The Bronx Defenders Redefining public defense.

THE BRONX DEFENDERS AND AFFILIATE
(Still She Rises, A Project of the Bronx Defenders, LLC)

Consolidated Financial Statements

June 30, 2018 and 2017

With Independent Auditors' Report

withum
ADVISORY TAX AUDIT

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ADVISORY TAX AUDIT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
The Bronx Defenders and Affiliate:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Bronx Defenders and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bronx Defenders and Affiliate as of June 30, 2018 and 2017, the results of its operations and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

WithumSmith+Brown, PC

April 25, 2019

The Bronx Defenders and Affiliate
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash	$ 907,489	$ 1,041,035
Receivables from New York City	7,464,323	3,688,348
Grants receivable	1,010,980	1,054,152
Prepaid expenses and other assets	170,366	493,431
Security deposit	477,871	448,920
Fixed assets, net	6,211,334	5,174,497
Total assets	$ 16,242,363	$ 11,900,383
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 1,246,374	$ 590,353
Other contract advances	52,885	43,409
Deferred rent	770,872	622,923
Lease incentive obligation	414,487	--
Due to government agencies	73,524	73,524
Retainage payable	69,519	95,570
Lines of credit	3,963,369	2,800,000
Total liabilities	6,591,030	4,225,779
Net assets		
Unrestricted	8,629,183	6,723,628
Temporarily restricted	1,022,150	950,976
Total net assets	9,651,333	7,674,604
Total liabilities and net assets	$ 16,242,363	$ 11,900,383

The Notes to Consolidated Financial Statements are an integral part of these statements.

The Bronx Defenders and Affiliate
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support						
Grants	$ 28,926,436	$ 6,861,960	$ 35,788,396	$ 24,045,419	$ 5,003,757	$ 29,049,176
Contributions	973,375	--	973,375	449,742	--	449,742
Special events - revenues	364,200	--	364,200	368,410	--	368,410
Less direct costs of special events	(139,152)	--	(139,152)	(196,959)	--	(196,959)
Net special event revenues	225,048	--	225,048	171,451	--	171,451
Case processing revenue	106,000	--	106,000	212,000	--	212,000
Lawsuit settlement fees	473,276	--	473,276	--	--	--
Miscellaneous revenue	34,050	--	34,050	69,584	--	69,584
Total revenues and other support	30,738,185	6,861,960	37,600,145	24,948,196	5,003,757	29,951,953
Net assets released from restrictions	6,790,786	(6,790,786)	--	4,923,979	(4,923,979)	--
	37,528,971	71,174	37,600,145	29,872,175	79,778	29,951,953
Expenses						
Program services - legal services	31,250,944	--	31,250,944	26,602,785	--	26,602,785
Management and general	2,958,407	--	2,958,407	2,189,668	--	2,189,668
Fundraising	307,931	--	307,931	245,163	--	245,163
Total expenses	34,517,282	--	34,517,282	29,037,616	--	29,037,616
Changes in net assets before depreciation and amortization	3,011,689	71,174	3,082,863	834,559	79,778	914,337
Depreciation and amortization	1,106,134	--	1,106,134	983,954	--	983,954
Changes in net assets	1,905,555	71,174	1,976,729	(149,395)	79,778	(69,617)
Net assets, beginning of year	6,723,628	950,976	7,674,604	6,873,023	871,198	7,744,221
Net assets, end of year	$ 8,629,183	$ 1,022,150	$ 9,651,333	$ 6,723,628	$ 950,976	$ 7,674,604

The Notes to Consolidated Financial Statements are an integral part of these statements.

