



# **Arkansas Access to Justice Foundation Financial Policies & Procedures**

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Arkansas Access to Justice Foundation, Inc.  
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## I. General Accounting Information

### A. *Corporate Purpose and Tax Status*

According to its Amended and Restated Articles of Incorporation, the Arkansas Access to Justice Foundation, Inc. ("Foundation"), is organized and shall be operated as a nonprofit corporation exclusively for charitable and educational purposes as described in Section 501(c)(3) of the Internal Revenue Code, including the making of distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code, and which are more specifically described as follows:

- To receive interest income generated by deposits in trust accounts for the benefit of clients maintained by attorneys practicing in the state of Arkansas;
- To conduct fundraising; and
- To utilize such revenues received from interest income and fundraising to support programs
  - that promote and support access to the justice system by persons in Arkansas who cannot afford a lawyer and for whom the law does not provide a right to counsel;
  - that educate the public regarding the needs of Arkansans related to meaningful access to the civil justice system;
  - that provide student loans and scholarships for the education of lawyers;
  - that improve the administration of justice in the State of Arkansas;
  - that assist in support activities of institutions and organizations which improve the administration of justice, including, but not limited to, the Arkansas Access to Justice Commission, the Center for Arkansas Legal Services, Inc., and Legal Aid of Arkansas, Inc., to fulfill their missions of providing access to justice and legal aid to Arkansans who cannot afford a lawyer and who qualify for legal services; and
  - that carry out other purposes that may be approved from time to time by the Arkansas Supreme Court.

In addition, the Foundation is considered a publicly supported organization under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code. For state law purposes, the Foundation has elected to be governed by the Nonprofit Corporation Act of 1993 (Act 1147). The Foundation is exempt from charitable registration with the Office of the Arkansas Attorney General, and is exempt from paying ad valorem taxes on real estate or personal property.

In 1984, the Arkansas Supreme Court issued a per curiam order creating an Interest on Lawyers Trust Accounts (IOLTA) Program and authorizing the creation of a nonprofit corporation to administer the program. The Arkansas IOLTA Foundation was incorporated in 1985 to fulfill

that purpose. In 2013, the Arkansas Supreme Court approved the merger of the Arkansas IOLTA Foundation and Arkansas Access to Justice Foundation (which had been incorporated in 2009 as a fundraising arm of the Arkansas Access to Justice Commission) effective January 1, 2014, with the Arkansas IOLTA Foundation designated as the surviving entity, but with the name “Arkansas Access to Justice Foundation.”

**B. *Fiscal Year of Organization***

The Foundation shall operate on a fiscal year that begins on January 1 and ends on December 31.

**C. *Basis of Accounting***

The Foundation’s financial statements are prepared using a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. That basis differs from generally accepted accounting principles in that certain revenues are recognized when received rather than when earned, and certain expenses are recognized when cash is disbursed rather than when the expense is incurred.

**D. *Classification of Income and Net Assets***

All income received by the Foundation is classified as “unrestricted,” with the exception of the following:

1. Unclaimed or Unidentifiable Funds received in accordance with Ark. R. Prof.’l Conduct 1.15(c), which shall be considered restricted for a period of two years from the date of receipt, whereupon those restrictions are released. The purpose of these restrictions is to ensure that sufficient funds are available in case a rightful owner of the funds remitted comes forward during the two-year period when they can make a claim.
2. Grants and other awards received from government agencies, nonprofit organizations, or other grantors designated for a specific purpose, including bank settlements and cy pres awards.
3. Donations designated for a specific purpose or entity (e.g., for expungement clinics or for distribution to a legal aid organization).
4. Special endowments received from donors requesting that these funds be permanently restricted for specific purposes.

When any restriction associated with a grant, contribution, or gift has been met (due to the passing of time or the use of the resource for the intended purpose), the Foundation will reclassify the related net assets from “Restricted” to “Without Restriction” in its financial statements.

Net assets of the Foundation shall be classified based upon the existence or absence of donor-imposed restrictions as follows:

*Net Assets Without Donor Restrictions* - Net assets that are not subject to donor imposed restrictions or other stipulations.

*Net Assets With Donor Restrictions* - Net assets that are subject to temporary or permanent restrictions or other stipulations.

Net assets accumulated that are not subject to donor-imposed restrictions, but which the Board of Directors has earmarked for specific uses (e.g., IOLTA grant allocations, Reserve Fund), shall be segregated in the accounting records as “Board-Designated” funds within the unrestricted category of net assets. Unrestricted fund classes may also be created from time to time to track revenues and expenditures related to events and fundraising activities.

Restrictions may be associated with either a time period (e.g., a particular future time period) or a purpose (e.g., specific program). A purpose stipulation will be considered a restriction only if it is more specific than the broad limits resulting from the nature of the Foundation, the environment in which it operates, and the purposes specified in the Arkansas Access to Justice Foundation’s Articles of Incorporation and Bylaws. For instance, a donation specifically given and restricted by the donor to be used for the purchase of a fixed asset or funding of a specific event.

**E. *Capitalization***

It is the Foundation’s policy to capitalize all asset purchases greater than \$2,500, while expensing all asset purchases under \$2,500.

**F. *Budget***

The Board of Directors is responsible for annually approving the budget prepared by the Executive Director and reviewed and recommended by the Finance Committee. The proposed budget should be prepared and presented to the Foundation’s Finance Committee prior to the final board meeting of the fiscal year--typically late September or early October--and any recommended changes incorporated and approved prior to presenting to the full Board. The proposed budget should include proposed budgets and actuals for the two previous years, as well as projections for current year-end revenues and expenditures. The proposed budget should be accompanied by a detailed explanation of proposed expenditures, including any recommended changes.

