




The Bronx Defenders

Independent Auditor's Report and Financial Statements

June 30, 2023 and 2022



The Bronx Defenders
Contents
June 30, 2023 and 2022

Contents

Independent Auditor’s Report	1
Financial Statements	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses.....	5
Statements of Cash Flows	7
Notes to Financial Statements	8



1155 Avenue of the Americas, Suite 1200 / New York, NY 10036

P 212.867.4000 / F 212.867.9810

forvis.com

Independent Auditor's Report

Board of Directors
The Bronx Defenders
Bronx, New York

Opinion

We have audited the financial statements of The Bronx Defenders, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Bronx Defenders as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Bronx Defenders and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 7 to the financial statements, in 2023, The Bronx Defenders adopted new accounting guidance for accounting for leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Bronx Defenders' ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Bronx Defenders' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Bronx Defenders' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

FORVIS,LLP

New York, New York
May 9, 2024

The Bronx Defenders
Statements of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 6,696,684	\$ 3,971,136
Receivables from governmental grants, current	14,178,600	15,170,579
Grants and contributions receivable, current	516,174	629,936
Prepaid expenses and other receivables	369,974	700,177
Security deposit	413,692	398,417
Property and equipment, net	4,218,866	4,048,687
Right-of-use assets - operating leases	17,980,525	-
	<u>44,374,515</u>	<u>24,918,932</u>
Total assets	<u>\$ 44,374,515</u>	<u>\$ 24,918,932</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 4,229,211	\$ 2,188,074
Contract advances	3,783,001	6,409,571
Deferred rent	-	779,764
Deferred income	139,200	-
Due to government agencies	173,524	173,524
Loans payable	9,700,140	7,959,159
Operating lease obligations	19,692,411	-
	<u>37,717,487</u>	<u>17,510,092</u>
Total liabilities	<u>37,717,487</u>	<u>17,510,092</u>
Net Assets		
Without donor restrictions	5,526,480	6,135,926
With donor restrictions	1,130,548	1,272,914
	<u>6,657,028</u>	<u>7,408,840</u>
Total net assets	<u>6,657,028</u>	<u>7,408,840</u>
Total liabilities and net assets	<u>\$ 44,374,515</u>	<u>\$ 24,918,932</u>

The Bronx Defenders
Statements of Activities
Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Other Support						
Governmental grants	\$ 54,272,373	\$ -	\$ 54,272,373	\$ 46,279,354	\$ -	\$ 46,279,354
Grants and contributions	2,127,225	1,476,830	3,604,055	1,892,265	1,645,333	3,537,598
Forgiveness of loan and interest	-	-	-	1,871,868	-	1,871,868
Special events revenue	\$ 657,417					
Less direct cost of special events	<u>(168,799)</u>					
Net special events revenue	488,618	-	488,618	-	-	-
Lawsuit settlement and attorney fees	142,894	-	142,894	66,130	-	66,130
In-kind donations	-	-	-	10,471	-	10,471
Other income	293,258	-	293,258	51,083	-	51,083
Net assets released from restrictions	<u>1,619,196</u>	<u>(1,619,196)</u>	<u>-</u>	<u>1,890,370</u>	<u>(1,890,370)</u>	<u>-</u>
Total revenues and other support	<u>58,943,564</u>	<u>(142,366)</u>	<u>58,801,198</u>	<u>52,061,541</u>	<u>(245,037)</u>	<u>51,816,504</u>
Expenses						
Program - legal services	<u>51,366,054</u>	<u>-</u>	<u>51,366,054</u>	<u>41,921,117</u>	<u>-</u>	<u>41,921,117</u>
Management and general	6,390,777	-	6,390,777	6,758,307	-	6,758,307
Fundraising	<u>587,684</u>	<u>-</u>	<u>587,684</u>	<u>430,215</u>	<u>-</u>	<u>430,215</u>
Total support services	<u>6,978,461</u>	<u>-</u>	<u>6,978,461</u>	<u>7,188,522</u>	<u>-</u>	<u>7,188,522</u>
Total expenses before depreciation and amortization	<u>58,344,515</u>	<u>-</u>	<u>58,344,515</u>	<u>49,109,639</u>	<u>-</u>	<u>49,109,639</u>
Change in net assets before depreciation and amortization	599,049	(142,366)	456,683	2,951,902	(245,037)	2,706,865
Depreciation and amortization expense	<u>1,208,495</u>	<u>-</u>	<u>1,208,495</u>	<u>1,160,892</u>	<u>-</u>	<u>1,160,892</u>
Change in Net Assets	(609,446)	(142,366)	(751,812)	1,791,010	(245,037)	1,545,973
Net Assets, Beginning of Year	<u>6,135,926</u>	<u>1,272,914</u>	<u>7,408,840</u>	<u>4,344,916</u>	<u>1,517,951</u>	<u>5,862,867</u>
Net Assets, End of Year	<u>\$ 5,526,480</u>	<u>\$ 1,130,548</u>	<u>\$ 6,657,028</u>	<u>\$ 6,135,926</u>	<u>\$ 1,272,914</u>	<u>\$ 7,408,840</u>

