u>2,586,093</u>
Net cash (used) provided by investing activities	<u>(215,112)</u>	<u>466,161</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	<u>901,459</u>	<u>-</u>
Net cash provided by financing activities	<u>901,459</u>	<u>-</u>
Net increase in cash and cash equivalents	5,260	226,644
Cash and cash equivalents at beginning of year	<u>396,024</u>	<u>169,380</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 401,284</u>	<u>\$ 396,024</u>

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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 2020, 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 Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor 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 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 donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service. NVLSP did not have any net assets with donor restrictions as of December 31, 2020.

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, 2019, from which the summarized information was derived.

New accounting pronouncement adopted -

During 2020, NVLSP adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

New accounting pronouncement adopted (continued) -

Analysis of the various provisions of this standard resulted in no significant changes in the way NVLSP recognized revenue; however, the presentation and disclosures of revenue have been enhanced. NVLSP has elected to opt out of all (or certain) disclosures not required for nonpublic entities and also elected a modified retrospective approach for implementation.

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, excluding money market funds held by investment managers in the amount of \$492,285 for the year ended December 31, 2020.

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, which is presented net of investment expenses paid to external investment advisors, in the accompanying 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 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, 2020 totaled \$32,722.

Revenue -

Grants and contracts classified as exchange transactions follow ASU 2014-09, *Revenue from Contracts With Customers* and are recorded as revenue at a point in time when the performance obligations are met. Transaction price is based on cost.

Training revenue is recognized when the related training event has occurred. Transaction price is based on cost. Attorneys' fees revenue is recognized when the related service has been performed. Transaction price is based on the amount of the fees. Publication revenue is recognized when the publication has been delivered. Transaction price is based on the sales price of the publication.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Revenue (continued) -

NVLSP's activities are supported by grants and contributions from corporations, individuals and other private entities. These awards are for various activities performed by NVLSP. Grants and contributions are recognized in the appropriate category of net assets in the period received.

NVLSP performs an analysis of the individual grant or contribution to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For grants, contributions and contracts qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Grants, contributions and contracts qualifying under the contribution rules that are unconditional and have 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. Funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Grants, contributions and contracts qualifying as conditional contributions contain a right of return from obligation provision that limits NVLSP on how funds transferred should be spent. Additionally, a barrier is present that is related to the purpose of the agreement. Revenue is recognized when the condition or conditions on which they depend are substantially met. NVLSP did not have any unrecognized conditional awards as of December 31, 2020.

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, 2020, 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.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

Functional allocation of expenses (continued) -

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 function are allocated on a basis of actual time and effort or other reasonable basis.

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.

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.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

New accounting pronouncement not yet adopted -

ASU 2019-01, *Leases* (Topic 842) changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosure of key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

NVLSP plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact NVLSP's operations. The overall potential impact is unknown at this time.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

2. INVESTMENTS

Investments consisted of the following at December 31, 2020:

	<u>Fair Value</u>
Money market funds	\$ 492,285
Fixed income mutual funds	3,068,773
Equities mutual funds	949,876
Exchange-traded funds	<u>1,549,681</u>
TOTAL INVESTMENTS	<u>\$ 6,060,615</u>

Included in investment income, net, are the following:

Interest and dividends	\$ 180,163
Unrealized gain on investments	266,516
Realized loss on investments	(33,991)
Investment fees	<u>(29,834)</u>
TOTAL INVESTMENT INCOME, NET	<u>\$ 382,854</u>

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 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.

The following is a description of the valuation methodology used for investments measured at fair value. There were no transfers between levels in the fair value hierarchy during the year ended December 31, 2020. Transfers between levels are recorded at the end of the reporting period, if applicable. There have been no changes in the methodologies used at December 31, 2020.

- *Money market funds* - The money market funds are open-end funds that are registered with the Securities and Exchange Commission (SEC) and are deemed to be actively traded.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

2. INVESTMENTS (Continued)

- *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 as of December 31, 2020.

	Level 1	Level 2	Level 3	Total
Investments				
Money market funds	\$ 492,285	\$ -	\$ -	\$ 492,285
Fixed income mutual funds	3,068,773	-	-	3,068,773
Equities mutual funds	949,876	-	-	949,876
Exchange-traded funds	1,549,681	-	-	1,549,681
TOTAL	\$ 6,060,615	\$ -	\$ -	\$ 6,060,615

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2020:

Furniture and equipment	\$ 229,230
Computer software	17,934
Leasehold improvements	546,691
Total property and equipment	793,855
Less: Accumulated depreciation and amortization	(757,262)
PROPERTY AND EQUIPMENT, NET	\$ 36,593

4. LOAN PAYABLE

On May 5, 2020, NVLSP received loan proceeds in the amount of \$901,459 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first six months. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part. NVLSP used the loan proceeds for purposes consistent with the Paycheck Protection Program and applied for forgiveness after completing the 24-week period stipulated by the terms of the loan. The loan was fully forgiven on March 9, 2021, upon which NVLSP recorded revenue from debt extinguishment during the period that forgiveness was approved.

5. LEASE COMMITMENTS

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

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

5. LEASE COMMITMENTS (Continued)

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 was designated to 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, 2020 was \$7,545, all of which was current at December 31, 2020.

During 2019, NVLSP entered into a further amendment and extension of the lease. The extended lease will expire on December 31, 2022. In addition, NVLSP increased its space under the lease agreement, commencing June 2019.

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 recorded as a deferred rent liability on the Statement of Financial Position. As of December 31, 2020, the deferred rent liability was \$84,764. Occupancy expense for the year ended December 31, 2020 totaled \$497,047.

The following are the future minimum lease payments:

Year Ending December 31,

2021	\$ 533,352
2022	<u>545,506</u>
	<u>\$ 1,078,858</u>

6. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position, comprise the following at December 31, 2020:

Cash and cash equivalents	\$ 401,284
Investments	6,060,615
Accounts receivable	<u>635,781</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 7,097,680</u>

NVLSP has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2020, NVLSP had financial assets equal to approximately twelve months of operating expenses.

7. 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.

NATIONAL VETERANS LEGAL SERVICES PROGRAM, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

7. PUBLISHING AGREEMENTS (Continued)

During the year ended December 31, 2020, NVLSP earned royalties, included in publications income in the accompanying Statement of Activities and Change in Net Assets, totaling \$326,515, of which \$202,662 is included in accounts receivable in the accompanying Statement of Financial Position. Subsequent to year-end, the receivable balance was fully collected.

8. 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, 2020, the employee benefit expense associated with these plans totaled \$132,414.

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.

9. SUBSEQUENT EVENTS

In preparing these financial statements, NVLSP has evaluated events and transactions for potential recognition or disclosure through June 23, 2021, the date the financial statements were issued.

During April 2021, NVLSP, acting as plaintiff's counsel, settled a lawsuit with the defendant for attorney's fees and litigation expenses, in the amount of \$1,204,312. The amount was in full settlement for attorney's fees and litigation expenses incurred for the period January 1, 2019 to December 31, 2019, and the July 2020 fee request.