**G. *Financial Statement Preparation and Distribution***

It is the policy of the Foundation to prepare and distribute monthly financial statements to the Treasurer and Executive Director. Such statements should include a statement of financial position, statement of activities (budget-to-actual), and reports on fund class balances. These statements should be prepared by the Foundation’s accounting firm no later than twenty-one (21) days after the close of the month.

**H. *Annual Audit, Preparation of Tax Return***

The Board of Directors is responsible for engaging a CPA firm every year to perform a year-end audit of the organization’s financial statements and to prepare its Form 990 for submission to the IRS. The Foundation’s Governance Committee assumes responsibility for the selection of a

firm, which shall be selected through a request for proposal process at least every four years. In addition, the Governance Committee meets with the auditor to review the draft financial statements and Form 990 prior to the auditor's presentation to the full Board. The Board is then responsible for final approval of the audit and Form 990. It is the Foundation's policy that the Form 990 should be available to the public upon request. In addition, the Executive Director should provide a copy of the audited financial statements to the Arkansas Supreme Court annually as part of an annual report of the Foundation's activities.

In the event a management letter is issued, the Governance Committee will discuss the letter with representatives of the auditing firm and direct staff as to the appropriate action required to correct deficiencies identified.

The process of engaging a CPA firm should be initiated by the Executive Director in January of each year, and the Executive Director is responsible for coordinating the provision of all documentation requested for completion of both the audit and Form 990. A number of key items should be provided by the Foundation's regular accounting firm.

## **II. Roles and Responsibilities**

### **A. *Board of Directors***

The Arkansas Access to Justice Foundation is governed by its Board of Directors, which is responsible for the oversight of the Foundation by planning for the future, including future sources of potential revenue; establishing policies, including financial and grants policies and procedures; approving grant applications; reviewing and approving the results of the annual audit; reviewing financial information; identifying and proactively dealing with emerging issues; interpreting the Foundation's mission to the public; soliciting prospective contributors; evaluating and working with the Executive Director; authorizing the establishment of all bank accounts and check signers; overseeing the performance of the Foundation's investment portfolio, including its endowment funds; authorizing the borrowing of funds or establishing lines of credit.

### **B. *Finance Committee***

The Finance Committee is responsible for direction and oversight regarding the overall financial management of the Foundation. Functions include the following:

- Reviewing and approving the Annual Budget
- Reviewing the Foundation's asset allocations under the Investment Policy annually
- Monitoring the performance of investment accounts, including the endowment fund
- Reviewing the Foundation's fiscal performance and make recommendations for addressing significant variances
- Making reserve fund policy recommendations and monitoring reserve fund actual vs. target balance
- Reviewing and proposing any needed changes to these policies and procedures
- Updating, approving, and overseeing internal controls and compliance with approved policies and procedures
- Reviewing and approving monthly financial reports prior to each Foundation Board Meeting

**C. Governance Committee**

As a committee that is separate and distinct from the Finance Committee, the Governance Committee serves in an oversight capacity by assuming primary responsibility for the Foundation’s annual audit and preparation of its Form 990. In addition, the Governance Committee monitors compliance with the Foundation’s Conflict of Interest Policy and serves as the Board Nominating Committee.

**D. Executive Director and Staff**

The Executive Director and Staff of the Foundation are responsible for the administration of the Foundation’s IOLTA Program in accordance with Arkansas Supreme Court rules, the conduct of private fundraising efforts, and administration of grants that further the Foundation’s organizational purposes.

**III. Access Controls for Accounting-Related Programs, Equipment, and Documents<sup>1</sup>**

**A. Passwords**

It is the policy of the Foundation to store all passwords for all programs utilized by the Commission and Foundation, including bank account access, using an encrypted password management program that allows for the secure storage of passwords and the capability of sharing only with individuals who require access. The Executive Director will have privileges to manage both user and password access for any such program.

**B. Bank Accounts**

The Executive Director has administrative privileges to manage all users within the Simmons Bank Treasury Management platform, which allows for access to the Simmons Operating, Campaign, and Insured Cash Sweep Accounts. Controls are in place that require the use of a unique token in order to initiate any ACH debits or credits, and only the Executive Director and IOLTA Program Manager are permitted to initiate such credits or debits. All other cash and investment accounts have login credentials only accessible to staff involved in handling IOLTA or financial transactions and to the Foundation’s accounting firm, which requires access to import transactions into the Foundation’s cloud-based accounting software, conduct monthly account reconciliations, and prepare monthly financial statements.

**C. IOLTA Management System (for recording IOLTA revenue)**

The Executive Director has administrative privileges to manage all users in the IOLTA Management System. Each employee with a need to access the program has unique login credentials.

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<sup>1</sup> For a list of currently used software programs, see Appendix B.

**D. *Secure File Upload Service (for banks to securely upload IOLTA remittance reports)***

The Foundation utilizes a secure file upload system which allows financial institutions that participate in the Arkansas IOLTA Program to securely upload their monthly remittance reports. The Foundation has a single organizational login accessible only to employees involved with processing or reviewing IOLTA remittances.

Each bank has a unique link and login credentials, which only allow the financial institution to upload files; they cannot view or otherwise manipulate folder contents. Banks that choose not to utilize the secure file upload service to transmit their reports are required to send the reports to the IOLTA Program Manager by secure email. The IOLTA Program Manager uploads any reports received by email, along with any supporting documentation for bank errors or back interest paid, to the appropriate folder in the secure file upload service for secure storage. When the secure file upload service is accessed via the web and reports are downloaded to the user's machine to a folder outside the secure file upload service (for example, the Downloads folder) for upload in the IOLTA Management System, such reports should be deleted from any non-secure file upload service folder.

