

Virginia Medical Group Management Association
Finance & Audit Committee Charter
(June 2020 / Reviewed & Revised Nov. 2021)

Purpose, Authority, and Duties:

The Finance & Audit Committee (“Finance Committee” or “Committee”), a Member Committee as defined in Virginia Medical Group Management Association’s (“VMGMA”) Bylaws, serves to assist VMGMA and its Board of Directors (the “Board”) in maintaining fiscal viability and strength. In so doing, it shall review and make recommendations to the Board on various issues related to the finances of VMGMA.

Mission

The primary mission of the Finance & Audit Committee is to oversee and protect the independence of the audit functions for VMGMA. The Finance & Audit Committee also aims to provide a means by which the Board can stay abreast of financial issues and developments and ensure that VMGMA operates in a financially appropriate manner.

Report and Accountability:

The Finance & Audit Committee shall provide reports to and shall advise the Board on financial and audit issues and developments, as may be appropriate from time to time. The Finance & Audit Committee may work with other committees from time to time.

Governance

The Committee is overseen and has delegated authority as an authorized Committee by the VMGMA Board.

The Finance & Audit Committee shall be comprised of the following members: including a minimum (i) Chair, (ii) Previous Chair, and (iii) third Board member and no more than 2 individuals who are Members of VMGMA and appointed by the Board, including the President. The Chair of the Finance & Audit Committee shall be the Treasurer. The vice-chair will be the former Treasurer. The Board may remove the Chair and/or Vice-Chair of the Finance & Audit Committee for cause, as reasonably determined by the Board. The Chair of the Finance & Audit Committee may remove any of the Finance & Audit Committee members for cause, as reasonably determined by the Chair.

Operating Responsibilities:

The responsibilities of the Finance & Audit Committee shall include, but are not limited to, the following:

- Serving as the principal liaison between the Committee and the full Board.

- Oversee and work one on one (cohesively) with the Executive Director.
- Recommending to the Board financing policies that maintain and improve the financial health and integrity of VMGMA.
- Reviewing and recommending a long-range financial plan for VMGMA.
- Oversee the development of an annual operating budget.
- Reviewing and recommending to the Board an annual operating budget and an annual capital budget that are designed to fulfill the mission and strategic vision of VMGMA.
- Reviewing and recommending to the Board large capital and unbudgeted expenditures that exceeds thresholds that are above management's spending authority.
- Reviewing the financial aspects of major proposed transactions, proposals for new programs and services and proposals to discontinue programs or services and making recommendations for action to the full Board.
- Monitoring the performance of VMGMA or business lines against approved budget and other financial targets. Oversee and monitor adherence to the budget.
- Taking advantage of education opportunities to stay up-to-date on important financial trends affecting VMGMA.
- Adopting key financial performance measures and reviewing actual performance versus targets, long-term trends and industry benchmarks.
- Maintaining direct responsibility for the appointment, compensation, retention, and oversight of the work of the independent auditors* (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the listed issuer.
- Create, approve, and update (as necessary) policies that help ensure the assets of the organization are protected. Ensure policies and procedures for financial transactions are documented in a manual, and the manual is reviewed annually, and updated as necessary. Ensure approved financial policies and procedures are being followed.

***Note:** The independent auditors must report directly to the Committee.

- Determining that the independent audit firm has a process in place to address the rotation of the lead audit partner and other audit partners serving the account as required under the SEC independence rules.

- Pre-approving all audit and non-audit services provided by the independent auditors.
- Discussing with management and the independent auditors the adequacy and effectiveness of internal control over financial reporting, including any significant deficiencies or material weakness identified by management.
- Recommending to the Board policies governing investments and pension plans; choosing and reviewing reports from independent investment and benefit plan advisers, reviewing performance annually and reporting to the Board.*
- Review the draft audit and 990 as presented by the auditor.
- Present the audit report to the full Board (if the auditor does not do this).
- Review the management recommendation letter (SAS112) from the auditor and ensure follow up on any issues mentioned.

*Note: These functions may be performed by an investment subcommittee.

Goals:

The goals of the Finance & Audit Committee shall include the following:

- Safeguarding VMGMA's assets;
- Ensuring that accurate and complete financial records are maintained;
- Ensuring that VMGMA pursues an appropriate investment strategy;
- Ensuring that the audit functions for VMGMA are performed in an appropriate manner;
- Assisting the Board in understanding financial issues;
- Ensuring compliance with federal, state and other requirements related to the finances of VMGMA.

Quorum

One more than fifty percent (50%) of the then current voting Members of the Committee, either in person or by electronic vote as deemed appropriate by the Board and legal counsel, shall constitute a quorum for the transaction of business at a meeting of the Educational Committee.

Meetings:

The Finance & Audit Committee shall meet from time to time as deemed necessary either in person or by electronic means to carry out its functions as described in the Bylaws and as more particularly described herein.

Attendance

In the absence of extenuating circumstances, a committee members' attendance will be considered unsatisfactory if the member misses one (1) or more meetings of the committee.

Voting

Each voting member of the committee shall have one (1) vote to adjudicate authoritative actions of the Committee, or to make formal recommendations for review and ratification by the VMGMA Board. All votes to take place during a committee call must be prior approved by the Executive Committee. Votes may be discussed in the next scheduled VMGMA Executive Board meeting or forward for electronic voting by the VMGMA Executive Board to approve such recommended actions.

