




Brooklyn Defender Services

Independent Auditor's Report and Financial Statements

June 30, 2023 and 2022



Brooklyn Defender Services

June 30, 2023 and 2022

Contents

Independent Auditor's Report	1
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Financial Statements

Statements of Financial Position	3
Statements of Activities.....	4
Statement of Functional Expenses – 2023.....	5
Statement of Functional Expenses – 2022.....	6
Statement of Cash Flows	7
Notes to Financial Statements	8

Independent Auditor's Report

Board of Directors
Brooklyn Defender Services
Brooklyn, New York

Opinion

We have audited the financial statements of Brooklyn Defender Services, 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 year 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 Brooklyn Defender Services 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 Brooklyn Defender Services, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 4* to the financial statements, in 2023, Brooklyn Defender Services 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 Brooklyn Defender Services' 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 Brooklyn Defender Services' 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 Brooklyn Defender Services' 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
February 8, 2024

Brooklyn Defender Services
Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Cash	\$ 2,632,073	\$ 1,404,440
Government contracts receivable, current	16,966,454	18,436,348
Prepaid expenses, other receivables, and security deposits	1,154,279	1,097,543
Property and equipment, net	2,254,489	740,909
Right-of-use asset - operating	30,033,446	-
	<u>\$ 53,040,741</u>	<u>21,679,240</u>
Total assets	<u>\$ 53,040,741</u>	<u>21,679,240</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,348,583	\$ 3,231,382
Accrued vacations payable	2,609,535	2,402,982
Line of credit	7,500,000	7,500,000
Loans payable	8,840,897	8,840,897
Deferred rent	-	3,309,389
Deferred revenue	49,646	47,500
Operating lease liability	34,568,758	-
	<u>56,917,419</u>	<u>25,332,150</u>
Total liabilities	<u>56,917,419</u>	<u>25,332,150</u>
Net Assets (Deficit)		
Without donor restrictions	(4,037,434)	(3,757,314)
With donor restrictions	160,756	104,404
	<u>(3,876,678)</u>	<u>(3,652,910)</u>
Total net assets (deficit)	<u>(3,876,678)</u>	<u>(3,652,910)</u>
Total liabilities and net assets	<u>\$ 53,040,741</u>	<u>\$ 21,679,240</u>

Brooklyn Defender Services
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						
Government contracts	\$ 74,640,360	\$ -	\$ 74,640,360	\$ 67,357,735	\$ -	\$ 67,357,735
Contributions	770,222	152,298	922,520	584,402	186,362	770,764
Special event	117,175	-	117,175	-	-	-
Other income	455	-	455	1,372	-	1,372
Net assets released from restriction	95,946	(95,946)	-	428,942	(428,942)	-
	<u>75,624,158</u>	<u>56,352</u>	<u>75,680,510</u>	<u>68,372,451</u>	<u>(242,580)</u>	<u>68,129,871</u>
Total revenues						
Expenses						
Program services						
Criminal Defense	45,169,355	-	45,169,355	43,653,762	-	43,653,762
Family Defense	13,273,167	-	13,273,167	10,717,304	-	10,717,304
Immigration	5,786,412	-	5,786,412	6,153,136	-	6,153,136
Civil	1,950,261	-	1,950,261	1,882,101	-	1,882,101
Young New Yorkers	-	-	-	416,188	-	416,188
	<u>66,179,195</u>	<u>-</u>	<u>66,179,195</u>	<u>62,822,491</u>	<u>-</u>	<u>62,822,491</u>
Total program services						
Supporting services						
Management and general	9,310,452	-	9,310,452	9,436,402	-	9,436,402
Fundraising	347,249	-	347,249	339,984	-	339,984
Direct costs of special events	67,382	-	67,382	-	-	-
	<u>75,904,278</u>	<u>-</u>	<u>75,904,278</u>	<u>72,598,877</u>	<u>-</u>	<u>72,598,877</u>
Total expenses						
Change in Net Assets	(280,120)	56,352	(223,768)	(4,226,426)	(242,580)	(4,469,006)
Net Assets (Deficit), Beginning of Year	(3,757,314)	104,404	(3,652,910)	469,112	346,984	816,096
Net Assets (Deficit), End of Year	<u>\$ (4,037,434)</u>	<u>\$ 160,756</u>	<u>\$ (3,876,678)</u>	<u>\$ (3,757,314)</u>	<u>\$ 104,404</u>	<u>\$ (3,652,910)</u>