The Bronx Defenders and Affiliate
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Changes in net assets	$ 1,976,729	$ (69,617)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	1,106,134	983,954
Amortization of lease incentive obligation	(19,013)	--
Changes in assets and liabilities		
Receivables from New York City	(3,775,975)	(1,843,170)
Grants receivable	43,172	148,317
Prepaid expenses and other assets	323,065	(316,748)
Security deposits	(28,951)	(187,202)
Accounts payable and acrrued expenses	656,021	(41,066)
Retainage payable	(26,051)	95,570
Other contract advances	9,476	8,833
Deferred rent	147,949	(97,944)
Lease incentive obligation	433,500	--
Net cash provided (used) by operating activities	846,056	(1,319,073)
Cash flows from investing activities		
Purchase of property and equipment, net	(2,142,971)	(1,205,186)
Cash flows from financing activities		
Drawdowns on line of credit	4,463,369	5,750,000
Repayments of line of credit	(3,300,000)	(4,750,000)
Net cash provided by financing activities	1,163,369	1,000,000
Net change in cash and cash equivalents	(133,546)	(1,524,259)
Cash and cash equivalents		
Beginning of year	1,041,035	2,565,294
End of year	$ 907,489	$ 1,041,035
Supplemental disclosure of cash flow information		
Interest paid	$ 116,568	$ 27,727
Non-cash investing activity		
Construction in progress placed in service	$ 991,145	$ --

The Notes to Consolidated Financial Statements are an integral part of these statements.

1. NATURE OF ORGANIZATION

The Bronx Defenders was incorporated on February 7, 1997 under the laws of the State of New York.

The Bronx Defenders is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is a publicly supported organization as described in Section 509(a). The Bronx Defenders commenced operations on July 1, 1997. The Bronx Defenders provides legal services in criminal and family court matters to indigent residents of Bronx County. The Bronx Defenders provided representation to approximately 21,700 and 23,200 indigent persons for the years ended June 30, 2018 and 2017, respectively. Its primary sources of revenues are grants from the City of New York.

A related company, Still She Rises, A Project of the Bronx Defenders, LLC ("Still She Rises" or the "Affiliate") is in the process of becoming a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code with the sole member being the Organization. Formed in June 2016, Still She Rises was created for the purpose of providing legal services to the women and families of North Tulsa, Oklahoma.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements included the accounts of The Bronx Defenders and Affiliate (collectively the "Organization"). The companies share common management and there is an economic interest between the entities. All inter-organizational transactions and accounts are eliminated in consolidation.

Basis of Accounting and Presentation
The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The consolidated financial statement presentation follows the guidance of the accounting standards relating to consolidated financial statements of not-for-profit organizations. Under these standards, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates
The preparation of consolidated 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 and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The allowance for doubtful accounts, depreciation, and accounts payable and accrued expenses, among other accounts, require the significant use of estimates. Actual results could differ from those estimates.

Receivables from New York City
Receivables from New York City result from providing legal services to indigent residents of Bronx County as per grant agreements with New York City.

Grants Receivable

Grants receivable result from providing legal services to indigent residents of Bronx County as per grant agreements with agencies other than New York City. To the extent amounts received exceed amounts spent, The Bronx Defenders and Affiliate establishes advances from other contracts.

Allowance for Doubtful Accounts

The Bronx Defenders and Affiliate determines whether an allowance for uncollectible accounts should be provided for grants receivable and receivables from New York City. Such estimates are based on management's assessment of the aged basis of its contributions and grants, current economic conditions and historical information. Grants receivable and receivables from New York City are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Interest is not charged on outstanding balances. Based on the aging of the receivables and the subsequent receipts, management has determined that an allowance for doubtful accounts was not necessary as of June 30, 2018 and 2017.

Fixed Assets

Fixed assets and leasehold improvements are stated at cost. Items with a cost of $5,000 and an estimated useful life of greater than one year are capitalized. Depreciation of fixed assets is provided on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the shorter of the life of the asset or the term of the lease.

Description	Estimated Life (Years)
Equipment and furniture	5 – 15
Leasehold improvements	10

Upon retirement or sale, the cost of the assets disposed and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded in the consolidated statements of activities and changes in net assets. Construction in progress amounts are recorded at cost until the renovations are fully completed and deemed to be placed in service.

Due to Government Agencies

Due to government agencies consists of overpayments from funders, which are owed back.