See Notes to Financial Statements

**The Bronx Defenders
Statement of Functional Expenses
Years Ended June 30, 2023 and 2022**

	2023				
	Program Services	Support Services			Total
	Legal Services	Management and General	Fundraising	Total Support Services	
Salaries and wages	\$ 33,579,871	\$ 3,165,000	\$ 327,415	\$ 3,492,415	\$ 37,072,286
Payroll taxes and employee benefits	8,806,289	830,018	85,864	915,882	9,722,171
Consultants - client service	1,135,932	-	-	-	1,135,932
Outside consultants	3,193,249	1,363,044	34,422	1,397,466	4,590,715
Equipment	93,315	10,181	1,053	11,234	104,549
Communications	221,249	20,853	2,157	23,010	244,259
Rent and occupancy	2,440,655	230,039	23,797	253,836	2,694,491
Repairs and maintenance	109,681	10,338	1,069	11,407	121,088
Depreciation and amortization	1,027,220	181,275	-	181,275	1,208,495
Merchant service charges	-	8,605	11,767	20,372	20,372
Dues and subscriptions	527,310	-	-	-	527,310
Travel	351,409	126,938	3,426	130,364	481,773
Professional development	169,062	15,935	1,648	17,583	186,645
Recruitment and hiring costs	159,378	15,022	1,554	16,576	175,954
Internship incentive	22,645	2,134	221	2,355	25,000
Insurance	213,311	20,105	2,080	22,185	235,496
Supplies and other	342,698	32,300	91,211	123,511	466,209
Direct cost of special events	-	-	168,799	168,799	168,799
Interest expense	-	528,175	-	528,175	528,175
Miscellaneous	-	12,090	-	12,090	12,090
	<u>52,393,274</u>	<u>6,572,052</u>	<u>756,483</u>	<u>7,328,535</u>	<u>59,721,809</u>
Total expenses by function					
Less expenses included with revenues on the statements of activities					
Direct cost of special events	-	-	(168,799)	(168,799)	(168,799)
	<u>-</u>	<u>-</u>	<u>(168,799)</u>	<u>(168,799)</u>	<u>(168,799)</u>
Total expenses included in the expense section on the statements of activities	<u>\$ 52,393,274</u>	<u>\$ 6,572,052</u>	<u>\$ 587,684</u>	<u>\$ 7,159,736</u>	<u>\$ 59,553,010</u>

**The Bronx Defenders
Statement of Functional Expenses
Years Ended June 30, 2023 and 2022**

(Continued)

	2022				
	Program Services	Support Services			Total
	Legal Services	Management and General	Fundraising	Total Support Services	
Salaries and wages	\$ 28,572,028	\$ 3,886,233	\$ 240,549	\$ 4,126,782	\$ 32,698,810
Payroll taxes and employee benefits	7,081,729	963,223	59,621	1,022,844	8,104,573
Consultants - client service	720,656	-	-	-	720,656
Outside consultants	1,695,596	1,161,807	13,561	1,175,368	2,870,964
Equipment	301,100	40,954	2,535	43,489	344,589
Communications	110,711	15,058	932	15,990	126,701
Rent and occupancy	2,035,825	276,903	17,140	294,043	2,329,868
Repairs and maintenance	55,799	7,590	470	8,060	63,859
Depreciation and amortization	986,758	174,134	-	174,134	1,160,892
Merchant service charges	-	8,218	9,112	17,330	17,330
Dues and subscriptions	437,344	-	-	-	437,344
Travel	269,037	76,738	2,265	79,003	348,040
Recruitment and hiring costs	162,141	22,053	1,365	23,418	185,559
Insurance	174,097	23,680	1,466	25,146	199,243
Supplies and other	305,054	41,492	81,199	122,691	427,745
Cost of direct benefits to donors	-	-	-	-	-
Interest expense	-	171,557	-	171,557	171,557
Miscellaneous	-	62,801	-	62,801	62,801
	<u>\$ 42,907,875</u>	<u>\$ 6,932,441</u>	<u>\$ 430,215</u>	<u>\$ 7,362,656</u>	<u>\$ 50,270,531</u>
Total expenses by function					