**E. *Accounting Software (for recording all organizational financial activity and generating financial statements)***

The Foundation uses cloud-based accounting software to record organizational financial activity and generate financial statements. The Executive Director serves as the Master Administrator for the accounting software program. Access is granted to the Foundation's Treasurer, employees of the Foundation's accounting firm, and standard access, with unique login credentials, is granted to staff members who create check deposits or need report access (currently the Executive Assistant).

**F. *Bill Payment Service***

The Foundation's accounting firm utilizes a cloud-based bill payment program to process accounts payable for the Foundation. The accounting firm has created users and roles for each staff member, as well as the Foundation's Board President and Treasurer. This ensures that there are sufficient approvers to avoid a staff member from approving his or her own expense reimbursement and to permit at least one Board Executive Committee member to review and approve all credit card expenditures. Each staff and board user has unique login credentials.

**G. *Donor Management Software***

The Executive Director is the super admin for the Foundation's donor management system and establishes user accounts and access levels for staff handling donations and generating reports for internal or board use.

## **H. *Payment Processor Service***

The Executive Director and Executive Assistant maintain access to the online credit card processor portal showing transactions processed. In the event of processing mistakes that require full or partial refunds, those should be completed within the payment processor's portal and a corresponding entry made in the donor management software. The Executive Assistant runs monthly disbursement reports from the payment processor service and provides those to the accounting firm for reconciliation with donations recorded in donor management software and notes any discrepancies between names noted in the donor management software and the credit card processing report (e.g., when a donation for an individual attorney is made using a firm card where a legal assistant is the cardholder).

## **I. *Computers***

The Foundation currently uses a combination of PCs and Macs, with technical support provided by the Administrative Office of the Courts. The Macs are managed through an Apple Business Manager account, which allows for remote management of the devices in the event of theft, loss, or unauthorized use. All computers are password protected and are labeled with inventory tags.

When laptop computers that are owned by the Foundation or by individual employees are used for Foundation business, they may only be used on secured networks. Use of a Foundation device on a public wireless network is only permissible when strictly necessary and when the employee utilizes a device with up to date antivirus software and establishes a connection through a virtual private network (VPN).

## **J. *Check Stock***

It is the policy of the Foundation to use a payment processor service for all payments made via check, except in extraordinary circumstances. Check stock for the Foundation's Operating account is available in the event that there is a time-sensitive need for a check, in which case the procedures in IV.C.1 below should be followed.

All check stock is maintained in a locked drawer in the office of the Executive Assistant.

## **K. *Fireproof Safe***

The Foundation keeps a fireproof safe for storage of checks awaiting deposit. All checks received and logged must be placed in the safe until deposit can be made. The safe can only be opened with the use of two keys simultaneously. The Executive Director and the Executive Assistant each have a set of the two keys required to access the contents of the safe.

## **L. *Paper Documents with Sensitive Information***

The Foundation periodically receives documentation from donors that contains bank account or credit card information in connection with its fundraising efforts (e.g., donation forms, voided checks, etc). Once received, such documentation should be placed in the fireproof safe or a

securely locked file in the Executive Assistant's office until entered into the Foundations donor management system, after which time the documents should be shredded.

By virtue of its management of the IOLTA Program, the Foundation also regularly receives Attorney IOLTA Compliance Statements, many of which contain bank account information. In addition, the Foundation occasionally receives status change forms from attorneys with bank account information that identifies new or closed accounts. Such documents should be kept in a secure, locked filing cabinet when not being entered into the applicable database used to track such information. In the event that any such documents need to be removed from the Foundation premises for remote work, the responsible employee shall ensure that the physical security of the documents is maintained at all times, including by keeping such documents in a locked document carrier, portable safe, or similar locked container at all times when the document are not being actively utilized by the employee. At the end of each IOLTA compliance review, all IOLTA Compliance Statements shall be delivered to the Office of the Committee on Professional Conduct.

#### **IV. Specific Accounting Policies**

##### **A. *Account & Class Lists***

The Foundation's account and class lists are set by the Executive Director, in consultation with the accounting firm. The current account and class lists are attached as Appendix A.

##### **B. *Receipts***

The Foundation receives revenues primarily through bank-initiated direct deposits or wire transfers (from banks that participate in the IOLTA program), as well as from credit card and Facebook donations and mailed checks. All checks received by the Foundation, whether donations, unclaimed/unidentifiable funds, refunds, or other items payable to the Foundation are logged into a check log by the staff member who opens the mail. Logging checks is the responsibility of the employee who checks the mail, except that the Executive Assistant shall not make entries in the check log. The check log should include the date of receipt, date of the check, the payor name, the amount, the check number, and the purpose of the funds. At the end of each month, the Executive Assistant provides a scanned copy of the check log to the Foundation's accounting firm, which utilizes the log to compare against revenues received for reconciliation purposes.

Checks received during the first five days of a month that are dated the previous month will be recorded in the financial statements for the previous month as Undeposited Funds. All checks should generally be recorded as received as of the date of the check, unless received later than the 5th day of the month, in which case they will be recorded as of the date of receipt.

All checks are stored in a locked, fire-proof safe accessible only by the Executive Director and Executive Assistant. Bank runs are made at least weekly, with checks being stored in a locked safe in the interim. Checks received in the amount of \$5,000 or more should be deposited the same day they are received.

