



ARKANSAS
ACCESS TO
JUSTICE
REPRESENTING HOPE

ARKANSAS ACCESS TO JUSTICE FOUNDATION, INC.

**FINANCIAL STATEMENTS -
MODIFIED CASH BASIS**

YEAR ENDED DECEMBER 31, 2020

with

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**



CONTENTS

	<u>PAGE</u>
Report of Independent Certified Public Accountants	1 - 2
Financial Statements:	
Statement of Assets, Liabilities, and Net Assets – Modified Cash Basis	3
Statement of Activities – Modified Cash Basis	4
Statement of Functional Expenses - Modified Cash Basis	5
Statement of Cash Flows - Modified Cash Basis	6
Notes to Financial Statements – Modified Cash Basis	7 - 11



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Arkansas Access to Justice Foundation, Inc.
Little Rock, Arkansas

We have audited the accompanying financial statements of Arkansas Access to Justice Foundation, Inc. (a nonprofit Organization), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2020, and the related statement of activities – modified cash basis, statement of functional expenses - modified cash basis and cash flows statement - modified cash basis 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

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 reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Arkansas Access to Justice Foundation, Inc., as of December 31, 2020, and its statements of activities and cash flows for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

HCT CPAs & Advisors, PLLC

Little Rock, Arkansas
July 15, 2021

FINANCIAL STATEMENTS

ARKANSAS ACCESS TO JUSTICE FOUNDATION, INC.

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - MODIFIED CASH BASIS DECEMBER 31, 2020

Assets

Current Assets:

Cash and Cash Equivalents	\$ 1,121,640
Investments, - at Cost	<u>1,069,275</u>
Total Current Assets	2,190,915

Property Plant and Equipment:

Office Equipment	16,862
Less Accumulated Depreciation	<u>(12,019)</u>
Total Property Plant and Equipment	4,843

Other Assets:

Security Deposit	2,229
Assets Held by Arkansas Community Foundation, - at Cost	<u>152,453</u>
Total Other Assets	<u>154,682</u>

Total Assets	<u>\$ 2,350,440</u>
--------------	---------------------

Liabilities and Net Assets

Liabilities:

Credit Card Payable	\$ <u>1,541</u>
Total Liabilities	1,541

Net Assets:

Net Assets Without Donor Restrictions	1,240,557
Net Assets With Donor Restrictions	<u>1,108,342</u>
Total Net Assets	<u>2,348,899</u>

Total Liabilities and Net Assets	<u>\$ 2,350,440</u>
----------------------------------	---------------------

See accompanying notes.

ARKANSAS ACCESS TO JUSTICE FOUNDATION, INC.

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS YEAR ENDED DECEMBER 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Support:			
Participants Income	\$ 494,853	\$ -	\$ 494,853
Donations	49,263	19,491	68,754
Unclaimed/Unidentifiable Funds	-	209,440	209,440
Other Income	11,967	-	11,967
Interest Income	12,745	-	12,745
Dividend Income	30,824	-	30,824
Gain on Sale of Investments	64,633	-	64,633
Net Assets Released from Restrictions	<u>683,572</u>	<u>(683,572)</u>	<u>-</u>
Total Revenues	<u>1,347,857</u>	<u>(454,641)</u>	<u>893,216</u>
Expenses:			
Program Expenses	972,954	-	972,954
Management and General	119,921	-	119,921
Fundraising	<u>17,017</u>	<u>-</u>	<u>17,017</u>
Total Expenses	<u>1,109,892</u>	<u>-</u>	<u>1,109,892</u>
Change in Net Assets	237,965	(454,641)	(216,676)
Net Assets at Beginning of Year	<u>1,002,592</u>	<u>1,562,983</u>	<u>2,565,575</u>
Net Assets at End of Year	<u>\$ 1,240,557</u>	<u>\$ 1,108,342</u>	<u>\$ 2,348,899</u>

See accompanying notes.