Brooklyn Defender Services
Statement of Functional Expenses
Year Ended June 30, 2023

	2023									
	Program Services					Supporting Services				
	Criminal Defense	Family Defense	Immigration	Civil	Total	Management and General	Fundraising	Direct Costs of Special Events	Total	Total
Salaries and Related Expenses										
Salaries	\$ 28,777,040	\$ 8,578,146	\$ 3,628,800	\$ 1,252,365	\$ 42,236,351	\$ 4,790,756	\$ -	\$ -	\$ 4,790,756	\$ 47,027,107
Payroll taxes and employee benefits	8,736,932	2,604,391	1,101,732	380,228	12,823,283	1,454,511	-	-	1,454,511	14,277,794
Total salaries and related expenses	<u>37,513,972</u>	<u>11,182,537</u>	<u>4,730,532</u>	<u>1,632,593</u>	<u>55,059,634</u>	<u>6,245,267</u>	<u>-</u>	<u>-</u>	<u>6,245,267</u>	<u>61,304,901</u>
Other Costs										
Professional fees	1,319,666	287,928	239,871	37,736	1,885,201	991,281	314,000	-	1,305,281	3,190,482
Occupancy	3,425,400	1,004,884	431,722	142,535	5,004,541	1,044,080	-	-	1,044,080	6,048,621
Repairs and maintenance	1,057,020	338,737	118,616	43,253	1,557,626	193,334	7,409	-	200,743	1,758,369
Office supplies	555,829	135,747	57,360	38,545	787,481	107,315	200	-	107,515	894,996
Communication	571,152	156,537	72,945	23,875	824,509	67,038	-	-	67,038	891,547
Insurance	114,256	31,122	14,564	4,773	164,715	91,906	-	-	91,906	256,621
Depreciation and amortization	247,872	73,011	31,825	10,727	363,435	46,193	-	-	46,193	409,628
Venue and entertainment	-	-	-	-	-	-	-	67,382	67,382	67,382
Miscellaneous expense (including \$385,129 of interest expense)	364,188	62,664	88,977	16,224	532,053	524,038	25,640	-	549,678	1,081,731
Total other costs	<u>7,655,383</u>	<u>2,090,630</u>	<u>1,055,880</u>	<u>317,668</u>	<u>11,119,561</u>	<u>3,065,185</u>	<u>347,249</u>	<u>67,382</u>	<u>3,479,816</u>	<u>14,599,377</u>
Total expenses reported by function on the statements of activities	<u>\$ 45,169,355</u>	<u>\$ 13,273,167</u>	<u>\$ 5,786,412</u>	<u>\$ 1,950,261</u>	<u>\$ 66,179,195</u>	<u>\$ 9,310,452</u>	<u>\$ 347,249</u>	<u>\$ 67,382</u>	<u>\$ 9,725,083</u>	<u>\$ 75,904,278</u>

Brooklyn Defender Services

Statement of Functional Expenses

Year Ended June 30, 2022

	2022									
	Program Services					Supporting Services				
	Criminal Defense	Family Defense	Immigration	Civil	Young New Yorkers	Total	Management and General	Fundraising	Total	Total
Salaries and Related Expenses										
Salaries	\$ 28,486,235	\$ 7,008,456	\$ 3,885,267	\$ 1,257,645	\$ -	\$ 40,637,603	\$ 5,001,931	\$ -	\$ 5,001,931	\$ 45,639,534
Payroll taxes and employee benefits	8,395,660	2,065,581	1,145,093	370,662	-	11,976,996	1,474,204	-	1,474,204	13,451,200
Total salaries and related expenses	<u>36,881,895</u>	<u>9,074,037</u>	<u>5,030,360</u>	<u>1,628,307</u>	<u>-</u>	<u>52,614,599</u>	<u>6,476,135</u>	<u>-</u>	<u>6,476,135</u>	<u>59,090,734</u>
Other Costs										
Professional fees	1,145,878	291,846	287,436	30,928	-	1,756,088	1,019,883	325,563	1,345,446	3,101,534
Occupancy	2,920,048	755,973	407,986	124,338	-	4,208,345	912,387	-	912,387	5,120,732
Repairs and maintenance	1,074,193	223,196	133,581	31,005	-	1,461,975	307,063	-	307,063	1,769,038
Office supplies	572,533	132,221	80,222	23,506	-	808,482	94,866	11,399	106,265	914,747
Communication	571,584	140,475	83,235	25,392	-	820,686	136,855	-	136,855	957,541
Grants	-	-	-	-	416,188	416,188	-	-	-	416,188
Insurance	74,146	18,315	10,852	3,415	-	106,728	113,309	-	113,309	220,037
Depreciation and amortization	143,174	35,141	20,216	6,191	-	204,722	32,648	-	32,648	237,370
Miscellaneous expense (including \$234,776 of interest expense)	270,311	46,100	99,248	9,019	-	424,678	343,256	3,022	346,278	770,956
Total other costs	<u>6,771,867</u>	<u>1,643,267</u>	<u>1,122,776</u>	<u>253,794</u>	<u>416,188</u>	<u>10,207,892</u>	<u>2,960,267</u>	<u>339,984</u>	<u>3,300,251</u>	<u>13,508,143</u>
Total expenses reported by function on the statements of activities	<u>\$ 43,653,762</u>	<u>\$ 10,717,304</u>	<u>\$ 6,153,136</u>	<u>\$ 1,882,101</u>	<u>\$ 416,188</u>	<u>\$ 62,822,491</u>	<u>\$ 9,436,402</u>	<u>\$ 339,984</u>	<u>\$ 9,776,386</u>	<u>\$ 72,598,877</u>