1. *IOLTA Revenues.* For IOLTA revenues, the IOLTA Program Manager notifies banks via email on the last business day of each month that reports of interest earned are due. The IOLTA Program Manager receives and logs receipt of the reports, along with the amount of interest due, on a monthly IOLTA spreadsheet. All reports are received in a format that allows for their direct import into the Foundation's IOLTA Management System. Reports are imported after the IOLTA Program Manager confirms that the reported amounts are the same as the amounts received in the Foundation's operating account.

- All banks are required to electronically submit their monthly IOLTA remittances into the Foundation's operating account. The IOLTA Manager compares amounts received against the bank report to make sure the amounts match, and then they import the bank report into the IOLTA database.
- By the 5th day of the following month, the IOLTA Program Manager should run a Cash Receipts Journal Report out of the IOLTA Management System to confirm that the amounts match the amount of IOLTA deposits to the Simmons Operating Account for that month. They send the report to the Foundation's accounting firm. The accounting firm then completes account reconciliations.

2. *Unclaimed or Unidentifiable Trust Funds.* These funds are normally received by check and accompanied by supporting documentation required by Rule 1.15(c) of the Rules of Professional Conduct. The IOLTA Program Manager logs the check and accompanying report on the spreadsheet for unclaimed/unidentifiable funds, and scans the check and report to the appropriate folders on the Foundation's shared drive. The Executive Assistant enters the check into the accounting software as a sales receipt, creates a deposit, and takes the check(s) to the bank for deposit into the Foundation's Rule 1.15(c) account at Centennial Bank. If a check is received without appropriate supporting documentation, it should be logged into the check log and unclaimed/unidentifiable funds spreadsheet with a note about the missing documentation. It is the responsibility of the IOLTA Program Manager to promptly follow up with the attorney or firm that remits the funds to obtain supporting documentation. In the event the requested documentation is not submitted in a timely manner, the IOLTA Program Manager shall notify the Executive Director who will then consult with the Office of Professional Conduct regarding appropriate action. The Foundation's accounting firm has shared access to the spreadsheet for unclaimed/unidentifiable funds. The accounting firm completes the account reconciliation.

4. *Credit Card Donations.* All online donations are automatically recorded in the donor management system, and donations submitted by check, cash, or gifts of securities are manually entered by the Executive Assistant. Credit card donations are recorded effective as of the date of the gift. The Executive Assistant generates a monthly report out of the Foundation's credit card processing system to provide to the accounting firm.

5. *Facebook Donations.* The Executive Director (or other staff member with administrative privileges for the Access to Justice Facebook page) should run donation reports monthly and provide those to the accounting firm. Facebook does not automatically provide notifications of gifts made, and typically does not disburse gifts until there is a balance of at least \$100. Donations through Facebook should be recorded as of the date made and recorded to the clearing account until the disbursement is made. Facebook does provide disbursement reports

when payments are made, and these should also be provided to the accounting firm by the 5th day of the month.

### **C. *Expenditures and Disbursements***

#### **1. *Invoices***

Invoices are received by email or mail. Regular vendors have the ability to email invoices directly to the Foundation's bill payment service, where the Foundation's accounting firm puts the payable in queue for approval. Otherwise, staff scan and email print invoices to the bill payment service, at which point they are put in the queue for approval. Two staff members--usually the Executive Director and Executive Assistant, review the bill documentation and approve, deny, or request modification of the payment or applicable billing code. Payment is then processed directly through the bill payment service and sent directly to the vendor via check or direct deposit.

In rare instances, vendors may not accept electronic payment and it may be impracticable to request a check from the bill payment service through the Operating or Campaign account. In that event, the Foundation does have check stock and a check template that may be utilized to print a check. Advance approval to issue paper checks requires advance approval of the Executive Director, and each such check requires signatures from two authorized signers. Copies of the check and supporting documentation must be submitted to the accounting firm.

#### **2. *Expense Reimbursement***

For expense-related disbursements, any expenses incurred by Board members or staff must be reported on the Foundation's expense reimbursement form and provided with original supporting documentation. The expense reimbursement form and documentation are scanned to the bill payment service, where it is put in the queue for approval. No staff member or board member is permitted to approve their own reimbursement request. Payment is then processed directly through the bill payment service and sent directly to the board or staff member via check or direct deposit.

#### **3. *Credit Card Purchases***

The Arkansas Access to Justice Foundation may, by board resolution, authorize specific individuals to utilize a corporate credit card. A corporate cardholder may use the credit card only for official purposes directly related to the needs of the Foundation and within its approved budget. When possible, vendor accounts that utilize an invoicing process should be used in lieu of credit card purchases. The cardholder may not use a corporate credit card for personal purposes, even if they plan to reimburse the organization.

The following purchases are not allowed on the corporate credit card:

- Personal purchases
- Cash advances or loans
- Alcohol for individual, personal consumption
- Personal entertainment

- Fuel for personal vehicles

In order to use the card, the cardholder must follow these procedures:

(a) *Cardholder Agreement.* Upon receiving a corporate card, the cardholder must sign a statement that the cardholder has read and understands this Credit Card Policy and will reimburse the Foundation for any charges that are inconsistent with this Policy.

(b) *Pre-Approval for Purchases; Receipts.* Purchases in excess of \$100 must receive pre-approval from the Executive Director, which may be documented via email, but in any event in writing. The cardholder must scan and save a copy of the original receipt that describes each purchase made on the card; a signature slip alone is not sufficient. In addition, the staff member should list the expense on the Foundation's Credit Card log noting the expense, vendor, amount, and applicable accounting code and fund class, as applicable.