ARKANSAS ACCESS TO JUSTICE FOUNDATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES -
MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2020**

	Program	Management and General	Fundraising	Total
Advertising	\$ -	\$ 274	\$ -	\$ 274
Audit & CPA	-	7,500	-	7,500
Bank Charges	-	509	-	509
Board Meeting Expenses	-	433	-	433
Campaign for Legal Aid Distributions	44,362	-	-	44,362
Credit Card Processing	-	-	1,394	1,394
Depreciation	-	1,490	-	1,490
Designated Donation Distribution	18,692	-	-	18,692
Direct Mail	-	-	1,755	1,755
Donor Recognition	-	-	200	200
Dues & Subscriptions	-	1,243	-	1,243
Email Marketing	-	-	1,540	1,540
Endowment Fees	1,763	-	-	1,763
Event Expenses	-	-	887	887
Grants Paid	904,191	-	-	904,191
Insurance	-	3,736	-	3,736
Janitorial	-	1,908	-	1,908
Meals - Fundraising	-	-	141	141
Miscellaneous	-	74	-	74
Office Supplies	-	6,650	-	6,650
Outreach/Education	425	-	-	425
Postage	-	3,380	-	3,380
Pro Bono Outreach Clinics	892	-	-	892
Professional Services	-	30,380	-	30,380
Rent	-	35,029	-	35,029
Resource Development Contract	-	-	10,000	10,000
Software	-	17,978	-	17,978
Sponsorships	-	-	1,100	1,100
Telephone & Internet	-	5,036	-	5,036
Temporary Help	-	2,625	-	2,625
Travel	-	1,151	-	1,151
Unclaimed Funds Paid	2,629	-	-	2,629
Website Hosting	-	525	-	525
	<u>\$ 972,954</u>	<u>\$ 119,921</u>	<u>\$ 17,017</u>	<u>\$ 1,109,892</u>

See accompanying notes.

ARKANSAS ACCESS TO JUSTICE FOUNDATION, INC.

**STATEMENT OF CASH FLOWS -
MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2020**

Cash Flows from Operating Activities:

Change in Net Assets	\$ (216,676)
Adjustments to Reconcile change in Net Assets to Net Cash used in Operating Activities:	
Depreciation	1,490
Gain on Sale of Investments	(64,633)
Changes in Operating Assets and Liabilities:	
Credit Card Payable	<u>305</u>
Net Cash used in Operating Activities	(279,514)

Cash Flows from Investing Activities:

Proceeds from Sale of Investments	455,885
Purchase of Investments	<u>(501,322)</u>
Net Cash used in Investing Activities	<u>(45,437)</u>

Net Decrease in Cash and Cash Equivalents (324,951)

Cash and Cash Equivalents - Beginning of Year 1,446,591

Cash and Cash Equivalents - End of Year \$ 1,121,640

See accompanying notes.

ARKANSAS ACCESS TO JUSTICE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2020

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

Organization

Arkansas Access to Justice Foundation, Inc. (the “Foundation”) is a non-profit organization located in Little Rock, Arkansas and incorporated under the laws of the State of Arkansas. The Foundation’s mission is to receive interest income generated by deposits in trust accounts for the benefit of clients maintained by attorneys practicing in the State of Arkansas; conducting fundraising; and utilizing revenues received from interest income and fundraising to support programs (1) 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 the right to counsel; (2) that educate the public regarding the needs of Arkansans related to meaningful access to the civil justice system; (3) that provide student loans and scholarships for the education of lawyers; (4) that improve the administration of justice in the State of Arkansas; (5) 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; (6) carry out other purposes that may be approved from time to time by the Arkansas Supreme Court. The Foundation is the surviving organization of the merger between the Arkansas IOLTA Foundation and the Arkansas Access to Justice Foundation. Articles of Merger, which incorporated the Supreme Court’s Order and Agreement of Merger between these two organizations, were filed with the Arkansas Secretary of State on December 18, 2013. The merger became effective on January 1, 2014.

Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. That basis differs from generally accepted accounting principles in that revenues are recognized when received instead of when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

Basis of Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Without donor restrictions - Net assets that are not subject to donor-imposed restrictions.

With donor restrictions - Net assets that are restricted by a donor for use for a specific purpose or in a future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions on net assets are permanent in nature. These donor-imposed stipulations neither expire by passage of time nor can be fulfilled or otherwise removed by the Foundation. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

ARKANSAS ACCESS TO JUSTICE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2020

Recently Adopted Accounting Standards

In August of 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 eliminates, amends and adds disclosure requirements to the fair value measurements in Topic 820. ASU 2018-13 is effective for all reporting periods beginning after December 15, 2019. Implementation of ASU 2018-13 had no significant impact on note disclosures related to fair value measurements.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions used in preparing the accompanying financial statements are based on management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Areas of particular significance to the Foundation are those estimates related to the estimated fair value of investments and the allocation of functional expenses. Accordingly, actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents

For purposes of the statement of financial position and the statement of cash flows, the Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The following is the composition of the combined amounts appearing the financial statements at December 31, 2020:

Cash in Banks	\$ 756,775
Securities Firm Money Market Account	134,126
Certificates of Deposit	<u>230,739</u>
Total	<u>\$ 1,121,640</u>

Property and Equipment

The Foundation records property and equipment at cost and is depreciated over the useful life of each asset. Further, repairs and maintenance are charged to operations as incurred, while improvements that extend the estimated useful lives of assets in service are capitalized. Property and equipment are stated at cost or fair value at date of donation. The Foundation's equipment has a useful life of five to seven years.

It is the Organization's policy to capitalize all assets purchased greater than \$2,500 while expensing all assets purchased under \$2,500. Depreciation expense was \$1,490 for the year ended December 31, 2020.

Functional Allocation of Expenses

The cost of providing various programs and other expense have been summarized in the statement of functional expenses - modified cash basis. Costs that can be identified with the program or support service are charged directly to that category. Management and general expenses include those expenses that are not directly identifiable with any specific program or supporting service but provide for the overall support and direction of the Foundation.

ARKANSAS ACCESS TO JUSTICE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2020

Contributions Revenue

Unconditional contributions received are reported as increases in net assets without donor-imposed restrictions unless use of the related assets is limited by donor-imposed restrictions. When a restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are reported as revenues with donor restriction and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions.

Fundraising

The Foundation serves as the lead organizer of an annual statewide private fundraising “Campaign for Legal Aid,” which is operated in coordination with the Center for Arkansas Legal Services (CALs) and Legal Aid of Arkansas (LAA). Campaign activities include corporate solicitations, as well as individual solicitations conducted by email, mail and in person. The Foundation may occasionally hold special events as well. Unless otherwise restricted, funds raised through the Campaign for Legal Aid are distributed to CALs and LAA. Included on the statements of activities - modified cash basis were fundraising expenses of \$17,017.

Income Taxes

The Foundation is a not-for-profit Arkansas corporation, exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the “Code”) and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code.

The Foundation recognizes accrued interest and penalties associated with uncertain tax positions as part of its income tax provision, if any. The past three years of exempt organization returns, along with the current year return, are subject to potential examination by taxing authorities.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. As of the date of the audit report, the COVID-19 pandemic continues to persist domestically and globally. At the current time management is unable to predict how COVID-19 will affect the Foundation’s future financial performance due to the uncertainties surrounding the severity and duration of the pandemic.

Subsequent Events

The Foundation has evaluated all subsequent events for potential recognition and disclosure through July 15, 2021, the date these financial statements were available to be issued.

Note 2: Investments

Investments at December 31, 2020 are recorded at cost and consist of short-term investments at Stephens, Inc. in the amount of \$1,069,275 and other investments held at the Arkansas Community Foundation in the amount of \$152,453. At December 31, 2020, the combined cost for these investments was \$1,221,728.