The Bronx Defenders
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Activities		
Change in net assets	\$ (751,812)	\$ 1,545,973
Items not requiring cash		
Forgiveness of loan and interest	-	(1,871,868)
Noncash interest expense	-	38,230
Depreciation and amortization	1,208,495	1,160,892
Noncash operating lease expense	221,807	-
Changes in		
Receivables from the City of New York	991,979	(1,394,424)
Grants receivable	113,762	183,637
Prepaid expenses and other	330,203	(550,944)
Security deposits	(15,275)	83,673
Accounts payable and accrued expenses	1,704,270	357,332
Contract advances	(2,626,570)	4,712,905
Deferred income	139,200	-
Due to government agencies	-	100,000
Deferred rent	-	(83,049)
Net cash provided by operating activities	<u>1,316,059</u>	<u>4,282,357</u>
Investing Activities		
Purchase of property and equipment	<u>(331,492)</u>	<u>(602,004)</u>
Net cash used in investing activities	<u>(331,492)</u>	<u>(602,004)</u>
Financing Activities		
Repayment on line of credit	-	(5,100,000)
Repayment of long-term debt	(1,259,019)	(1,000,000)
Proceeds from long-term debt	<u>3,000,000</u>	<u>4,000,000</u>
Net cash (used in) provided by financing activities	<u>1,740,981</u>	<u>(2,100,000)</u>
Net Change in Cash	<u>2,725,548</u>	<u>1,580,353</u>
Cash, Beginning of Year	<u>3,971,136</u>	<u>2,390,783</u>
Cash, End of Year	<u>\$ 6,696,684</u>	<u>\$ 3,971,136</u>
Supplemental Cash Flows Information		
Interest paid	\$ 528,175	\$ 171,557
Property and equipment in accounts payable	\$ 336,867	\$ -
ROU assets obtained in exchange for new operating lease liabilities	\$ 13,216,683	\$ -

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, and energetic individuals with a strong commitment to social justice to join its dynamic and diverse staff. The staff of over 400 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 Organization has 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 Organization pushed 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, 2023, the Organization's cash accounts exceeded federally insured limits by approximately \$6,630,000.

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. Revenue and receivables are recorded when earned. Advances are recorded for any deposits received but not earned.

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, 2023 and 2022, the Organization had no allowance for doubtful accounts.

The Bronx Defenders
Notes to Financial Statements
June 30, 2023 and 2022

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 to 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 years ended June 30, 2023 and 2022.

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.

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

The Bronx Defenders
Notes to Financial Statements
June 30, 2023 and 2022

<u>Nature of the Gift</u>	<u>Value Recognized</u>
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 statements 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 without donor restrictions. Conditional contribution for \$139,200 will be recognized in fiscal year 2024 when the event for which the funds have been received will take place.

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 statements of activities. The statements 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.

The Bronx Defenders
Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 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, 2023:

<u>Grant</u>	<u>Term</u>	<u>Grant Amount</u>	<u>Earned Through 2023</u>	<u>Funding Available</u>
Criminal	Through June 2025	\$ 64,265,002	\$ -	\$ 64,265,002
Family	Through June 2024	16,184,430	-	16,184,430
Juvenile Defense	Through March 2025	1,109,050	692,265	416,785
HRA	Through June 2024	2,500,000	-	2,500,000
JCLS	Through March 2026	3,769,388	1,023,061	2,746,327
IOLA	Through March 2025	625,000	95,194	529,806
Private grants	Through June 2024	1,580,000	826,444	753,556
		<u>\$ 90,032,870</u>	<u>\$ 2,636,964</u>	<u>\$ 87,395,906</u>

Note 3. Conditional Gifts

The Organization has received the following conditional promises to give at June 30, 2023 and 2022 that are not recognized in the financial statements:

	<u>2023</u>	<u>2022</u>
Conditional promise to give upon the provision of qualifying expenses related to these programs:		
Mobility gaps	\$ -	\$ 183,737
Legal assistance	3,783,001	5,975,834
Centralized clearinghouse	-	250,000
	<u>\$ 3,783,001</u>	<u>\$ 6,409,571</u>

The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), and subsequent legislation, provided a refundable employee retention tax credit (ERC) to eligible employers who meet either a gross receipts test or a government mandate test. The tax credit is equal to a specified percentage of qualified wages paid to employees subject to certain limits. Subsequent to year-end, the Organization determined it qualifies for the tax credit and has claimed ERCs of \$2,660,576.