(c) *Expense Form.* The credit card statement, along with expense detail forms and original receipts for each cardholder, must be submitted to the Executive Director for email approval prior to submission to the Foundation's accounting firm through the bill payment service within five (5) days of the end of the billing cycle. The accounting firm will reconcile the expense detail forms to the credit card billing statement and follow up on any inconsistencies, and both the Board Treasurer and Executive Director will approve payment through the bill payment service; however, actual payment of the balance must be made directly through the Simmons BankCard Services website and initiated by the Executive Assistant after all approvals are received.

(d) *Online Access and Account Alerts.* The Executive Director, Board Treasurer, and accounting firm shall have online access to card statements, account activity, and any desired alerts regarding credit card account activity.

(e) *Security; Notification of Loss/Theft.* If a card is lost or stolen, the cardholder must immediately notify the Executive Director and the financial institution and the Foundation's accounting firm so that the card can be cancelled or placed on a hold.

#### 5. *Non-Budgeted Expenses*

Any non-budgeted expenses to be incurred in excess of \$5,000 require approval by the Executive Committee prior to their expenditure.

### **D. *Reserve Policy***

#### 1. *Purpose of the Reserve Fund:*

The Reserve Fund has been established to provide a source of funding for daily operations of the Arkansas Access to Justice Foundation and for sustaining grant funding for civil legal aid program grantees in the event of a decline in revenues or in the event of a fiscal crisis that

affects the Foundation's operations. The Reserve Policy provides guidance to the Board of Directors, the Finance Committee, and Arkansas Access to Justice staff concerning the use of the Reserve Fund.

2. *Funding the Reserve Fund; Optional Distributions to Endowment Fund:*

If the reserve fund is not fully funded, at least ten percent (10%) of each month's IOLTA income shall be placed in the Reserve Fund of the Foundation, as defined below. Additionally, any unrestricted surplus revenue remaining after the conclusion of a grant cycle may also be placed in the Reserve Fund or Endowment Fund, or divided between the two. All earnings on investments in the Reserve Fund shall be maintained in the Reserve Fund and reinvested. The Board may, at its option, decrease or discontinue distributions to the Reserve Fund at any time.

3. *Investment of the Reserve Fund:*

The Foundation's risk tolerance for the Reserve Fund is very low and should adhere to the Foundation's Investment Policy.

4. *Target Reserve:*

The Target Reserve shall be calculated on an annual basis and shall be the greater of \$750,000 or sum of the following:

- (a) The current fiscal year budgeted expenses of the Foundation, exclusive of grant funds for grantees, plus
- (b) An amount equal to the total grant awards made out of IOLTA revenue (including grants made out of unclaimed and unidentifiable funds that have been released from restrictions) during the most recent year when such grants were awarded.

The Foundation staff shall calculate the Target Reserve after the close of the fiscal year and shall provide the calculation to the Finance Committee and the Board.

5. *Distribution of the Reserve Fund:*

Except in extreme circumstances, as determined by the Foundation Board, no more than twenty-five percent (25%) of the Reserve Fund may be distributed in any fiscal year.

**E. *Endowment Fund Policy***

1. *Purpose of the Endowment:*

The Foundation desires, as a long-term goal, to build endowment funds sufficient to allow for an annual grant spending rate that is substantial enough to make meaningful annual grants in furtherance of the Foundation's mission without the need to invade the principal. However, the principal and earnings are to serve as an emergency reserve in the event of a catastrophic loss of funding to the Foundation or its grantees, as provided in Section IV.E.2 below. In furtherance of that goal, the Foundation established a quasi-endowed "Leadership Fund" at the Arkansas Community Foundation in October 2017. The fund is designated with ARCF as the "Arkansas

Justice Fund.” As of the date of the adoption of this policy, 100% of the funds, including principal and earnings, are subject to withdrawal at the Board’s discretion. In other words, it is a board-designated endowment.

It is also the Foundation’s intent that the endowment fund serve as a vehicle for the receipt of charitable gift annuities, cy pres awards, permanently restricted endowed funds, and other major gifts. In addition, regular honoraria and memorial donations made to the Foundation may be directed to the endowment fund, absent any contrary designation made by the donor.

2. *Invasion of Principal:*

The Foundation has established a Reserve Fund as provided in Section IV.D of this policy for the purposes of dealing with short-term loss of revenue due to market conditions that impact interest rates, donations, and other sources of revenue. As such, it is the intent that the principal of the board-designated endowment fund be kept intact and not invaded unless the Foundation or its grantees experience a catastrophic loss of funding, or upon the occurrence of some other extraordinary circumstance necessitating the expenditure of such funds. A decision to invade the principal of the board-designated endowment may only be made after consultation with the Foundation’s grantees and upon an affirmative vote of three-fourths of board members eligible to vote. Any such decision will not impact the principal of any funds placed into the endowment with donor designation that they remain permanently restricted.

3. *Periodic Reports*

Periodic reports on the balance and performance of the endowment fund shall be made as provided in Section IV.I.4 below.

**F. *Gift Acceptance***

1. *Gifts Generally*

A gift is considered given to the Foundation for which the donor receives no direct benefit and requires nothing in exchange other than the assurance that the intent of the contribution will be honored by the Foundation. The Foundation should acknowledge all gifts to the donor in writing.

In some instances, the Foundation may provide something of value that represents a portion of the total contribution made by the donor, often in the context of a fundraising event. For example, a donor may purchase a \$200 ticket to a fundraising dinner where the donor receives dinner and drinks worth \$50. In such instances, the Foundation shall provide written acknowledgment to the donor indicating what portion of the total contribution is considered tax deductible.

2. *Gifts of Securities*

Gifts of marketable securities should be transferred electronically to an account maintained at one of the Foundation’s brokerage firms. All marketable securities shall be sold promptly upon receipt unless otherwise directed by the Foundation’s Finance Committee. In some cases, marketable securities may be restricted, for example, by applicable securities laws or the terms

of the proposed gift; in such instances, the decision whether to accept the restricted securities shall be made by the Finance Committee.