Classification of Net Assets

Unrestricted net assets – include net assets having no restriction as to use or purpose imposed by donors. They include resources under full control of the Board of Directors for use in achieving the purposes of The Bronx Defenders and Affiliate.

Temporarily restricted net assets – include resources that have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by the actions of the Organization pursuant to those stipulations.

Revenue Recognition and Grant Receivable

Grants

Grant revenue is recorded to the extent that expenses have been incurred for the purposes specified by the grantor or when the services have been provided.

Contributions
Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities and changes in net assets, as net assets released from restrictions.

Client Lawsuit Settlement Fees
The Bronx Defenders receives fees from lawsuit settlements based on a percentage of time spent in trial. The revenue is recorded once the settlement is paid out.

Functional Allocation of Expenses
The cost of providing the various program and supporting services has been summarized on an unconditional basis in the consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and support services as determined by management.

Deferred Rent and Operating Leases
Operating leases are recorded on the straight-line basis over the life of the lease. Deferred rent is recorded for the difference between the fixed payment and the rent expense.

Lease incentives are recorded as a deferred liability when received and subsequently credited to rent expense on a straight-line basis over the life of the lease.

Concentration of Credit Risk
Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash at various quality financial institutions. During the years ending June 30, 2018 and 2017, the Organization had cash in excess of the FDIC insurance limit. Management monitors the soundness of the institutions and has not incurred any significant credit related losses.

The Bronx Defenders and Affiliate received approximately 79 and 80 percent of its revenue from contracts with New York City for the years ending June 30, 2018 and 2017, respectively. The loss of any individual contract would not have a material impact on the Organization's operations. The Organization has not experienced a significant loss of contracts in the past. These contracts are also subject to audit by various agencies. To date, no significant adjustments have resulted from such audits.

Income Taxes
The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and exempt from state income tax under similar provisions. Accordingly, no provision for income taxes has been recorded in these consolidated financial statements. It is the Organization’s accounting policy to evaluate uncertain tax positions in accordance with the accounting pronouncement on uncertainly for income taxes. Management has determined that there are no uncertain tax positions at the Organization as of June 30, 2018 and 2017. The Organization has no income tax related penalties or interest for the periods reported in these consolidated financial statements.

Recent Accounting Pronouncements

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The new guidance clarifies what is an exchange transaction, of which revenues would be reported under Topic 606, and what is a contribution reported under Topic 958. The new guidance presents three key considerations for the not-for-profit to walk through in order to determine what type of transaction transpired. 1. Determine if the transaction is an exchange, third-party payer, or a contribution. An exchange is where commensurate value is received by the resource provider and a recipient. 2. If the not-for-profit has determined the transaction is a contribution, it has to determine if it is conditional or unconditional. 3. If a contribution is unconditional, determine if it is restricted or unrestricted. Entities should apply the changes due to ASU 2018-08 for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

In August 2016 the FASB issued ASU 2016-14 - Not-for-profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-profit Entities*. ASU 2016-14, which is effective for fiscal years beginning after December 15, 2017 with early adoption permitted will require a change to two areas of not-for-profit accounting and significant new financial statement presentation and disclosure requirements. Under ASU 2016-14 (the "ASU") underwater funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions as is the current practice. In addition, the ASU eliminates the accounting policy election to release donor imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period of time the property must be used. Instead, entities will be required to relieve the donor's restrictions at the time the asset is placed in service.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which provides a comprehensive new revenue recognition model that requires a company to recognize revenue in an amount that reflects the consideration it expects to receive for the transfer of promised goods or services to its customers.

The standard, including subsequent amendments, was codified as Topic 606 and requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Topic 606 is effective for annual periods beginning after December 15, 2018 and interim periods beginning after December 15, 2019. This ASU is to be applied retrospectively or using a cumulative effect transition method. The Organization is currently evaluating the effect that this pronouncement will have on its consolidated financial statements and related disclosures.