Brooklyn Defender Services
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Change in net assets	\$ (223,768)	\$ (4,469,006)
Items not requiring (providing) operating cash flows		
Depreciation and amortization	409,629	237,370
Noncash operating lease	4,535,312	-
Changes in		
Government contracts receivable	1,469,894	2,362,553
Prepaid expenses, other receivables, and security deposits	(56,736)	164,615
Accounts payable and accrued expenses	117,201	(666,883)
Accrued vacations payable	206,553	56,236
Deferred revenue	2,146	(351,365)
Deferred rent	(3,309,389)	213,217
	<u>3,150,842</u>	<u>(2,453,263)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Purchase of property and equipment	(1,923,209)	(37,943)
	<u>(1,923,209)</u>	<u>(37,943)</u>
Net cash used in investing activities		
Financing Activities		
Repayment of the line of credit	-	(9,900,000)
Drawdown on line of credit	-	9,900,000
Proceeds from loans	-	2,750,000
Repayment of loans	-	(3,500,000)
	<u>-</u>	<u>(750,000)</u>
Net cash used in financing activities		
Net Change in Cash	1,227,633	(3,241,206)
Cash, Beginning of Year	<u>1,404,440</u>	<u>4,645,646</u>
Cash, End of Year	<u>\$ 2,632,073</u>	<u>\$ 1,404,440</u>
Supplemental Cash Flows Information		
Cash paid for interest	\$ 385,129	\$ 234,776

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2023 and 2022

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

Nature of Operations

Brooklyn Defender Services (the Organization) was incorporated on March 22, 1996 under the laws of the State of New York.

The Organization 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. The Organization commenced operations on June 1, 1996. The Organization provides legal services without cost to indigent people. During the current year, the Organization represented approximately 35,000 clients in 2023 and 33,000 clients in 2022. Its primary source of revenues is government contracts (city and state) for indigent defense.

The Organization was a fiscal sponsor for Young New Yorkers. Young New Yorkers, Inc. became a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Young New Yorkers, Inc. started activities as a standalone organization in fiscal year 2021. During 2022, the Organization transferred the remaining \$416,188 to Young New Yorkers, Inc. which has been recognized as a grant expense. No further funds were received or transferred to them in 2023.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 and expenses 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 \$2,534,000. Management believes that credit risk related to these accounts is minimal.

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.

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2023 and 2022

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.

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.

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

Furniture and equipment	5–20 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 is 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, 2023 and 2022.

Net Assets

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

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

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

Brooklyn Defender Services
Notes to Financial Statements
June 30, 2023 and 2022

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 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 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.

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2023 and 2022

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. Certain costs have been allocated among the program, management and general, and fundraising categories based on the direct charge method as well as other methods.

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.