The Foundation will calculate the value of a gift of marketable securities based on the average value of the securities on the date received multiplied by the number of shares. The Foundation's brokerage firm holding the securities will provide the high and low value of the security for the day. Any fees or gains/losses are borne by the Foundation and recorded as such in its financial statements.

#### **G. *Contracts***

The Executive Director and Board President are authorized to sign contracts on behalf of the Foundation when such contracts pertain to expenses included in an approved budget; otherwise, prior approval of the Executive Committee is required.

#### **H. *Property and Equipment***

An inventory of all Foundation property and equipment will be maintained. The Executive Assistant will maintain a spreadsheet of all property and equipment, which shall include (where known) a description, serial number, acquisition date, cost, vendor name, and equipment tag number. An annual review of the inventory will be reviewed for asset acquisitions and dispositions for annual audit purposes. Any dispositions of old equipment should be coordinated with the Office Manager for the Clerk of the Arkansas Supreme Court.

#### **I. *Investment Policy***

1. *Investment Objectives.* Unless modified by the specific policies set forth herein, the Board of Directors of the Arkansas Access to Justice Foundation, Inc. (the Foundation) will supervise, monitor, and evaluate the management of its funds as a prudent investor, exercising the judgment and care under the prevailing circumstances that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not for speculation but for investment, considering the permanent disposition of the funds and the probable safety of capital as well as probable income.

The Foundation seeks to protect the funds and produce a reasonable total return, provide adequate liquidity, and preserve capital without assuming undue risks. The majority of funds in the Foundation's Low-Risk and Moderate-Risk Portfolios must be fully protected against loss by being fully insured by the Federal Deposit Insurance Corporation (currently \$250,000) or otherwise backed by the full faith and credit of an agency of the United States Government. Subject to the safety restrictions set forth in this policy, the Foundation seeks competitive rates providing the greatest possible yield. Portions of the portfolio may be exposed to loss of principal in order to achieve capital appreciation. The Foundation seeks to offset operating expenses and, as a result, increase the amount of funds available for its charitable activities, including seed and development money.

(a) *Low-Risk Portfolio.* Current-year operating funds, current-year funds designated for grant payments to grantees, grants received, Campaign for Legal Aid donations, funds subject to claims under the Unclaimed/Unidentified Funds provisions of

Rule 1.15, and the Reserve Fund (as defined in the Foundation's Reserve Policy) should be invested in vehicles associated with a low risk of loss of principal, such as interest-bearing bank accounts, money market accounts, or certificates of deposits that are fully insured by the FDIC or otherwise backed by the full faith and credit of an agency of the United States Government.

(b) **Moderate-Risk Portfolio.** For non-operating funds or restricted funds, including grantor- and donor- restricted funds that will be held for more than a year, the Foundation recognizes and acknowledges that portions of the portfolio may be exposed to loss of principal in order to seek capital appreciation and to achieve the long-term investment objectives by making investments posing moderate risk. Growth of asset values and generation of income will require a moderate level of risk, a long-term investment horizon and diversification among asset classes. The portfolio will be invested to provide a total return (capital appreciation, interest and dividend income) consistent with reasonable and prudent levels of risk.

2. **Investment Vehicles.** The Foundation will place funds from its portfolios in several investment vehicles in amounts (expressed as a percentage of the fund) as are approved annually by the Foundation's Board. The purpose of these investment vehicles is to provide for asset allocation consistent with the Foundation's needs while remaining cognizant of current investment market cycles. The Foundation may engage an Investment Manager in accordance with Section IV.I.6 of this policy to oversee some or all of the funds held in these vehicles, consistent with this policy and subject to the Foundation Board's oversight. The approved investment vehicles for the fund will consist of the following:

(a) **Certificates of Deposit.** Up to 50% of the Low-Risk Portfolio and up to 100% of the Moderate-Risk Portfolio may be maintained in certificates of deposit. Unless such CDs are held at an investment firm, they should be maintained at Arkansas financial institutions that participate in the IOLTA program. The maturity of these CDs will generally depend on the liquidity needs of the portfolio, but may range from three months to five years. As the vehicle for the Foundation's short-term investments, CDs are generally desirable to supplement ordinary cash flow used to pay grant awards as the awards become due and to pay administrative costs of the Foundation's daily operations. These CDs should be distributed geographically throughout the state when possible, with the highest interest rate possible as the determining factor. Interest from the CDs may be paid to the Foundation monthly if necessary so as not to exceed the FDIC insurable limit. The signature of two of the following three persons is required to cash CDs: the Board's President, Treasurer, or the Foundation's Executive Director. CDs should be fully insured by the FDIC.

(b) **Certificate of Deposit Account Registry Service (CDARS).** Up to 50% of the Low-Risk Portfolio and up to 100% of the Moderate-Risk Portfolio may be maintained in a CDARS account at an Arkansas financial institution that participates in the IOLTA program. Financial institutions that are in the CDARS Network divide customer deposits that exceed FDIC insurance limits among financial institutions in the network, which in turn issue CDs. However, the customer only deals with the bank that receives the original deposit, minimizing administrative burdens for the customer. Because the CDs are held at multiple banks across the Network in amounts that stay within the FDIC

deposit insurance limit at each bank, the customer is eligible for total amounts of deposit insurance that are greater than the standard insurance limit for any one bank. When possible, such CD deposits should go to other financial institutions in the Network that participate in the IOLTA program.

