

Brooklyn Defender Services

Independent Auditor's Report and Financial Statements

June 30, 2018



Brooklyn Defender Services

June 30, 2018

Contents

Independent Auditor's Report	1
------------------------------------	---

Financial Statements

Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6

Supplementary Information

Schedule of Functional Expenses	11
---------------------------------------	----

Independent Auditor's Report

Board of Directors
Brooklyn Defender Services
Brooklyn, New York

We have audited the accompanying financial statements of Brooklyn Defender Services., which comprise the statement of financial position as of June 30, 2018, and the related statements of activities 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 Brooklyn Defender Services as of June 30, 2018, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

New York, New York
December 28, 2018

Brooklyn Defender Services

Statement of Financial Position

June 30, 2018

Assets

Current Assets

Cash	\$ 3,609,514
Government contracts receivable, current	5,489,992
Prepaid expenses and security deposits	610,504
Property and equipment, net	<u>1,315,614</u>

Total assets	<u><u>\$ 11,025,624</u></u>
--------------	-----------------------------

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 1,827,296
Accrued vacations payable	1,007,454
Line of credit	3,000,000
Deferred rent	<u>1,785,836</u>
Total liabilities	<u><u>7,620,586</u></u>

Net Assets

Unrestricted	3,320,380
Temporarily restricted	<u>84,658</u>
Total net assets	<u><u>3,405,038</u></u>

Total liabilities and net assets	<u><u>\$ 11,025,624</u></u>
----------------------------------	-----------------------------

Brooklyn Defender Services

Statement of Activities

Year Ended June 30, 2018

		Unrestricted	Temporarily Restricted	Total
Revenues				
Government contracts		\$ 41,334,181	\$ -	\$ 41,334,181
Contributions		338,779	312,206	650,985
Special events				
Revenues	\$ 93,860			
Direct costs	(32,813)	61,047	-	61,047
Other revenue		63,899	-	63,899
Net assets released from restriction		267,319	(267,319)	-
Total revenues		<u>42,065,225</u>	<u>44,887</u>	<u>42,110,112</u>
Expenses				
Program Services				
Criminal Defense		20,993,980	-	20,993,980
Immigration		3,384,737	-	3,384,737
Family Defense		11,464,467	-	11,464,467
Civil		2,021,922	-	2,021,922
Young New Yorkers		302,111	-	302,111
Total program services		<u>38,167,217</u>	<u>-</u>	<u>38,167,217</u>
Management and general		3,836,513	-	3,836,513
Fundraising		51,796	-	51,796
Total expenses		<u>42,055,526</u>	<u>-</u>	<u>42,055,526</u>
Change in Net Assets		9,699	44,887	54,586
Net Assets, Beginning of Year		<u>3,310,681</u>	<u>39,771</u>	<u>3,350,452</u>
Net Assets, End of Year		<u><u>\$ 3,320,380</u></u>	<u><u>\$ 84,658</u></u>	<u><u>\$ 3,405,038</u></u>

Brooklyn Defender Services

Statement of Cash Flows

Year Ended June 30, 2018

Operating Activities

Change in net assets	\$ 54,586
Items not requiring (providing) operating cash flows	
Depreciation and amortization	264,843
Changes in	
Government contracts receivable	(564,991)
Prepaid expenses and security deposits	(357,879)
Accounts payable and accrued expenses	208,298
Accrued vacations payable	105,957
Advances	(99,097)
Deferred rent	907,253
Net cash provided by operating activities	<u>518,970</u>

Investing Activities

Purchase of fixed assets	<u>(441,171)</u>
Net cash used in investing activities	<u>(441,171)</u>

Financing Activities

Repayment of the line of credit	(2,000,000)
Drawdown on line of credit	<u>3,000,000</u>
Net cash provided by financing activities	<u>1,000,000</u>

Net Change in Cash	1,077,799
--------------------	-----------

Cash, Beginning of Year	<u>2,531,715</u>
-------------------------	------------------

Cash, End of Year	<u>\$ 3,609,514</u>
-------------------	---------------------

Supplemental Cash Flows Information

Cash paid for interest	\$ 43,957
------------------------	-----------

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2018

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

Nature of Operations

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

Brooklyn Defender Services 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. Brooklyn Defender Services provides legal services in criminal matters without cost to indigent people arrested in Brooklyn, NY. During the current year, Brooklyn Defender Services represented approximately 35,000 clients. Its primary source of revenues is government contracts (city and state) for indigent defense.

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 and expenses during the reporting period. Actual results could differ from those estimates.

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.

Allowance for Doubtful Accounts

Brooklyn Defender Services determines whether an allowance for uncollectibles 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, 2018, Brooklyn Defender Services had no allowance for doubtful accounts.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Items with a cost of \$5,000 and an estimated useful life of greater than one year are capitalized. Depreciation is charged using the straight-line method over the estimated useful lives of each asset. Assets under leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2018

Long-Lived Asset Impairment

Brooklyn Defender Services 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, 2018.

Deferred Rent/Rent Expense

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

Net Assets

Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. 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. 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.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Grant Expense

Grants are recorded as expenses in the year in which they are awarded.

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

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2018

Subsequent Events

Subsequent events have been evaluated through December 28, 2018, which is the date the financial statements were available to be issued.

