

CHAPTER SIXTEEN - Section 16.07

AUDIT COMMITTEE CHARTER

Date:	October 17, 1983
Amended:	December 12, 1984
Amended:	December 17, 1987
Amended:	January 24, 1991
Amended:	February 25, 1993
Amended:	September 25, 1997
Amended:	June 20, 2002
Amended:	June 17, 2004
Amended:	October 28, 2004

I. PURPOSE

The Audit Committee shall be an operating committee of the Lake Monticello Owners' Association Board of Directors. Its purposes shall be to recommend the appointment of the Association's independent auditor(s); serve as the primary interface between the Board and the independent auditor(s); recommend to the Board that specific internal audits be conducted; conduct those internal audits authorized by the Board; and respond to Board requests that specific elements of the accounting system be examined. The Committee shall not respond to individual requests that specific audit activity be undertaken. Such requests shall only be made through the Board President.

It is the policy of the Board of Directors to maintain complete and accurate disclosure of all financial and business actions of the LMOA. Management shall, therefore, provide documentation and information requested by the auditor and/or the Audit Committee with respect to audits being conducted. Management shall not refuse to provide information without written direction from the Board of Directors to withhold such information. The Audit Committee may conduct audits recommended in writing by the Audit Committee, following Board approval of the Audit Committee's intent.

II. COMMITTEE MEMBERSHIP AND STRUCTURE

- A. The Audit Committee shall be comprised of seven (7) members, appointed by the Board in accordance with PM 16.0 - Committees. Board members or employees of the Association may not serve on the Audit Committee. The General Manager and the Treasurer of the Association may assist the Committee at its request. At least one member of the Audit Committee shall have professional credentials in accounting. A CPA certificate, bachelor's degree in accounting, or equivalent experience in the field of accounting/auditing are deemed to be professional credentials in accounting, for the purpose of meeting this requirement.
- B. In order to properly interface with the schedule for the annual independent audit, the Committee shall hold an organizational meeting in August of each year. At that time, the Audit Committee shall elect a chairman who will be responsible to the LMOA Board of Directors for the operations of the Audit Committee.

III. DUTIES AND RESPONSIBILITIES

- A. The Audit Committee is established to serve as the primary interface between the independent auditor and the Board of Directors, for the purpose of assuring accuracy, fairness, and general acceptability of accounting records and statements as they relate to the financial and business interests of the LMOA.
- B. The Audit Committee shall nominate the independent auditor(s) after discussing their work with them and establishing that their credentials are both proper and sufficient to be recognized as adequate to fulfill the requirements of the Association. The LMOA Board shall consider the recommendation of an auditor as presented by the Committee.
- C. The Audit Committee shall meet with the auditor at least once each year, and more often if the Committee deems it necessary, to assess the overall accounting and internal control performance of the Association during the year. The Committee shall provide a written report to the Board of their findings.
- D. The Audit Committee may also respond to requests from the Board of Directors, supported by appropriate rationale, to examine segments of the accounting system.
- E. A Confidentiality Agreement shall be executed annually for each Audit Committee member, and maintained in the Association's files.

IV. AUDIT PROCESS

The Audit Committee should develop its own procedures in support of the following overall process:

- A. The Committee shall recommend to the Board that internal audits of segments of the accounting system be conducted. The committee's recommendations should outline the purpose, the scope and the time frame of the audit work to be completed. These recommendations shall be submitted annually to the Board president, who will approve the audit schedule and scope in consultation with the Board of Directors. The Board president may request additional audits and set forth the priority for the audit committee.
- B. Planning for the audit should incorporate a specific program that covers the areas to be examined, procedures to be followed, and documents and or records to be tested.
- C. Each Audit Report shall include sections describing the Purpose of the audit; a Summary of the Testing Procedures employed; Audit Findings; Recommendations; Management Response, if applicable; and appropriate Supporting Schedules.
- D. At the conclusion of the audit, the audit team shall review the Audit Report jointly with the affected department head(s) and the General Manager. Any disagreement by management regarding the audit findings and/or recommendations should be noted as part of the Management Response.
- E. Following the audit review, the Audit Committee shall approve the final report. The report shall then be submitted to the Board President, who shall submit the report to the Board and lead the Board through the resolution of any open issues.
- F. All Audit Committee findings shall be held in the strictest confidence by the Committee, until such time as the Board of Directors has had the opportunity to review the final report.

V. COMMITTEE MEETINGS

All meetings of the Audit Committee shall be in compliance with PM 16.0 - Committees, Section IV. - Committee Meetings, except that by adoption of this Committee Charter the Board of Directors authorizes the Committee to conduct closed meetings for the following purposes: to consult with legal counsel, when previously authorized by the Board of Directors; to discuss and consider ongoing audits, contracts, potential or pending litigation and matters involving violations of the declaration or rules and regulations adopted pursuant thereto for which a member, his family members, tenants, guests or other invitees are responsible; or discuss and consider the personal liability of members to the association. The preceding criteria addresses subjects that may be discussed in closed session; however, these criteria for closed session are not to be interpreted as expanding the authority or jurisdiction of the Committee beyond that specified under Section III, above. Attendance at a closed session shall be limited to the Audit Committee members and persons invited by the Committee to present information pertinent to the matter(s) before the Committee. The minutes of such closed session shall disclose all persons present.

All actions of, and conduct by, the Audit Committee shall be in strict compliance with PM 16.0 - Committees, unless specifically prescribed otherwise by adoption of this Charter by the LMOA Board of Directors.

Cross Reference:

PM 4.02 G, Financial Management Relationships With Auditors
PM 16.0, Committees