(c) Interest-Bearing Bank Accounts. Up to 100% of the Low-Risk Portfolio and up to 50% of the Moderate-Risk Portfolio may be kept in interest-bearing checking accounts, savings accounts, or money market accounts. Unless the funds are held at an investment firm, such accounts should be maintained at Arkansas financial institutions that participate in the IOLTA program and should be fully insured by the FDIC.

(d) Insured Overnight or Cash Sweeps. Up to 100% of the Low-Risk Portfolio and up to 50% of the Moderate-Risk Portfolio may be kept in an Insured Cash Sweep (ICS) Account held at an Arkansas financial institution that participates in the IOLTA program. Financial institutions that are in the ICS Network divide customer deposits that exceed FDIC insurance limits into interest-bearing savings accounts at other FDIC-insured banks in the Network. However, the customer only deals with the bank that receives the original deposit, minimizing administrative burdens for the customer. Because the funds are placed at multiple banks across the Network in amounts that stay within the FDIC deposit insurance limit at each bank, the customer is eligible for total amounts of deposit insurance that are greater than the standard insurance limit for any one bank. When possible, such sweeps should go to other financial institutions in the Network that participate in the IOLTA program.

(e) U.S. Government Bonds. Up to 50% of the Moderate-Risk Portfolio may be maintained in U.S. Treasury Bonds or Bills or U.S. Government Agency Bonds and bonds of U.S. Government Sponsored Enterprises (GSEs) that are backed by the full faith and credit of an agency of the United States Government. The maturity of these bonds will generally be less than five (5) years.

(f) Repurchase Agreement Sweep Accounts. Up to 45% of the Moderate Risk Portfolio may be maintained in Repurchase Agreement Sweep Accounts. A repurchase agreement sweep allows for the investment of otherwise idle funds in a customer's account. Funds are automatically withdrawn from the account at the close of each banking day for investment by the bank, as agent for the customer, in securities issued by the U.S. Treasury or agencies of the U.S. Government. The bank is then obligated to repurchase the securities upon demand or as needed to repay the balances withdrawn from the customer's account for investment in the repurchase agreements along with interest.

(g) A Mixed Asset Fund (MAF). Up to 30% of the Moderate-Risk Portfolio may be invested in an asset mix comprised of equities and money market instruments and mutual funds that invest primarily in equities and money market instruments; provided, however, that the MAF may comprise up to 50% of the Moderate-Risk Portfolio if the remaining funds in that portfolio are fully insured against loss of principal. Additionally, the Foundation's Investment Manager is authorized to buy and sell covered call options in regard to equities that could have otherwise been purchased pursuant to the Investment Manager's investment strategy approved by the Foundation.

- (1) The equity investments will emphasize high quality issues with a balance of income and appreciation. The value of an equity investment in a single company will not exceed 10% of the entire equity portfolio or 20% in a single industry.
- (2) All bonds shall carry a minimum "A" rating by Moody's or S & P. No investment in the corporate bonds (non-government) of a single entity shall exceed 10% of the fixed income portfolio.
- (3) All mutual funds must be well diversified and offer professional money management.
- (4) Investments in the asset mix shall not be in entities that are adverse to the mission of the Foundation.
- (5) Foundation assets may not be placed in any investments not listed above without first receiving written consent of the Finance Committee and the Board.
- (6) Unauthorized investments include any options not authorized by this Investment Policy, commodities or other commodities contracts, short sales and margin transactions, restricted stock, private placements, and unregistered stock. Any investment not specifically listed as an authorized investment is not authorized for direct purchase even if it is not included in the list of unauthorized investments. Exceptions to this policy may be made upon a majority vote of the Finance Committee followed by a majority vote of the Foundation Board, in keeping with the objective of maintaining security of principal and obtaining capital appreciation consistent with investment guidelines.

3. *Endowment Funds.* Such funds, which are not considered part of the Foundation's Low-Risk or Moderate-Risk Portfolio, may be exposed to loss of principal in order to achieve long-term growth. Any such endowment funds must be held at the Arkansas Community Foundation or similar entity whose investment policy provides for a strategic asset allocation that diversifies investments to achieve long-term growth and minimize risk.

4. *Reporting Requirements.* Both the Foundation's Investment Manager and the Investment Manager for any of the Foundation's endowment funds will meet with the Foundation's Finance Committee periodically to report on the performance of the Foundation's holdings, and meet with the full Board at least annually. Both the Foundation's Investment Manager and Investment Manager for any endowments will prepare and submit to the Executive Director and Finance Committee a quarterly statement of assets, account performance, and market review, including comparative statistics. The Executive Director and/or Finance Committee may request meetings or reports from the Foundation's Investment Manager more frequently as needed to monitor the performance of the Foundation's investments in light of then-current market conditions.

5. *Management of Funds.* The overall responsibility for implementing this investment policy shall reside with the Finance Committee and the Executive Director. All

investment activity shall be executed by the Executive Director of the Foundation with assistance from the Finance Committee and Investment Manager. The Finance Committee will meet quarterly to review the accounts and investments and will report information regarding performance to the Foundation Board at each of its quarterly meetings.

6. *Investment Manager.* The Foundation's Investment Manager shall be selected by the Board from among those banks, brokerage firms, or other financial advisory entities that submit written responses to the Foundation's Request for Proposals (RFPs).

7. *Asset Allocation Review and Approval.* At least annually, the Finance Committee shall review the Foundation's asset allocation to reaffirm its continuing relevance or to revise the allocation as appropriate to accommodate the current investment climate and to see if the eligible investments are still relevant. Because of the nature and mix of short and long term investments, the Board would expect any change made in asset allocation to be achieved over a prudent period of time, thereby minimizing adverse effects on the value of the fund.