If a vote takes place during a committee call that was not prior approved then the vote must be communicated to the Board. This would allow the Board to override the vote if they so deemed within one (1) business day of receipt of communication.

Minutes

The Committee shall keep minutes of its meetings and a full account of its transactions. The Executive Director shall be responsible for the recording of all minutes of every meeting of the Committee. However, in the event the Executive Director is not available, the Chair of the Committee may appoint an individual to take minutes of the meeting. In the absence of the Executive Director, the individual taking minutes shall ensure that the minutes are legible and will forward the minutes to the Executive Director for preparation and posting.

Procedure:

The Finance & Audit Committee shall follow all procedures followed by the Board in conducting its affairs, including but not limited to preparing written agendas and maintaining written minutes, and shall otherwise conduct itself as required by §13.1-869 of the Code of Virginia.

- End of Charter – Addendum to Follow -

Addendum

Explanation of Forms Mentioned in This Charter:

SAS 112 (which became effective for fiscal years ending on or after Dec. 15, 2006) provides new guidelines from the Auditing Standards Board (ASB) that are impacting the year-end audits of nonprofit organizations, requiring more extensive documentation and investigation by the auditor.

SAS 112, Communicating Internal Control Related Matters Identified in an Audit, establishes standards and provides guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit, and the design and performance of audit procedures. The standards are designed to create more effective audits as a result of better risk assessments and improved audit design and performance.

All nonprofits, include the VA-affiliated NPCS have become familiar with the new requirements under SAS 112, which defines certain internal control deficiencies and requires that they be communicated by the auditor to a nonprofit organization's management.

For example:

- SAS 112 requires auditors to evaluate the severity of all the internal control deficiencies they identify in an audit. Auditors must evaluate the likelihood and size of the potential misstatement to determine whether it is a "significant deficiency" or a "material weakness."
- Auditors must communicate in writing all significant deficiencies or material weaknesses they identify. This also includes any significant deficiencies or material weaknesses that auditors identified in prior audits that the organization has not yet corrected. These communications should be made to "management and those charged with governance" within 60 days of the report's release.

Definitions:

Control deficiency - This occurs "when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis."

Significant deficiency - This is a "control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more

than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control."

Material weakness - This is "a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control."

Current Status

All nonprofits must be aware of SAS 112's new requirements and the potential impacts, including the following:

- New deficiencies identified under the new, broader definitions of reportable matters.
- Noncompliance with donor restrictions or debt covenants.
- Loss of low-risk audit status for Single Audits.
- Need for additional staff to establish and/or monitor compliance with internal control, financial reporting and governance policies.

It must also be noted that the additional levels of detail and documentation required under these accounting standards may very well increase the complexity (and cost) of the NPC's year-end audit. These standards are requiring all NPCs to provide transparent financial documents and reporting regardless of size. The level of compliance is high. As noted, only five of 82 nonprofits had any material weaknesses for the 2007 audit.

Forms

IRS Form 990 is the tax document that federally tax-exempt organizations file each year with the IRS. This includes charitable nonprofits.

The IRS and the public can evaluate nonprofits and how they operate just by examining their 990s. The form collects information about the mission, programs, and finances of tax-exempt organizations. The 990 also gives each nonprofit an opportunity to report what it accomplished the prior year, thus making a case for keeping its tax-exempt status.

Due to recent revisions, Form 990 collects even more information such as disclosure of potential conflicts of interest, compensation of board members and staff, and other details having to do with financial accountability and avoidance of fraud.

Which Nonprofits Have to File a 990?

- All private foundations, regardless of income. They file Form 990-PF.
- Most tax-exempt organizations with gross receipts of \$200,000 or assets worth \$500,000
- Larger nonprofits that have gross receipts of more than \$50,000 may file Form 990 or 990-EZ.
- Small nonprofits with gross receipts of \$50,000 or less must file the 990-N (e-Postcard) to maintain their exempt status.

- Organizations that are tax-exempt under Sections 501(c), 527, or 4947(a) (1) of the U.S. tax code, and that don't fall into the exemptions listed below.

What Organizations Are Exempt from Filing Form 990?

- Churches and most faith-based organizations such as religious schools, missions or missionary organizations. The criteria for being classified as a church are listed in the Tax Guide for Churches and Religious Organizations (IRS Publication 1828).
- Subsidiaries of other nonprofits, where there may be a group return filed by the parent group.
- Nonprofits not in the system yet. If you are an incorporated nonprofit or an unincorporated nonprofit in your state but don't plan to apply to the IRS for exemption from federal income tax, you don't have to file a Form 990.

However, if your organization claims to be tax-exempt and intends to file with the IRS by the end of the 27th month from the date of your incorporation, you must file Form 990 (or 990-EZ or 990-N as appropriate) during the 27-month period, even though no application has been submitted to the IRS nor any determination yet received.

- State institutions. Some state institutions are exempt because they provide essential services (a university is an example).
- Government corporations.
- To make sure that you do or don't have to file a return, check the IRS list of exceptions. There are consequences if you don't submit when required.

When Do We File the 990?

You must file your 990, 990-EZ, 990-N, or 990-PF by the 15th day of the 5th month after your accounting period ends. So, if your fiscal year ends on December 31, the 990 is due on May 15 of the following year. Two ninety-day extensions are allowed, except for 990-N (postcard) filers