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 grant agreements. Since the financial statements of the Organization are prepared on the accrual basis, all portions of the grants not yet received as of June 30, 2023 where the Organization has an unconditional right to payment have been recorded as receivables. The following are the grant commitments that extend beyond June 30, 2023:

<u>Grant</u>	<u>Term</u>	<u>Grant Amount</u>	<u>Earned or Forfeited Through 2023</u>	<u>Funding Available</u>
New York State Unified Court System - AO/JD (RTA)	04/01/2020-03/31/2025	\$ 6,903,726	\$ 2,688,047	\$ 4,215,679
New York State Unified Court System - Civil legal services	01/01/2021 - 01/31/2026	<u>8,137,081</u>	<u>2,899,174</u>	<u>5,237,907</u>
Total		<u>\$ 15,040,807</u>	<u>\$ 5,587,221</u>	<u>\$ 9,453,586</u>

The grant agreements include certain clauses that allow them to be terminated in whole or in part by the granting agency as well as the Organization.

Brooklyn Defender Services
Notes to Financial Statements
June 30, 2023 and 2022

Note 3: Property and Equipment

Property and equipment at June 30, 2023 and 2022 consist of:

	2023		
	Cost	Accumulated Depreciation and Amortization	Net
Equipment and furniture	\$ 1,005,679	\$ 917,222	\$ 88,457
Leasehold improvements	4,227,491	2,061,459	2,166,032
	\$ 5,233,170	\$ 2,978,681	\$ 2,254,489
	2022		
	Cost	Accumulated Depreciation and Amortization	Net
Equipment and furniture	\$ 1,005,679	\$ 886,325	\$ 119,354
Leasehold improvements	2,304,282	1,682,727	621,555
	\$ 3,309,961	\$ 2,569,052	\$ 740,909

Note 4: 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 Accounting Standards Codification (ASC) 840 option.

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2023 and 2022

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 has lease agreements with nonlease components that relate to the lease components. 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 statements 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 \$34,222,519 and \$38,868,163, 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 were reclassified as a component of the ROU assets. The standard did not significantly affect the statements of activities, functional expenses, or cash flows.

The cumulative effect of the changes made to our statements of financial position for the adoption of this standard was as follows:

	June 30, 2022 as Reported	ASC 842 Adjustment on July 1, 2022	July 1, 2022 as Adjusted
Assets			
Right-of-use assets - operating leases (A)	\$ -	\$ 34,222,519	\$ 34,222,519
Liabilities			
Deferred rent (B)	3,309,389	(3,309,389)	-
Operating lease liabilities (C)	-	(38,868,163)	(38,868,163)

(A) The adjustment represents the capitalization of right-of-use assets – operating leases offset by the reclassification of straight-line rent accruals.

(B) The adjustment represents the reclassification of straight-line rent accruals to right-of-use assets – operating leases.

(C) The adjustment represents the recognition of operating lease liabilities.

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.

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2023 and 2022

The Organization combines lease and nonlease components, such as common area and other maintenance costs, and accounts for them as a single lease component in calculating the ROU assets and lease liabilities.

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 expires through fiscal year 2038. The lease requires the Organization to pay all executory costs (property taxes, maintenance, and insurance). Lease payments have an escalating fee schedule which approximates a 2.5% increase each year. Termination of the lease is generally prohibited unless there is a violation under the lease agreement.

All Leases

The Organization has no material related-party leases.

Brooklyn Defender Services
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:

Lease cost	
Operating lease cost	\$ 5,009,168
Variable lease cost	<u>69,483</u>
Total lease cost	<u>\$ 5,078,651</u>
Other information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 5,188,983
Weighted-average remaining lease term	
Operating leases	8.48 years
Weighted-average discount rate	
Operating leases	2.25%

Future minimum lease payments and reconciliation to the statements of financial position at June 30, 2023 are as follows:

	Operating Leases
	<u> </u>
2024	\$ 5,022,835
2025	4,636,806
2026	4,712,650
2027	4,271,248
2028	4,111,413
Thereafter	<u>15,402,645</u>
Total future undiscounted lease payments	38,157,597
Less interest	<u>(3,588,839)</u>
Lease liabilities	<u>\$ 34,568,758</u>

Prior Year Disclosures Under Topic 840

The Organization leases space for its administrative office and program services at various locations. Rent expense for the year ended June 30, 2022 was \$4,436,566. The leases expire at different periods through December 2034.

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2023 and 2022

The minimum annual rental payments over the next five years and thereafter are as follows:

2022-2023	\$ 4,804,736
2023-2024	4,963,833
2024-2025	4,545,237
2025-2026	4,446,679
2026-2027	4,222,578
Thereafter	<u>19,722,228</u>
Total minimum lease payments	<u>\$ 42,705,291</u>

Note 5: Line of Credit

The Organization has a \$7,500,000 revolving line of credit that expired in September 2023. At June 30, 2023 and 2022, there was \$7,500,000 borrowed against this line. The line is collateralized by substantially all of the Organization's assets. Interest varies with the bank's prime rate, which was 8.25% and 6.25% at June 30, 2023 and 2022, respectively. The balance was repaid in full in August 2023.

