

The Bronx Defenders

Independent Auditor's Report and Financial Statements

June 30, 2021



The Bronx Defenders

June 30, 2021

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Independent Auditor's Report

Board of Directors
The Bronx Defenders
Bronx, New York

We have audited the accompanying financial statements of The Bronx Defenders, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, 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 The Bronx Defenders as of June 30, 2021, and the changes 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.

BKD, LLP

New York, New York
May 12, 2022

The Bronx Defenders
Statement of Financial Position
June 30, 2021

Assets

Cash	\$ 2,390,783
Receivables from governmental grants, current	13,776,155
Grants and contributions receivable, current	813,573
Prepaid expenses and other	149,233
Security deposit	482,090
Property and equipment, net	<u>4,607,575</u>
Total assets	<u><u>\$ 22,219,409</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 1,830,742
Contract advances	1,696,666
Deferred rent	862,813
Due to government agencies	73,524
Line of credit	5,100,000
Loan payables	<u>6,792,797</u>
Total liabilities	<u>16,356,542</u>

Net Assets

Without donor restrictions	4,344,916
With donor restrictions	<u>1,517,951</u>
Total net assets	<u>5,862,867</u>
Total liabilities and net assets	<u><u>\$ 22,219,409</u></u>

The Bronx Defenders
Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support			
Governmental grants	\$ 43,223,826	\$ -	\$ 43,223,826
Grants and contributions	1,753,474	2,108,377	3,861,851
Gross special events revenue	\$ 258,938		
Less cost of direct benefits to donors	(31,516)		
Net special events revenue	227,422	-	227,422
Lawsuit settlement and attorney fees	24,915	-	24,915
Other income	10,962	-	10,962
Net assets released from restrictions	1,637,282	(1,637,282)	-
Total revenues and other support	46,877,881	471,095	47,348,976
Expenses			
Program - legal services	40,969,364	-	40,969,364
Management and general	5,464,484	-	5,464,484
Fundraising	378,950	-	378,950
Total support services	5,843,434	-	5,843,434
Total expenses before depreciation and amortization	46,812,798	-	46,812,798
Change in net assets before depreciation and amortization	65,083	471,095	536,178
Depreciation and amortization expense	1,168,495	-	1,168,495
Change in Net Assets	(1,103,412)	471,095	(632,317)
Net Assets, Beginning of Year	5,448,328	1,046,856	6,495,184
Net Assets, End of Year	\$ 4,344,916	\$ 1,517,951	\$ 5,862,867

The Bronx Defenders
Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services	Support Services			Total
	Legal Services	Management and General	Fundraising	Total Support Services	
Salaries and wages	\$ 29,003,720	\$ 3,419,434	\$ 245,230	\$ 3,664,664	\$ 32,668,384
Payroll taxes and employee benefits	6,561,143	773,535	55,475	829,010	7,390,153
Consultants - client service	576,572	-	-	-	576,572
Outside consultants	1,156,914	769,187	9,732	778,919	1,935,833
Equipment	45,731	5,391	387	5,778	51,509
Communications	134,623	15,872	1,138	17,010	151,633
Rent and occupancy	2,214,243	261,051	18,722	279,773	2,494,016
Repairs and maintenance	2,109	249	18	267	2,376
Depreciation and amortization	1,037,416	122,308	8,771	131,079	1,168,495
Merchant service charges	2,604	9,208	10,071	19,279	21,883
Dues and subscriptions	483,874	-	-	-	483,874
Travel	144,939	83,470	1,225	84,695	229,634
Recruitment and hiring costs	179,025	21,106	1,514	22,620	201,645
Insurance	172,204	29,313	1,456	30,769	202,973
Supplies and other	291,663	34,386	2,466	36,852	328,515
Cost of direct benefits to donors	-	-	31,516	31,516	31,516
Interest expense	-	37,792	-	37,792	37,792
Bad debts	-	25,000	-	25,000	25,000
Miscellaneous	-	11,006	-	11,006	11,006
Total expenses by function	42,006,780	5,618,308	387,721	6,006,029	48,012,809
Less expenses included with revenues on the statement of activities					
Cost of direct benefits to donors	-	-	(31,516)	(31,516)	(31,516)
Total expenses included in the expense section on the statement of activities	\$ 42,006,780	\$ 5,618,308	\$ 356,205	\$ 5,974,513	\$ 47,981,293