Leases

In February 2016, the FASB issued ASU 2016-02 *Leases* (Topic 842), which requires the recognition of a “right to use” asset and a lease liability, initially measured at the present value of the lease payments, on the consolidated statements of financial position for all of the Organization’s lease obligations. This ASU is effective for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the effect that this pronouncement will have on its consolidated financial statements and related disclosures.

The Bronx Defenders and Affiliate is evaluating the impact the ASUs will have on its consolidated financial statements.

3. FIXED ASSETS

Summary of fixed assets, net as of June 30, is as follows:

	2018	2017
Equipment and furniture	$ 2,349,777	$ 2,144,272
Leasehold improvements	12,408,905	10,458,757
Construction in progress - leasehold improvements	978,463	991,145
	15,737,145	13,594,174
Less: Accumulated depreciation	9,525,811	8,419,677
	$ 6,211,334	$ 5,174,497

Depreciation and amortization amounted to $1,106,134 and $983,954 for the years ending June 30, 2018 and 2017, respectively.

4. STILL SHE RISES, A PROJECT OF THE BRONX DEFENDERS, LLC

The summarized financial information for Still She Rises is as follows for the fiscal years ended June 30:

	2018	2017
Current assets	$ 260,090	$ 25,628
Other assets	294,041	297,055
Total assets	$ 554,131	$ 322,683
Current liabilities	$ 26,074	$ 25,000
Other liabilties	15,878	--
Net assets	512,179	297,683
Total liabilities and net assets	$ 554,131	$ 322,683
Revenue	$ 1,701,529	$ 938,051
Salaries and other personnel costs	(958,315)	(346,805)
Other operating expenses	(231,035)	(293,563)
Change in net assets	$ 512,179	$ 297,683

5. LINE OF CREDIT

On February 12, 2016, The Bronx Defenders entered into an agreement with Bank of America providing for a $2,000,000 revolving line of credit with a variable interest rate, which was 5.59 and 4.72 percent at June 30, 2018 and 2017, respectively. The line of credit agreement was extended and expired on February 1, 2019 and an additional extension is pending. On May 31, 2018 the line of credit amount was increased to $3,000,000. The line of credit is secured by all business assets of The Bronx Defenders. The outstanding balance was $2,565,000 and $2,000,000 as of June 30, 2018 and 2017, respectively.

On May 31, 2018, The Bronx Defenders entered into an agreement with Bank of America providing for a $2,000,000 revolving line of credit with a variable interest rate, which was 5.59 at June 30, 2018. The line of credit agreement is set to expire on April 30, 2019. The line of credit is secured by all business assets of The Bronx Defenders. The outstanding balance was $1,398,369 as of June 30, 2018 and as of March 2019 the outstanding balance of $1,398,369 was paid in full.

On June 1, 2017, The Bronx Defenders entered into an agreement with Bank of America providing for a $1,800,000 non-revolving line of credit with a variable interest rate, which was -0- and 4.72 at June 30, 2018 and 2017, respectively. The line of credit agreement was set to expire on June 1, 2018 and was paid in full in October 2017. The line of credit is secured by all business assets of The Bronx Defenders. The outstanding balance was $-0- and $800,000 as of June 30, 2018 and 2017, respectively.

Interest expense for the years ended June 30, 2018 and 2017 amounted to $116,568 and $27,727, respectively.

6. LEASED FACILITIES

The Bronx Defenders leases facilities for its administrative office and program services under a noncancelable lease that ends in January 2021. In addition, The Bronx Defenders acquired additional leased space at 360 and 361 East 161st Street under a noncancelable lease that ends in April 2022 with two successive options to renew, each for an additional five years. The Bronx Defenders entered into a lease for additional office space at 3160 Park Avenue that commenced in August 2017. In connection with this lease agreement The Bronx Defenders received $433,500 as an incentive for tenant improvements. The balance of the lease incentive obligation at June 30, 2018 was $414,487 and is reflected on the consolidated balance sheets.