Note 6: Loans Payable

On March 27, 2021, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act*. On January 25, 2021, the Organization received a loan in the amount of \$8,840,898 pursuant to the Paycheck Protection Program (PPP). The Organization has elected to account for the funding as a loan in accordance with 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% 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 (SBA), or lender; as a result of such audit, adjustments could be required to any gain recognized.

During October 2021, the Organization received an emergency loan of \$2,750,000, interest free, from the fund to cover operating expenses pending receipt of funds from the New York City Mayor's Office of Criminal Justice. This loan was satisfied in November 2021 when the Organization received an advance on their grant contract.

Annual maturities of loan payable as of June 30, 2023 are:

2024	\$ 2,495,275
2025	2,436,920
2026	2,461,531
2027	<u>1,447,172</u>
	<u>\$ 8,840,898</u>

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2023 and 2022

Subsequent to year-end, on July 27, 2023, the SBA approved partial forgiveness of the PPP loan for the amount of \$5,534,246. The remaining balance of the loan of \$3,306,652 is to be repaid over 29 months with equal principal and interest payments. The loan bears interest at 1% with final payment due on January 25, 2026. The annual maturities of the remaining balance of the loan payable are:

2024	\$ 1,157,209
2025	1,404,947
2026	<u>744,496</u>
	<u>\$ 3,306,652</u>

Note 7: Pension

The Organization has a contributory-defined contribution 403(b) plan which covers all full-time employees. The employees can contribute up to the maximum allowed by the Internal Revenue Code. The amount contributed by the sponsor is within the Organization's discretion. On termination of service due to death, disability, or retirement, participants are eligible for a lump-sum payment or annual installments over a 10-year period based on the vested amounts as per plan document. Pension expense for 2023 and 2022 was \$2,311,629 and \$1,957,939, respectively.

Note 8: Net Assets

Net Assets With Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose		
Affordable Housing	\$ 28,435	\$ -
COVID-19 Response Fund	1,000	1,000
Client Services	66,134	40,187
Civil Legal Advocacy	7,000	6,937
Education	-	10,000
Immigrant - Fee Relief	4,319	4,319
Immigrant Support	12,670	23,263
Veterans Assistance	30,000	7,500
Right to Counsel	11,198	11,198
	<u>\$ 160,756</u>	<u>\$ 104,404</u>

Brooklyn Defender Services
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 specified by donors:

	2023	2022
Satisfaction of time restrictions	\$ -	\$ 190,000
Satisfaction of purpose restrictions		
Affordable Housing	6,565	35,000
COVID-19 Response Fund	-	32,424
Client Services	52,560	71,953
Civil Legal Advocacy	6,937	-
Education	10,000	25,000
Public Defender Training	-	26,830
Veterans Assistance	7,500	22,500
Immigrant Support	12,384	21,235
Know Your Rights	-	4,000
	95,946	238,942
	\$ 95,946	\$ 428,942

Note 9: Net Assets Deficit

The Organization has a net assets deficit of \$3,755,666 and \$4,469,006 as of June 30, 2023 and 2022, respectively. A significant portion of this deficit relates to certain expenses that were funded with the cash proceeds of the Federal Small Business Administration PPP obtained on January 25, 2021 (*Note 6*), which has not yet been recognized as revenue. The Organization has received partial forgiveness subsequent to the end of the year which will be recognized in net assets in fiscal year 2024.

Note 10: Significant Estimates and Concentrations

Revenues

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

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2023 and 2022

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 11: 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, 2023 and 2022, comprise the following:

	2023	2022
Financial assets		
Cash	\$ 2,632,073	\$ 1,404,440
Accounts receivable	16,966,454	18,436,348
Total financial assets	19,598,527	19,840,788
Donor-imposed restrictions		
Funds with donor restrictions	(160,756)	(104,404)
Financial assets available to meet cash needs for general expenditures within one year	\$ 19,437,771	\$ 19,736,384

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 12: Subsequent Events

Subsequent events have been evaluated through February 8, 2024, which is the date the financial statements were available to be issued.

As mentioned in *Note 6*, the SBA approved partial forgiveness of the PPP loan for the amount of \$5,534,246.