ARKANSAS ACCESS TO JUSTICE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2020

Note 3: Concentration of Credit Risk

The Foundation maintains cash balances at several financial institutions located in Arkansas. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per customer. At various times during the year and as of December 31, 2020, the Foundation's deposits in the financial institutions exceeded FDIC insurance limits. At December 31, 2020, the Foundation's uninsured bank balances were approximately \$89,043. However, management does not believe the Foundation is subject to any unusual credit risk beyond the normal risk associated with commercial banking relationships.

Note 4: Related Party Transaction

The Foundation has a director who, through family, has an ownership interest in Stephens, Inc. where the Foundation has a brokerage account and investments.

Note 5: Liquidity and Availability

The Foundation's revenues from monthly Interest on Lawyer Trust Account (IOLTA) revenues have historically been sufficient to cover operating needs, even during the worst interest rate environment in the Foundation's history. Any revenues that exceed the Foundation's operating and liquidity needs are typically set aside for grant making for the following year. The following reflects the Foundation's financial assets as of December 31, 2020, reduced by amounts not available for general use within one year of the balance sheet date because of donor-imposed restrictions.

Cash and Cash Equivalents	\$ 1,121,640
Investments - Cost	1,069,275
Assets Held by Arkansas Community Foundation - Cost	152,453
Other Assets	<u>2,229</u>
Total Financial Assets	2,345,597
Less Unavailable for General Expenditures within One Year:	
Cash with Donor-Imposed Restrictions	(234,997)
Investments with Donor-Imposed Restrictions	(873,310)
Other Assets	<u>(35)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 1,237,255</u>

Note 6: Net Assets

Without Donor Restrictions

The Board has designated certain investments to be used only for the support of program activities. The value of the assets designated by the Board as of December 31, 2020 was \$296,606 and is included in net assets without donor restrictions in the accompanying financial statements.

ARKANSAS ACCESS TO JUSTICE FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2020

With Donor Restrictions

Net assets with donor restrictions consist of contributions received with donor-imposed restrictions limiting the use of contributed assets to a specific purpose. The contributions are transferred to without donor restriction net assets in the period the donor-stipulated purpose has been fulfilled. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors in the amount of \$683,572 during 2020. The following reflects the Foundation's net asset with donor restrictions that are available as of December 31, 2020:

Mark Nichols	\$ 1,275
Shafer Hope for Justice	1,000
Center for Arkansas Legal Services & Legal Aid of Arkansas	4,355
Orphan	228,400
Bank of America	<u>873,312</u>
Net Assets with Donor Restrictions	<u>\$ 1,108,342</u>

The Foundation began receiving funds in 2015, pursuant to a rule change adopted by the Arkansas Supreme Court in November, which provides for attorneys or firms with unclaimed or unidentifiable client trust account funds to remit those to the Foundation if they are unable to identify or locate the rightful owner. The provision permits attorneys who have remitted funds under the rule to seek a refund if, within two years of payment, the rightful owner of the funds is identified or located. Because the Foundation is required to maintain sufficient reserves to pay any such claims, the Foundation treats amounts received under the rule as restricted for two years from the date of receipt and releases those restrictions after that.

Also during 2015, the Foundation received a donation from Bank of America in the amount of \$416,608 under the terms of a multi-state settlement for the sole purpose of providing funds to legal aid organizations in the state of Arkansas for foreclosure prevention legal assistance and community redevelopment legal assistance. Two additional distributions totaling \$4,073,632 were received in 2016. As of December 31, 2019, a total of \$3,616,928 in grants to legal aid had been made out of these funds, with \$873,312 remaining.

Note 7: Lease Expense

The Organization signed an agreement to sublease office space on a monthly basis beginning February 1, 2017. Payments were \$2,334 beginning February 1, 2017 with a payment increase annually by two percent (2%) each year. The lease expires January 31, 2025. Lease expense was \$35,029 for the year ended December 31, 2020.

Future minimum payments required under the leases at December 31, 2020 are as follows:

2021	\$ 38,047
2022	38,633
2023	39,222
2024	39,810
2025	<u>3,322</u>
	<u>\$ 159,034</u>