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Purpose:

The purpose of the Audit Committee of Sonoma Valley Healthcare District (District) is to assist the District Board in its general oversight of the District’s accounting and financial reporting processes, audit process, and system of internal controls, as well as the District’s process for monitoring compliance with laws and regulations. Subject to the ultimate authority of the District Board, the Audit Committee shall select, engage and oversee District’s outside auditor and approve and oversee all audit and non-audit services provided by the District’s outside auditor.

Membership

The Audit Committee shall be comprised of not less than two (2) members of the public, the Chair of the District Board, Treasure of the District Board, Chair of the Finance Committee, the Chief Executive Officer and Chief Financial Officer. The District Board Chair will serve as the Chair of the Audit Committee. No member of the Audit Committee shall be an “interested person” within the meaning of § 5227 of the California Nonprofit Public Benefit Corporation Law. The members of the Audit Committee shall also meet the following additional criteria of independence:

- (i) No member shall receive, directly or indirectly, any compensation from the Corporation, whether for consulting, advisory or other services or as a supplier of merchandise or other goods; and,
- (ii) No member shall have, directly or indirectly, a material financial interest in any entity doing business with the Corporation.

For purposes of the above criteria, “indirect” compensation shall include compensation paid to a member or a member’s spouse, minor child or stepchild, or a child or stepchild residing with a member or payments to any entity in which any such person is a partner, member, executive officer or managing director or in which such person holds a similar position. An “indirect” financial interest shall mean an interest held by a member or a member’s spouse, minor child or stepchild, or a child or stepchild residing with a member. Notwithstanding anything to the contrary set forth above, payments of fixed amounts of compensation under a retirement, deferred compensation or other similar plan for prior service shall not be prohibited as long as such payments are not contingent on continued service and are not for services rendered within the previous twelve (12) months.

A majority of the members of the Audit Committee shall have financial expertise, including an understanding of generally accepted accounting principles and financial statements, an understanding of internal controls and procedures for financial reporting, and an understanding



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of Audit Committee functions. Public Members of the Audit Committee shall be appointed by the District Board.

If an Audit Committee Chair is not designated or present, the members of the Audit Committee may designate a Chair by a majority vote of the Audit Committee members. If there is a vacancy on the Audit Committee for any reason, the District Board Chair shall nominate a replacement and such vacancy shall be filled by a majority vote of the members of the District Board, provided a quorum is present.

Policy:

Responsibilities

Subject to the ultimate authority of the District Board, the Audit Committee shall:

1. Be directly responsible for recommending the appointment, replacement and compensation, and for oversight, of the independent auditor. The independent auditor shall report directly to the Audit Committee.
2. Review and discuss with the independent auditor: (a) its audit plans and audit procedures, including the scope, fees and timing of the audit; (b) the results of the annual audit examination; and (c) the annual financial statements audited by the independent auditor.
3. Review the audit with management and determine whether to recommend the acceptance of the audit to the District Board.
4. Establish policies and procedures for the review and pre-approval by the Audit Committee of all auditing services and non-audit services (including the fees and terms thereof) to be performed by the independent auditor and assure that non-audit services performed by the auditor conform with the standards for auditor consistent with Generally Accepted Accounting Principles.
5. Review the District's internal audit function, including the review of periodic reports on the internal audit function prepared by internal staff or outside consultants at the District's request.



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6. Review the District's internal controls and review suggestions for improvements in such controls from management and the independent auditor.
7. Review with the independent auditor its judgment as to the quality, and not just the acceptability, of the District's accounting practices and internal controls, and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards.
8. Review with the independent auditor and management any changes or improvements in financial or accounting practices that are necessary or desirable, and the extent to which any changes or improvements previously approved by the Audit Committee have been implemented.
9. Review with the independent auditor any audit problems or difficulties and management's response.
10. Oversee the resolution of any disputes between management and the independent auditor if and when such disputes arise.
11. Establish procedures for the receipt of, and response to, complaints or concerns regarding accounting, internal controls or auditing matters, including confidential submissions from employees.
12. Exercise oversight of the District's process for monitoring compliance with legal and regulatory requirements, including receipt and review of regular reports from the Corporation's Compliance Officer as to compliance procedures and changes in applicable legal and regulatory requirements.
13. When appropriate, designate one or more of its members to perform certain of its duties on its behalf, subject to such reporting to or ratification by the Audit Committee as the Audit Committee shall direct.
14. Exercise oversight of the District's process for monitoring compliance with legal and regulatory requirements regarding protection of our patient's privacy and identity to include regular reports from the Corporation's Compliance Officer and Director of Information Technology.



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15. Perform such other duties and functions as are assigned, from time to time, to the Audit Committee by the District Board.

The Audit Committee shall annually review and reassess the adequacy of its charter and recommend any changes, if needed, to the District Board.

The Audit Committee shall have the authority to engage independent legal, accounting and other advisers as it determines necessary to carry out its duties. The Audit Committee shall have sole authority to approve related fees and retention terms.

Procedure:

Operations

The Audit Committee shall meet at such times and places as the Audit Committee shall determine, but no less than two (2) times annually. Meetings of the Audit Committee may be called by the Chair of the Committee, the Chair of the Board or the President/Chief Executive Officer (referred to herein as the "President") or Chief Financial Officer of the District. The Audit Committee shall be governed by the same rules regarding meetings (including attendance by telephone conference or similar communications equipment), action without meetings, notice, waiver of notice, and quorum and voting requirements as are applicable to the District Board. The Audit Committee shall be authorized to adopt its own rules or procedures not inconsistent with (i) any provision of this Charter, (ii) any provisions of the Bylaws of the District, and (iii) the laws of the State of California.

The Chair of the Audit Committee shall report regularly to the Board of Trustees on the actions taken by the committee.

Compensation

Members of the Audit Committee shall not receive financial compensation for their service on the Audit Committee.

Adopted by the District Board of Trustees on _____, 2012.