

## **AZTEC SHOPS, LTD. AUDIT COMMITTEE CHARTER**

### **I. Overall purpose/objectives**

The Audit Committee is appointed by the Board of Directors of Aztec Shops pursuant to California Government Code §12586(e)(2) to assist the Board in discharging its oversight responsibilities. The audit committee will oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information. The audit committee will also review:

- The independent audit process, including recommending the appointment and assessing the performance of the external auditor;
- Aztec Shops' process for monitoring compliance with laws and regulations affecting financial reporting and its code of conduct.

The committee shall maintain free and open communication and effective working relationships among the committee members, independent external auditors and management of Aztec Shops. To perform his or her role effectively, each committee member will need to develop and maintain his or her skills and knowledge, including an understanding of the committee's responsibilities and of Aztec Shops' activities, operations and risks.

The committee will take all appropriate actions to set the overall tone at Aztec Shops for quality financial reporting, sound risk practices and ethical behavior.

### **II. Authority**

The Board authorizes the audit committee, within the scope of its responsibilities, to:

- Recommend to the Board the retention and termination of the independent auditor.
- Negotiate the independent auditor's compensation, subject to the approval of the Board.
- Confer with the independent auditor to satisfy audit committee members that the financial affairs of Aztec Shops are in order.
- Review and determine whether to accept the audit.
- Assure that any non-audit services performed by the auditor firm conform to the standards of the Nonprofit Integrity Act of 2004, specifically Government Code §12586(e)(1), and approve the performance of such non-audit services. [*NOTE: The preceding bullets track the committee functions in Govt Code §12586(e)(2)*]
- Perform other activities within the scope of this charter.
- Consult independent counsel and other advisers, as it deems necessary to carry out its duties, at the expense of Aztec Shops.
- Have unrestricted access to members of management, and employees as well as to all books, records and facilities of Aztec Shops.
- Establish procedures for the receipt, retention and treatment of complaints received regarding accounting internal accounting controls or auditing matters.
- Review and recommend to the Board action on Aztec Shops' IRS Form 990.

In performing the functions above, the audit committee will be exercising its own authority, and not exercising powers of the Board itself, by delegation or otherwise. The intent of the foregoing is that the audit committee shall be empowered and authorized to fulfill its duties under the Non Profit Integrity Act of 2004, notwithstanding the membership on the audit committee of individuals who are not themselves directors of Aztec Shops. [NOTE: This language is to avoid issues with AB 1233, which precludes exercise of delegated board authority by committees with non-director members, by stating that the Audit Committee's power to accept the audit and approve non-audit functions do not constitute the delegated exercise of Board powers but rather the inherent powers of the audit committee itself. ]

### **III. Organization**

#### **Membership**

- Audit committee members shall be designated by a majority of the directors who are then serving as members of the Board. At least two members of the Audit Committee, including the chair, shall themselves be directors who are then serving as members of the Board.
- The audit committee will have at least three members and all members shall be independent. Members will be considered independent as long as they do not accept any consulting, advisory, or other compensatory fee from Aztec Shops and are not affiliated persons of Aztec Shops or management and do not have a material financial interest in any entity doing business with Aztec Shops.
- Composition of the audit committee cannot include staff.
- Each member should have skills and experience appropriate to the not-for-profit sector.
- A majority of committee members shall be “financially literate.” Financial literacy is defined as being able to read and understand fundamental financial statements.
- One member of the committee shall be a “financial expert” as it is defined by Sarbanes/Oxley: a financial expert is a person who has an understanding of generally accepted accounting principles and financial statements; the ability to assess the application of these principles in connection with accounting for estimates, accruals and reserves; an understanding of audit committee functions; experience preparing, auditing, analyzing or evaluating financial statements, or experience actively supervising persons engaged in such activities; and an understanding of internal controls and procedures for financial reporting. The person must have acquired these attributes through one or more of the following: education or experience actually doing these functions or similar ones; actively supervising someone who is performing these functions or similar ones; experience overseeing or assessing the performance of companies or public accountants who are preparing, auditing or evaluating financial statements; or other relevant experience.