8. *Conflicts of Interest.* In all matters related to the investment of funds held by the Foundation, it is important that members of the Board of Directors and employees avoid any situation which might constitute a conflict of interest. The Foundation's current conflict of interest policy will apply to this investment policy.

#### **J. Amendment of Policies.**

The Finance Committee shall review these policies and procedures at least annually to reaffirm their continuing relevance or to revise as necessary. These policies and procedures may be amended at any meeting of the board, where there is a quorum present, by a majority vote of those present. The Appendixes to these policies and procedures may be updated by the Executive Director as needed. The Finance Committee shall be notified of any changes to the appendixes.

## Appendix A

### Account and Class Lists

Account #	Account
1001	Simmons Operating Account - ██████████
1005	Southern Bancorp CD
1007	Equity Bank MM
1008	Simmons Campaign Account - ██████████
1009	Centennial Bank 1.15(c) - ██████████
1010	ICS Simmons Bank
1012	Centennial ICS
1070	Donation Clearing Account
1072	Bill.com Money Out Clearing
	Accounts Receivable (A/R)
1006	Stephens
1011	ARCF Endowment
1100	Due from AR Access Comm
	Inventory Asset
	Uncategorized Asset
	Undeposited Funds
2001	Fixed Asset - Office Equipment
2002	Accumulated Depreciation
3001	Security Deposits
	Accounts Payable (A/P)
4003	04003 Credit Card - Jordan
4004	Credit Card - Desirae
4005	Credit Card - Tameka
5000	Prior Period Adjustment without Restriction
	Opening Balance Equity
	Retained Earnings
1201	Income/IOLTA Participants
1202	Interest Earned
1207	Misc/Other Income
1209	AG Settlement Revenue
1210	Cy Pres Award
1212	IOLTA Prior Year Income
1300	Dividend Income
1350	Capital Gains
1360	Stephens Change in Book Value
1370	Net Assets Released from Restrictions

1400	Special Event Sponsorships
1500	Donations
1501	Designated Donations
1502	Endowment Donations
1503	Special Event Revenue - Ticket Sales
1600	Project Grants
1700	Bank of America Settlement Income
1800	Unclaimed Funds
1900	Unidentifiable Funds
	Billable Expense Income
	Sales
	Sales of Product Income
	Uncategorized Income
	Cost of Goods Sold
1100001	IOLTA Interest - Refund
1300001	Contract Help
1300101	Contract Help:Temporary Help (Database Asst.)
1300201	Contract Help:Temporary Help (Comp Data Entry)
1400001	Advertising/Promotional
1500001	Parking
1600001	Insurance (Bond)
1600101	Insurance (Fire/Theft)
1600201	Insurance (D & O)
1600301	Insurance (General Liability)
1900001	Office Equipment
2100001	Depreciation
2200001	Staff Training
2300001	Dues & Subscriptions
2400001	Office Supplies
2500001	Postage & Copying
2600001	Telephone & Internet
2700001	Rent
2800001	Travel Board
2800101	Travel Staff
2800201	Travel-Other
2900001	Board Retreat
3000001	Board Meeting Expenses
3100001	Audit & CPA
3200001	Miscellaneous Expenses
3300001	IOLTA Grant Disbursements
3300101	AG Settlement Disbursements

3300201	Cy Pres Award Disbursements
3300301	BofA Settlement Grant Payments
3300401	BofA Grant Projects
3300501	Fendler Fellowship
3300601	Rose Law Firm Anniversary Fellowship
3400001	Bank Charges
3500001	Interest Refunds
3600001	Software Licensing
3900001	Website Hosting
4000001	Credit Card Processing Fees
4100001	Direct Mail Campaign
4200001	Donor and Volunteer Recognition
4300001	Email Marketing
4400001	Resource Development Contract
4600001	Annual Report
4700001	Vendor Booth Fees/Swag
4900001	Outreach/Education
5100001	Designated Donation Distribution
5100201	Designated Donation Distribution - Endowment
5100202	Endowment Fees
5300001	Pro Bono Outreach Clinics
5500001	Campaign for Legal Aid Distributions
5600001	Legal Aid Conference
5650001	Prof. Services - IOLTA Compliance
5700001	Prof. Services - IOLTA Conversion
5750001	Prof. Services - Accounting
5800001	Prof. Services - Website Redesign
5900001	Commissions on Donated Stock
6000001	Unclaimed Funds PAID
6100001	Unidentifiable Funds PAID
6200001	Security Deposit
6500001	Janitorial
6600001	Hope for Justice Prize
6700001	Meals - Fundraising
6800001	Event Expenses
6900001	Sponsorships
	Purchases
	Unapplied Cash Bill Payment Expense
	Uncategorized Expense
	Reconciliation Discrepancies

<b>Classes</b>	
Without Restriction	
	Board Designated Reserve
	Fundraising Events
	Program Events
With Restriction	
	Bank of America-Base
	CALS LAA
	Mark Nichols
	Orphan
	Rose Law Firm
	Shafer-Hope for Justice

## Appendix B

### Current Software Systems & Purpose

<b>Software System</b>	<b>Purpose</b>
Quickbooks Online	Accounting software
Little Green Light	Donor management
Stripe	Payment processor
Bill.com	Bill payment
Files Anywhere	Secure file upload service for IOLTA remittance reports
IOLTA2	IOLTA management system
Dashlane	Password manager
IMIS	Arkansas Administrative Office of the Court's database. Used for recording IOLTA compliance statement data.
Cisco AnyConnect	Virtual Private Network provider. Used to securely access IMIS.
Google Suite	Email hosting, cloud storage, word processing, presentation hosting, etc.
Zoom	Webinar and meeting hosting