

Updated May 23, 2019 Bylaws are in bold

**THIS POLICY OF THE AUDIT COMMITTEE** (“committee”) of the Board of Directors (“board”) of Green Valley Recreation, (“GVR”) has been duly approved and adopted by the board this \_\_\_\_ day of \_\_\_\_\_, 2019.

#### **Audit Committee Role**

**The committee shall occupy an oversight role of the financial structure, internal controls, etc. of GVR with access to the books and records and the activities of management and staff personnel.** The committee shall act on behalf of the board of directors and oversee all material aspects of GVR’s financial reporting, internal control and audit functions, except those specifically related to the responsibilities of the board or delegated by the board. The committee’s role includes a particular focus on the qualitative aspects of financial reporting and on organization processes for the management of business/financial risk and for compliance with significant applicable legal, ethical and regulatory requirements. The role also includes coordination with other board committees and maintenance of strong, positive working relationships with external and internal auditors, counsel and other committee advisors.

#### **Membership**

The chair will be appointed by the board president and confirmed by a vote of the board. **The chair shall be neither an officer of the board of directors nor a member of the Fiscal Affairs committee.**

The committee shall be appointed by the chair and consist of at least two, but not more than five, GVR members in good standing. While a nonprofit is not required to have a financial expert on their committee, it is recommended that at least one committee member has experience in finance, accounting or other comparable experience or background. It is further recommended that at least one committee member shall have:

- (1) the ability to read and understand fundamental nonprofit financial statements, including a statement of financial position, statement of activities and statement of changes in net assets, statement of cash flows and key performance indicators; and
- (2) the ability to understand key operational and financial risks and related controls and control processes. The committee will review with legal counsel any matters that may have a material impact on the financial statements, and shall have access to its own counsel and other advisors at the committee’s sole discretion.

No member of the committee shall receive payments from GVR or have any financial interest in any entity doing business with GVR and shall not be related to any individual who is an employee or receives payments or does business with GVR. However, members of the committee may be reimbursed for out-of-pocket expenses incurred while serving on the committee, in accordance with GVR’s written reimbursement policy.

#### **Meetings**

The committee shall meet a minimum of four times annually in private sessions with only the committee members. Additional meetings will be scheduled as necessary and may be held in person or by telephone at the discretion of the chair. The committee shall also meet in executive sessions separately with internal and external auditors, at least annually. A portion of every

meeting with the auditors will be held without any members of management present. The committee may request members of management, counsel, and internal and external auditors to participate in meetings to help carry out the committee's responsibilities. The committee shall maintain records of meetings and activities and shall report periodically as necessary, but at least semiannually, to the full board. Committee members will review written materials in sufficient depth to participate in committee discussion. A majority of the members of the committee shall constitute a quorum.

### **Responsibilities of the Audit committee**

**The financial records of GVR shall be audited following the close of each fiscal year by an independent auditing firm. The audit report will be presented to the membership annually at the annual GVR General Meeting.** The committee shall hire and terminate internal and external auditors and advisors, as well as approve services and fees paid to such resources.

### **The Audit**

The external auditors will be responsible to the board of directors through the audit committee as representatives of GVR. The audit will provide an analysis of significant financial reporting issues and practices and will report all relevant material to the committee and the board treasurer in response to agreed-upon expectations. The committee shall serve as the conduit between GVR and the auditing firm.

### **Before the Audit**

Should both an external and an internal audit be contracted, review with both auditors, their audit scopes and plans to ensure completeness of coverage, avoidance of redundant efforts and the effective use of audit resources.

- Communicate expectations and the nature, timing and extent of committee information needs to management and to the external auditors. ( Request for suggestions of changes in important accounting applications?)
- Review with the auditors the auditing firm's quality control policies and procedures and any material issues raised by the most recent internal quality control review of GVR.
- Negotiate the independent auditor's terms of engagement including compensation.
- Review any transactions or dealings with parties related to GVR that are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, or that are relevant to an understanding of GVR's financial statements.
- Review committee requests for any audit-related or permitted non-audit services to be performed by the external auditors, and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter.

### **During the Audit**

Maintain an open avenue of contact with the audit team, the chair of fiscal affairs, with senior management and other key committee advisors to strengthen knowledge of relevant current and prospective organization issues. Act as liaison to negotiate issues and disputes that may arise between GVR management and the independent auditor during an audit.

### **After the Audit**

The committee, board treasurer and the chair of fiscal affairs committee will participate in all discussions with the auditor. They will review, discuss and assess the audit and all accompanying documents and determine whether to accept the audited financial statements prepared and submitted by the audit firm.

- Review the key financial statement issues and risks, their impact or potential effect on reported financial information, the processes used by management to address such matters, related auditors' views and the basis for audit conclusions.
- Ask for items noted by the external auditors to discuss their judgments about the quality, not just

the acceptability, of accounting principles and financial disclosure practices used or proposed to be adopted by GVR. Review the results of the annual audits of directors' and officers' expense accounts and management perquisites prepared by the external or internal auditors.