#### **Meetings**

- A majority of the members of the committee will constitute a quorum for the transaction of business.
- As part of its responsibility to foster open communication, the committee shall provide sufficient opportunity for the independent external auditors to meet privately with the committee. The audit committee will meet with the independent external auditors at least

once annually without management present. The independent external auditors shall be invited to make presentations to the audit committee as appropriate.

- Meetings shall be held not less than two times a year and should correspond with Aztec Shops' financial reporting cycle.
- Special meetings may be convened as required.
- The chair of the audit committee shall develop, in consultation with management, the meeting agendas.
- The audit committee shall maintain written minutes of its meetings.
- The audit committee may invite others to its meetings, as it deems appropriate.
- Meetings of the audit committee are subject to the requirements of California Education Code Section 89920 *et seq.*

#### **IV. Roles and responsibilities**

With regards to each of the following key operational factors, the audit committee will:

##### **Financial reporting and disclosures**

- Review significant accounting and financial reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports.
- Oversee the financial reporting process implemented by management.
- Review management's process for ensuring the transparency of the financial statements and the completeness and clarity of the disclosures.
- Meet with management and the external auditors to review the financial statements, the key accounting policies, the reasonableness of significant judgments, and the results of the audit.
- Discuss with the independent external auditors the alternative treatments of financial information within generally accepted accounting principles as well as the ramifications of the use of such alternative treatments.
- Confirm with management and the independent external auditor that the annual financial statements disclose all material off-balance sheet transactions, arrangements, obligations, and other relationships of Aztec Shops with unconsolidated entities or with people that may have a material effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses.
- Ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practice are discussed with the external auditor. Resolve disagreements between management and the external auditor.
- Review IRS Form 990 prepared by the independent auditor and ensure a copy of the completed Form 990 is submitted to the Board of Directors prior to filing.

##### **Compliance with laws and regulations**

- Review the effectiveness of the system for monitoring compliance with laws and regulations including those of the California State University and the results of management's investigation and follow-up of any fraudulent acts or non-compliance.

- Obtain reports concerning financial fraud resulting in losses involving a member of senior management.
- Obtain regular updates from management regarding compliance matters that may have a material impact on Aztec Shops financial statements or its compliance policies.
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
- Review the findings of any examinations by regulatory agencies.

#### Independent external audit

- Have the independent external auditors report directly to the audit committee.
- Review the professional qualifications of the independent external auditor.
- Consider the independence of the auditor as well as potential conflicts of interest. Also assess the independence of the independent external auditor under Government Auditing Standards.
- Review on an annual basis the performance of the external auditors and make recommendations to the Board for their appointment, reappointment or termination.
- Negotiate the compensation for the external auditor, subject to Board approval. [NOTE: *Revised to conform to Govt Code §12586(e)(2).*]
- Review the proposed audit scope and approach for the current year in light of Aztec Shops present circumstances and changes in the regulatory environment.
- At the end of the audit review the required communications from the external independent auditors; discuss with the external auditor the quality and appropriateness of Aztec Shops accounting policies as well as the consistency of their application and degree of aggressiveness or conservatism in applying them; discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.
- Ensure that significant audit findings and recommendations made by the external auditors and management's proposed response are received, discussed and appropriately acted on.
- Meet with the external auditors to discuss any matters that the committee or auditors believe should be discussed. [NOTE: *Removed implication that closed meetings can be held if desired; Ed Code §89923 severely constrains grounds for closed meetings, and discussions with auditor do not make the list.*]

#### Complaints and ethics

- Ensure procedures for the receipt, retention and treatment of complaints about financial improprieties.
- Require appropriate disclosure of related party transactions, including an annual accounting.

#### Reporting responsibilities

- Regularly update the Board about committee activities and make appropriate recommendations.
- Ensure the Board is aware of matters that may significantly impact the financial condition or affairs of the business.