In March 2018, the 3160 Park Avenue lease was amended to include additional office space at the location. The amended lease has an initial ten year term and the option to renew for two additional five year terms. The additional space was ready for use and occupied by The Bronx Defenders in October 2018. The Bronx Defenders is expected to receive an additional $476,775 in lease incentive obligations in relation to the leasehold improvements (see Note 9).

Still She Rises leased space in Tulsa, Oklahoma beginning in October 2016 with an initial five year term and the option to renew for two additional five year terms. In accordance with generally accepted accounting principles in the United States of America, The Bronx Defenders and Affiliate have recorded rent on the straight-line basis, reflecting rent expense evenly over the lives of the leases. Rent expense for the years ended June 30, 2018 and 2017 was $1,261,480 and 855,818, respectively.

Future rental payments are as follows:

Year Ending June 30,	Amount
2019	$ 1,558,076
2020	1,675,982
2021	1,493,219
2022	1,185,408
2023	697,654
Thereafter	3,266,787
	$ 9,877,126

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as of June 30:

	2018	2017
Civil Action Projects	$ 191,372	$ 143,777
Community Arts Exchange Program	31,476	31,476
Robert P. Patterson Mentoring Program	137,871	250,186
Adolescent Defense Project	7,922	109,086
Fair Punishment Project	74,698	31,698
Tulsa Project	578,811	384,753
	$ 1,022,150	$ 950,976

Net assets were released from restrictions by incurring expenses satisfying the following restricted purposes for the years ending June 30:

	2018	2017
Center for Holistic Defense	$ --	$ 76,147
Civil Action Projects	4,837,726	3,773,237
Family Defense Project Child Welfare	--	195,000
Robert P. Patterson Mentoring Program	159,011	110,139
Adolescent Defense Project	243,514	90,914
Fair Punishment Project	--	48,302
Tulsa Project	1,468,592	630,240
Other programs	81,943	--
	$ 6,790,786	$ 4,923,979

8. FUNCTIONAL EXPENSES

Total expenses were for the following purposes for the year ending June 30, 2018:

	Operating Expenses	Depreciation and Amortization	Total
Programs - legal services	$ 31,250,944	$ 940,214	$ 32,191,158
Management and general	2,958,407	165,920	3,124,327
Fundraising	307,931	--	307,931
Direct cost of special events	139,152	--	139,152
	$ 34,656,434	$ 1,106,134	$ 35,762,568

Total expenses were for the following purposes for the year ending June 30, 2017

	Operating Expenses	Depreciation and Amortization	Total
Programs - legal services	$ 26,602,785	$ 836,360	$ 27,439,145
Management and general	2,189,668	147,594	2,337,262
Fundraising	245,163	--	245,163
Direct cost of special events	196,959	--	196,959
	$ 29,234,575	$ 983,954	$ 30,218,529

9. COMMITMENTS

During May 2018, The Bronx Defenders contracted for leasehold improvements totaling $1,991,791 to be made to additional office space. The total costs incurred amounted to $695,185 as of June 30, 2018 and are included in construction in progress – leasehold improvements with fixed assets. Retainage payable in relation to these costs incurred amounted to $69,519 as of June 30, 2018. The lease on this new space commenced in April 2018.

10. PENSION PLAN

The Bronx Defenders and Affiliate have a defined contribution pension plan available to its employees. Each employee may make annual contributions, subject to Internal Revenue Service limitations. All employees are eligible to make elective deferrals beginning on the date of hire. All employees are eligible to participate in the employer contributions once they complete one month of service. The employer contributed three percent of the amount of the employee's elective deferral. The employer portion vests after three years of service. Pension expense for the years ended June 30, 2018 and 2017, was $723,531 and $606,576, respectively.

11. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events occurring after the consolidated statement of financial position date through the date of April 25, 2019, the date for which the consolidated financial statements were available to be released. Based upon this evaluation, the Organization has determined that no subsequent events have occurred which require disclosure in or adjustment to the consolidated financial statements.