- Discuss with the auditor critical accounting policies and practices used by GVR and alternative accounting treatments that have been discussed with management.
- Review any material financial or non-financial arrangements of GVR that do not appear on the financial statements of GVR and their related risks.
- Review with management and the independent auditor, the effect of regulatory and accounting initiatives as well as accounting principles and their alternatives that have a significant effect on GVR's financial statements. (Should this be before or after the audit?)
- Review the auditor's management letter and assess GVR's system of internal controls for detecting accounting and financial reporting errors, fraud and defalcations, legal and tax code violations, and noncompliance with GVR's code of conduct.
- Review other material written communications between the accounting firm including opinion qualifications or expectations.
- Review with the auditor, any significant difficulties or disputes with management encountered during the course of the audit.
- Review with management and the external auditors the results of the annual audit and related comments, including any significant changes in the audit plans, the rationale behind adoptions and changes in accounting principles, and accounting estimates requiring significant judgments.
- Review and report to the board the adequacy of managements response or lack of response to issues discovered by auditor and disputes that occurred or may arise.
- Review with management and the independent external auditor, their processes for assessment of material misstatements, identification of the notable risk areas, and their response to those risks.

### **The Report to the Board**

The board treasurer, audit committee and director members of fiscal affairs will form a task force authorized to access internal and external resources, as required, in carrying out its responsibilities. The task force will develop the format for board presentations. Prior to presenting a final audit report to the board, the task force will review GVR's audited financial statements, related footnotes and compliance with laws and regulations. The report will include any additions or changes in auditing or accounting principles suggested by the independent auditor or GVR's management and the auditor's qualitative judgment about the appropriateness, and not just the acceptability, of accounting principles, use of estimates, basis for determining the amounts of estimates, and financial disclosures. The written report to the board will include the important financial and operating topics that present potential significant risk to GVR:

Review the auditor's management letter and assess GVR's system of internal controls for detecting accounting and financial reporting errors, fraud and defalcations, legal and tax code violations, and noncompliance with GVR's code of conduct.

- Review the adequacy of internal financial controls in areas representing significant risk with GVR management and the audit firm.
- Key performance indicators and measures related to operational and financial risks, will also be incorporated. The findings and recommendations of the auditors, together with management's response to important financial and operating topics that present potential significant risk to GVR. Particular attention will be given to the internal control, compliance and management letters provided by the independent auditor.
- The response to expectations and information requests made to management and external auditors.
- Suggestions for changes in important accounting principles and their application in

interim and annual financial reports.

The taskforce and/or the committee are not responsible for preparing financial statements on behalf of GVR or performing the audits nor do its members certify GVR's financial statements. The committee is not involved in GVR's daily accounting functions. The committee shall perform such other functions as are required by law, the Articles of Incorporation, Bylaws, or by suggestion of best practices by AICPA and the National Nonprofit Council.

### **Whistleblower**

The committee shall establish written procedures regarding accounting, internal accounting controls and auditing matters whereby employees can confidentially and anonymously submit to the committee or to the board concerns or issues regarding GVR's accounting, compliance, or auditing matters. Monitoring procedures will be developed for the receipt, retention and treatment of complaints received by GVR and include procedures for the confidential, anonymous submission by GVR employees of concerns regarding questionable accounting or auditing matters.

### **Self-Assessment**

The committee shall review, discuss and assess its own performance as well as its role and responsibilities, seeking input from senior management and the full board. Changes in role and/or responsibilities, if any, shall be recommended to the full board for approval.

This policy of the Audit Committee will be reviewed and updated annually.

Note:

This contract is a compilation of two sample charters.

A sample nonprofit contract posted by the National Nonprofit Council

A sample charter posted by the AICPA (American Institute of Certified Public Accountants). AICPA develops and scores the Uniform Certified Public Accountants examination to qualify CPAs.

Definitions:

**Expectations Gap** is the difference between the perceptions of an audit by the public and the report that the audit profession provides. It is important to delineate between the board's expectations of an audit and the auditor's report. A comparison of the reasonable expectations of both the users of the financial statements and the audit profession can then be made. This should provide a more objective and stable analysis of the expectations gap.

**Management Letter** – Internal Controls. The auditors' written communication, a Management Letter, is intended to provide valuable information about internal controls,. In the audit of financial statements, auditors obtain an understanding of internal controls to assess the risk of material misstatement of the financial statements. Good internal controls allow errors and misstatements to be detected and corrected by the nonprofit's employees. If an unexpected material misstatement is detected, it may indicate that internal controls are not functioning properly. If there is a reasonable possibility for material misstatement of account balances or financial disclosures, internal controls are considered to be deficient.

**Auditor's Report** is an expert's view, issued by an auditor as a result of an internal or external audit, as an assurance service in order for the user to make decisions based on the results of the audit. The report is a written opinion regarding an entity's financial statements.

**Audited Statement** is the finalized report by an auditor after the examination of an entity's financial statements and accompanying disclosures. the examination of an entity's financial statements and accompanying disclosures by an independent auditor. After making adjustment, correction or rectification if needed., the result is this report by the auditor, attesting to the fairness of presentation of the financial statements and related disclosures. It's final and does not normally need further checking or verification

**Audit Compilation** (compile the numbers provided by GVR); **Review** (review the numbers provided by GVR) or **Audit** (audit of the numbers provided by GVR).

**Opinion** - The auditor's report contains either an expression of opinion on the financial statements, taken as a

whole or an assertion that an opinion cannot be expressed. **Qualified opinion** states that, except for the effects of the matter to which the qualification relates, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles. **Adverse opinion** states that the financial statements do not present fairly the financial position, results of operations, or cash flows of the entity in conformity with generally accepted accounting principles. **Disclaimer of opinion** states that the auditor does not express an opinion on the financial statements. **Accountant's Opinion** is a statement signed by an independent accountant outlining his or her opinion regarding the quality of information contained in a company's financial reports and records.