Note 2: Fixed Assets

	Cost	Accumulated Depreciation and Amortization	Net	Estimated Useful Lives
Equipment and furniture	\$ 936,416	\$ 780,711	\$ 155,705	5 - 20 years
Leasehold improvements	2,044,563	884,654	1,159,909	10 years
	<u>\$ 2,980,979</u>	<u>\$ 1,665,365</u>	<u>\$ 1,315,614</u>	

Note 3: Leased Facilities

Brooklyn Defender Services leases space for its administrative office and program services at 177 Livingston Street, 180 Livingston Street, 195 Montague Street as well as 566 Livonia Street. Rent expense for the year ended June 30, 2018 was \$2,583,828. The leases expire at different periods through September 2028.

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

2018-2019	\$ 3,198,687
2019-2020	3,280,721
2020-2021	3,365,076
2021-2022	3,451,821
2022-2023	3,541,012
Thereafter	<u>16,019,763</u>
	<u>\$ 32,857,080</u>

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2018

Note 4: Line of Credit

Brooklyn Defender Services has established a line of credit with Signature Bank which allows a maximum borrowing of up to \$3,000,000. Interest is accrued on the outstanding principal utilizing the bank's Prime rate (5% at June 30, 2018) but not less than 4%. Interest expense for 2018 was \$43,957. The line is secured by the assets of Brooklyn Defender Services. In 2018, Brooklyn Defender Services drew down on the line of credit and had an outstanding balance of \$3,000,000 at June 30, 2018.

Note 5: Concentrations

Brooklyn Defender Services is dependent primarily on the City and State of New York for revenues and receivables.

Financial instruments which potentially subject Brooklyn Defender Services to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits by approximately \$3,500,000. Management believes that credit risk related to these accounts is minimal.

Note 6: Pension

Brooklyn Defender Services has a profit-sharing pension plan which covers all full-time employees. Under the terms of the plan, participants are eligible for a lump-sum payment upon reaching age 65 with at least one year of service. Pension expense for 2018 was \$1,235,758.

Note 7: Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 were available for the following use:

Veteran's Assistance	\$ 22,500
Youth Advocacy	20,834
Incarcerated Parents	12,500
Family Support Initiative	10,500
Veteran's Social Work	10,000
Education	5,000
Immigration - Fee Relief	3,324
	<hr/>
	\$ 84,658

Brooklyn Defender Services

Notes to Financial Statements

June 30, 2018

Net assets were released by incurring expenses satisfying the following restrictions in 2018:

Immigration	\$ 131,500
Youth Advocacy	50,000
Veteran's Advocacy	30,650
Immigration - Fee Relief	13,919
Incarcerated Parents	12,500
Education	8,750
Veteran's Assistance	7,500
Family Support Initiative	7,500
Veterans Social Work	5,000
	<hr/>
	\$ 267,319

Supplementary Information

	Program Services				Supporting Services						
	Criminal Defense	Immigration	Family Defense	Civil	Young New	Total	Management and General	Fund Raising	Direct Costs of Special Events	Total	Total
Salaries and Related Expenses											
Salaries	\$13,327,575	\$ 2,062,290	\$ 6,463,592	\$ 1,324,991	\$ 126,776	\$23,305,224	\$ 1,963,818	\$ -	\$ -	\$ 1,963,818	\$ 25,269,042
Payroll taxes and employee benefits	4,596,339	711,231	2,229,128	456,956	43,722	8,037,376	677,271	-	-	677,271	8,714,647
Total salaries and related expenses	17,923,914	2,773,521	8,692,720	1,781,947	170,498	31,342,600	2,641,089	-	-	2,641,089	33,983,689
Other Costs											
Professional fees	320,775	163,465	416,940	963	60,028	962,171	557,494	48,000	-	605,494	1,567,665
Occupancy	1,404,562	205,090	1,113,758	130,866	21,325	2,875,601	90,257	-	-	90,257	2,965,858
Repairs and maintenance	203,470	30,572	659,478	29,338	1,360	924,218	90,573	-	-	90,573	1,014,791
Office supplies	413,128	61,447	223,529	20,792	29,290	748,186	113,344	3,235	-	116,579	864,765
Communication	256,636	38,143	154,443	23,540	2,840	475,602	58,976	-	-	58,976	534,578
Insurance	64,028	9,790	33,215	6,001	10,337	123,371	17,785	-	-	17,785	141,156
Venues and entertainment	-	-	-	-	-	-	-	-	32,813	32,813	32,813
Depreciation and amortization	133,580	21,452	73,373	12,815	-	241,220	23,088	535	-	23,623	264,843
Miscellaneous expense (including \$23,801 of interest expense)	273,887	81,257	97,011	15,660	6,433	474,248	243,907	26	-	243,933	718,181
Total other costs	3,070,066	611,216	2,771,747	239,975	131,613	6,824,617	1,195,424	51,796	32,813	1,280,033	8,104,650
Total expenses	20,993,980	3,384,737	11,464,467	2,021,922	302,111	38,167,217	3,836,513	51,796	32,813	3,921,122	42,088,339
Less direct costs of special events	-	-	-	-	-	-	-	-	(32,813)	(32,813)	(32,813)
Total expenses reported by function on the statement of activities	\$20,993,980	\$ 3,384,737	\$11,464,467	\$ 2,021,922	\$ 302,111	\$38,167,217	\$ 3,836,513	\$ 51,796	\$ -	\$ 3,888,309	\$ 42,055,526