The Bronx Defenders
Notes to Financial Statements
June 30, 2023 and 2022

Laws and regulations concerning the employee retention credit are complex and subject to varying interpretation. These credits may be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Organization's claim to the employee retention credit, and it is not possible to determine the impact this would have on the Organization.

Note 4. Property and Equipment

Property and equipment at June 30 consists of:

	<u>2023</u>	<u>2022</u>
Furniture and equipment	\$ 2,222,690	\$ 2,061,319
Leasehold improvements	<u>13,799,875</u>	<u>12,582,573</u>
	16,022,565	14,643,892
Less accumulated depreciation and amortization	<u>(11,803,699)</u>	<u>(10,595,205)</u>
	<u>\$ 4,218,866</u>	<u>\$ 4,048,687</u>

Note 5. Line of Credit

The Organization had a \$5,500,000 revolving line of credit that expired and was fully paid off in November 2021. The line was collateralized by substantially all of the Organization's assets. Interest rate equaled to the sum of the greater of the LIBOR Daily Floating Rate or 1.25% plus 3.05% and was 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*. On May 25, 2022, the Organization received a notice of partial forgiveness of the loan in the amount of \$1,833,638. 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 balance of the loan of \$3,959,159 is due five years from the date of the first disbursement under the loan and has a fixed interest rate of 1% per year.

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

The Bronx Defenders
Notes to Financial Statements
June 30, 2023 and 2022

During the fiscal year ended June 30, 2022, the Organization received a \$4,000,000 term loan from a not-for-profit organization. The loan matures on April 2024 and is collateralized by the Organization's assets. The interest rate is calculated at a floating interest rate of prime plus 3% as published in the Wall Street Journal and is payable quarterly and was 11.50% and 7.75% at June 30, 2023 and 2022, respectively.

During the fiscal year ended June 30, 2023, the Organization received a \$3,000,000 term loan from a not-for-profit organization. The loan was to mature the earlier of March 30, 2024 or the receipt of governmental receivables securing the loan. The interest rate was 3%. The loan was paid off during August 2023.

Aggregate annual maturities of long-term debt at June 30, 2023 are:

2024	\$ 8,439,752
2025	<u>1,260,388</u>
	<u>\$ 9,700,140</u>

Note 7. Leases

Changes in Accounting Principles

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. In July 2018, FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Organization adopted Topic 842 on July 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Organization elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Organization elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. Also, the Organization elected to keep short-term leases with an initial term of 12 months or less off the statement of financial position. The Organization did not elect the hindsight practical expedient in determining the lease term for existing leases as of July 1, 2022.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$5,820,813 and \$6,600,577, respectively, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets as well as previously recorded prepaid rent. The standard did not significantly affect the statements of activities, functional expenses, or cash flows.

The Bronx Defenders
Notes to Financial Statements
June 30, 2023 and 2022

Accounting Policies

The Organization determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

The Organization combines lease and nonlease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office space and equipment.

At lease commencement, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Organization has elected not to record leases with an initial term of 12 months or less on the statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

The Organization has entered into the following lease arrangements:

Operating Leases

The Organization has leases for office space and equipment that expire in various years through 2033.

One of the lease agreements include a contribution from the landlord for renovation work performed on the property as well as reimbursement of certain costs which include broker fees. The contribution is to be paid back to the landlord over the life of the lease at a 6% interest. The contribution made by the landlord as of June 30, 2023 was \$1,183,283. The total contribution amount will be \$1,894,936 and the repayment amount will be \$21,309 monthly. The contribution may be prepaid at any time and if the lease were to terminate, the Organization would be liable to repay the remaining unamortized balance in full.

Additionally, the landlord provided a revolving allowance of \$350,000 which has not been used as of June 30, 2023. Once the allowance is used, it would be repaid as additional rent each month over 10 years at an interest rate of 6%.

Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

Short-Term Leases

The Organization leases space on a monthly basis as needed.

All Leases

The Organization has no material related-party leases.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Bronx Defenders
Notes to Financial Statements
June 30, 2023 and 2022

Quantitative Disclosures

The lease cost and other required information for the year ended June 30, 2023 are as follows:

Lease cost	
Operating lease cost	\$ 1,761,120
Short-term lease cost	<u>122,294</u>
Total lease costs	<u>\$ 1,883,414</u>
Other information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	1,670,986
Right-of-use assets obtained in exchange for new operating lease liabilities	13,216,683
Weighted-average remaining lease term	
Operating leases	8.4 years
Weighted-average discount rate	
Operating leases	3.50%

Future minimum lease payments as well as repayments of landlord contributions at June 30, 2023 are as follows:

Lease Payments

2024	\$ 2,891,525
2025	2,637,497
2026	2,693,780
2027	2,736,243
2028	2,608,592
Thereafter	<u>7,788,188</u>
Total future undiscounted lease payments	21,355,825
Less imputed interest	<u>(2,846,696)</u>
Lease liabilities	<u>\$ 18,509,129</u>

Landlord Contribution Repayment

2024	\$ 88,916
2025	94,590
2026	100,424
2027	106,618
2028	113,072
Thereafter	<u>679,662</u>
Total	<u>\$ 1,183,282</u>

The Bronx Defenders
Notes to Financial Statements
June 30, 2023 and 2022

Prior-Year Disclosures Under Topic 840

Noncancelable operating leases for office space expire in various years through 2029. Rent expense for the year ended June 30, 2022 was \$1,463,390.

Future minimum lease payments at June 30, 2022 were:

2023	\$ 1,680,049
2024	1,855,712
2025	1,900,255
2026	1,948,920
2027	1,881,250
Thereafter	<u>1,275,309</u>
	<u>\$ 10,541,495</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 \$998,581 and \$1,008,740 for the years ended June 30, 2023 and 2022, respectively.

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:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose		
Community Arts Exchange Program	\$ 31,474	\$ 31,476
Adolescent Defense Project	7,922	7,922
Fair Punishment Project	74,698	74,698
Criminal/Civil Defense Practice	-	35,654
Immigration	-	14,522
Client Emergency Fund	67,517	168,863
Educational Advocacy	225,000	145,026
Healthy Mothers Healthy Babies	75,153	178,934
Holistic Defense	32,774	241,470
Justice Fund	181,530	49,349
Other	59,480	100,000
Time restricted	<u>375,000</u>	<u>225,000</u>
	<u>\$ 1,130,548</u>	<u>\$ 1,272,914</u>

The Bronx Defenders
Notes to Financial Statements
June 30, 2023 and 2022

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.

	<u>2023</u>	<u>2022</u>
Expiration of time restrictions	\$ 400,000	\$ 25,000
Satisfaction of purpose restrictions		
Justice Fund	135,321	-
Criminal/Civil Defense Practice	35,655	301,845
Family Defense Practice		500,000
Immigration	14,522	188,456
Client Emergency Fund	115,676	53,531
Educational Advocacy	145,026	167,240
Healthy Mothers Healthy Babies	183,781	136,066
Legal clearinghouse		180,000
Other programs	205,520	179,702
Holistic Defense	283,695	158,530
Parent Rights	100,000	-
	<u>\$ 1,619,196</u>	<u>\$ 1,890,370</u>

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 comprise the following:

	<u>2023</u>	<u>2022</u>
Financial assets		
Cash	\$ 6,696,684	\$ 3,971,136
Receivables from governmental grants, current	14,178,600	15,170,579
Grants and contributions receivable, current	516,174	629,936
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 21,391,458</u>	<u>\$ 19,771,651</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. As of June 30, 2023 and 2022, restricted contributions of \$1,130,548 and \$1,272,914, respectfully, were included in financial assets available to meet cash needs for general expenditures within one year.

The Bronx Defenders
Notes to Financial Statements
June 30, 2023 and 2022

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 14% of all private contributions and grants were received from one donor in 2023 and 33% from two donors in 2022.

Governmental Grants

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

General Litigation

The Organization is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets, and cash flows of the Organization. Events could occur that would change this estimate materially in the near term.

Note 12. Subsequent Events

Subsequent events have been evaluated through May 9, 2024, which is the date the financial statements were available to be issued.