The Bronx Defenders
Statement of Cash Flows
Year Ended June 30, 2021

Operating Activities	
Change in net assets	\$ (632,317)
Items not requiring cash	
Depreciation and amortization	1,168,495
Changes in	
Receivables from the City of New York	(3,991,952)
Grants receivable	71,580
Prepaid expenses and other	48,421
Security deposits	(2,185)
Accounts payable and accrued expenses	(91,103)
Other contract advances	(2,922,936)
Deferred rent	(172,925)
	(6,524,922)
Net cash used in operating activities	(6,524,922)
Financing Activities	
Drawdown on line of credit	6,100,000
Repayment on line of credit	(1,000,000)
Proceeds from issuance of long-term debt	1,000,000
	6,100,000
Net cash provided by financing activities	6,100,000
Decrease in Cash	(424,922)
Cash, Beginning of Year	2,815,705
Cash, End of Year	\$ 2,390,783
Supplemental Cash Flows Information	
Interest paid	\$ 37,792

The Bronx Defenders

Notes to Financial Statements

Year Ended June 30, 2021

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Bronx Defenders (the Organization) is a public defender nonprofit that is radically transforming how low-income people in the Bronx are represented in the legal system, and, in doing so, is transforming the system itself. The Organization seeks thoughtful, creative, energetic individuals with a strong commitment to social justice to join its dynamic and diverse staff. The staff of over 350 includes interdisciplinary teams made up of criminal, civil, immigration, and family defense attorneys, as well as social workers, benefits specialists, legal advocates, parent advocates, investigators, and team administrators, who collaborate to provide holistic advocacy to address the causes and consequences of legal system involvement. Through this integrated team-based structure, The Bronx Defenders have pioneered a groundbreaking, nationally recognized model of representation called holistic defense that achieves better outcomes for their clients.

Each year, the Organization defends more than 20,000 low-income Bronx residents in criminal, civil, child welfare, and immigration cases, and reaches thousands more through our community intake, youth mentoring, and outreach programs. Through impact litigation, policy advocacy, and community organizing, The Bronx Defenders push for systemic reform at the local, state, and national level. The Organization takes what it learns from the clients and communities that the Organization serves and launches innovative initiatives designed to bring about real and lasting change. Its primary sources of revenues are grants from the City of New York.

Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

At June 30, 2021, the Organization's cash accounts exceeded federally insured limits by approximately \$2,539,000.

Government Contract Revenue, Receivables and Advances

Revenues from government contracts are recognized when reimbursable expenses are incurred or when performance goals are met under the terms of the contract. Contract revenues are subject to audit by the contracting agencies. No provision for any disallowances is reflected in the financial statements, since management does not anticipate any material adjustments. Revenue and receivables are recorded when earned. Advances are recorded for any deposits received but not earned.

The Bronx Defenders
Notes to Financial Statements
Year Ended June 30, 2021

Allowance for Doubtful Accounts

The Organization determines whether an allowance for uncollectible accounts should be provided for contracts receivable. Such estimates are based on management's assessment of the aged basis of its contracts, current economic conditions, subsequent receipts and historical information. Contracts receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. As of June 30, 2021, the Organization had no allowance for doubtful accounts.

Property and Equipment

Property and equipment acquisitions over \$5,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Furniture and equipment	5 - 15 years
Leasehold improvements	10 years

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended June 30, 2021.

Deferred Rent/Rent Expense

Rent is recognized on the straight-line basis over the term of the lease. Deferred rent is recognized for the accumulated difference between the rent expense and the cash paid by the Organization.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor.

Net assets with donor restrictions are subject to donor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

The Bronx Defenders
Notes to Financial Statements
Year Ended June 30, 2021

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction.

The Bronx Defenders
Notes to Financial Statements
Year Ended June 30, 2021

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on the full-time equivalents and other methods.

Note 2: Grant Reimbursements Receivable and Future Commitments

The Organization receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of the Organization are prepared on the accrual basis, all earned portions of the grants not yet received as of June 30, 2021 have been recorded as receivables. The conditional amounts will be recognized as grant revenues when the Organization incurs qualifying expenses. The following are the grant commitments that extend beyond June 30, 2021:

Grant	Term	Grant Amount	Earned Through 2021	Funding Available
Juvenile Defense	Through March 2025	\$ 1,109,050	\$ 264,902	\$ 844,148
JCLS	Through December 2021	452,826	140,823	312,003
IOLA	Through March 2023	432,000	54,000	378,000
Private grants	Through February 2024	<u>1,618,562</u>	<u>218,802</u>	<u>1,399,760</u>
		<u>\$ 3,612,438</u>	<u>\$ 678,527</u>	<u>\$ 2,933,911</u>

The Bronx Defenders
Notes to Financial Statements
Year Ended June 30, 2021

Note 3: Conditional Gifts

The Organization has received the following conditional promises to give at June 30, 2021 that are not recognized in the financial statements:

Conditional promise to give upon the provision of qualifying expenses related to these programs:	
Mobility gaps	\$ 497,070
Legal assistance	927,959
Centralized clearinghouse	<u>271,637</u>
	<u>\$ 1,696,666</u>

Note 4: Property and Equipment

Property and equipment at June 30, 2021 consists of:

Furniture and equipment	\$ 2,951,104
Leasehold improvements	<u>14,774,477</u>
	17,725,581
Less accumulated depreciation and amortization	<u>(13,118,006)</u>
	<u>\$ 4,607,575</u>

Note 5: Line of Credit

The Organization has a \$5,500,000 revolving line of credit that expired in November 2021. At June 30, 2021, there was \$5,100,000 borrowed against this line. The line is collateralized by substantially all of the Organization's assets. Interest rate is equal to the sum of the greater of the LIBOR Daily Floating Rate or 1.25 percent plus 3.05 percent, which was 4.30 percent at June 30, 2021, and is payable monthly.

Note 6: Loans Payable

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act*. On April 15, 2020, the Organization received a loan in the amount of \$5,792,797 pursuant to the Paycheck Protection Program (PPP). The Organization has elected to account for the funding as a loan in accordance with Accounting Standards Codification (ASC) Topic 470, *Debt*. The loan is due five years from the date of the first disbursement under the loan and has a fixed interest rate of 1 percent per year. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration or lender; as a result of such audit, adjustments could be required to any gain recognized.

The Bronx Defenders
Notes to Financial Statements
Year Ended June 30, 2021

On May 24, 2021, the Organization received a loan in the amount of \$1,000,000. The loan is interest-free and was due on May 24, 2022. The loan was repaid in November 2021.

Aggregate annual maturities of long-term debt at June 30, 2021 are:

2022	\$ 1,000,000
2023	1,289,947
2024	1,566,716
2025	1,591,265
2026	<u>1,344,869</u>
	<u>\$ 6,792,797</u>

Note 7: Operating Leases

Noncancelable operating leases for office space expire in various years through 2027. Rent expense for the year ended June 30, 2021 was \$1,566,183.

Future minimum lease payments at June 30, 2021 were:

2022	\$ 1,164,820
2023	684,839
2024	706,247
2025	718,880
2026	734,741
Thereafter	<u>1,649,698</u>
	<u>\$ 5,659,225</u>

Note 8: Pension Plans

The Organization has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Organization's contributions to the plan. Pension expense was \$945,738 for the year ended June 30, 2021.

The Bronx Defenders
Notes to Financial Statements
Year Ended June 30, 2021

Note 9: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30 are restricted for the following purposes or periods:

Subject to expenditure for specified purpose	
Community Arts Exchange Program	\$ 31,476
Adolescent Defense Project	7,922
Fair Punishment Project	74,698
Family Defense Practice	150,000
Immigration	165,477
Client Emergency Fund	154,060
Educational Advocacy	162,266
Healthy Mothers Healthy Babies	70,000
Other	10,937
Time restricted	<u>691,115</u>
	<u>\$ 1,517,951</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Expiration of time restrictions	\$ 233,885
Satisfaction of purpose restrictions	
Civil Action Project	457,282
Criminal Defense Practice	100,000
Family Defense Practice	97,000
Immigration	74,739
Systemic Reform	61,923
Client Emergency Fund	47,709
Development	173,971
Educational Advocacy	87,734
Mobility Labs	50,000
Other programs	153,039
COVID 19	<u>100,000</u>
	<u>\$ 1,637,282</u>

The Bronx Defenders
Notes to Financial Statements
Year Ended June 30, 2021

Note 10: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021 comprise the following:

Financial assets	
Cash	\$ 2,390,783
Receivables from governmental grants, current	13,776,155
Grants and contributions receivable, current	<u>813,573</u>
Financial assets available to meet cash needs for general expenditures within one year	 <u><u>\$ 16,980,511</u></u>

The Organization receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended June 30, 2021, restricted contributions of \$1,517,951 were included in financial assets available to meet cash needs for general expenditures within one year.

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

Approximately 13 percent of all private contributions and grants were received from one donor in 2021.

Governmental Grants

The Organization is dependent primarily on the City and State of New York for revenues and receivables.

Note 12: Subsequent Events

Subsequent events have been evaluated through May 12, 2022, which is the date the financial statements were available to be issued.

The Bronx Defenders
Notes to Financial Statements
Year Ended June 30, 2021

Note 13: Future Changes in Accounting Principles

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statement of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021 and any interim periods within annual reporting periods that begin after December 15, 2022. The Organization is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.