

The California Endowment

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

PURPOSE

The Audit Committee (“Committee”) is appointed by the Board of Directors (“Board”) to advise the Board on The Endowment’s internal audit, external audit and financial reporting processes operation, The Endowment’s Conflict of Interest Policy, and The Endowment’s Whistle Blower Protection Process.

AUTHORITY AND RESPONSIBILITIES

The Board grants the Committee authority and responsibility to:

1. Independent Auditor

1.1. Retain the Independent Auditor, approve the compensation of the Independent Auditor, and review and approve the discharge of the Independent Auditor;

1.1.1. Prohibit the engagement of an audit firm where the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Treasurer, Controller, or Chief Accounting Officer of The Endowment (or persons holding an equivalent position) was previously employed by the audit firm during the previous 12-month period;

1.1.2. Confirm and assure the independence of the Independent Auditor, including a review of management consulting services and fees for related services provided by the Independent Auditor;

1.1.3. Confirm that the Independent Auditor is in compliance with the rules pertaining to auditor professional conduct as established by the American Institute of Certified Public Accountants; and

1.1.4. Ensure rotation of the lead audit partner and reviewing partner at least every five years.

1.2. Consider, in consultation with the Independent Auditor, the audit scope and plan;

1.3. Consider and review with the Independent Auditor;

1.3.1. The adequacy of The Endowment’s internal controls including computerized information system controls and security;

1.3.2. Any related significant findings and recommendations of the Independent Auditor together with Management's responses thereto; and

1.3.3. The results of the Committee's review of The Endowment's compliance with its Conflicts of Interest Policies.

1.4. Approve in advance any provision of non-audit services by the Independent Auditor;

1.5. Provide an open avenue of communication between the Independent Auditor and the Board; and

1.6. Adopt a corporate policy prohibiting any Officer or Director from directly or indirectly taking any action to apply improper influence with regard to the Independent Auditor or any employee thereof.

2. Management and Independent Auditor

2.1. Meet with the Management and Independent Auditor in separate executive sessions to discuss any matters that the committee or these groups believe should be discussed privately with the Committee;

2.2. Review with Management and the Independent Auditor the 990-PF (the private foundation tax return) and 990-T before filing;

2.3. Inquire of Management and the Independent Auditor about significant risks or exposures and assess the steps Management has taken to minimize such risk to The Endowment;

2.4. Consider with Management and the Independent Auditor the rationale for employing audit firms other than the principal Independent Auditor;

2.5. Review with Management and the Independent Auditor at the completion of the annual examination and report to the Board:

2.5.1. The Endowment's annual financial statements and related footnotes;

2.5.2. The Independent Auditor's audit of the financial statements and their report thereon;

2.5.3. Any significant changes required in the Independent Auditor's audit plan;

2.5.4. Any serious difficulties or disputes with Management encountered during the course of the audit;

2.5.5. Other matters related to the conduct of the audit, which are to be communicated to the Committee under generally accepted auditing standards; and

2.5.6. Progress on issues disclosed in the Management Letters of previous years.

3. Internal Controls

3.1. Annually review with Management, and provide on-going oversight for, The Endowment's internal controls and their effectiveness to include as needed:

3.1.1. Review and advise on the appointment and replacement of the Internal Audit Service Provider, the adequacy and qualifications of the Internal Audit Service Provider and the responsibilities and budget of the internal audit function;

3.1.2. Review any significant reports or summaries thereof to Management prepared by Internal Audit Service Provider and the responses of Management; and

3.1.3. Periodically review with the Internal Audit Service Provider any significant difficulties, disagreements with Management, or scope restrictions encountered in the course of the internal audit function's work.

4. Oversight

4.1. Review policies and procedures with respect to Officers' expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the Independent Auditor or Internal Audit Service Provider;

4.2. Adopt an appropriate "Whistle Blower Protection Process;" complaints shall be forwarded to the Audit Committee Chair and reviewed by the Committee as appropriate;

4.3. Review any legal and regulatory matters that may have a material impact on the financial statements, related compliance policies, and programs and reports received from regulators; and

4.4. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The Committee shall be empowered to retain independent counsel, accountants, or others to assist it in the conduct of any investigation.

5. General Responsibilities

5.1. Report to the Board on Committee activities;

- 5.2. Conduct annually a performance evaluation of itself in relation to the requirements of this Charter and such other matters as the Committee may deem appropriate and present such performance evaluation to the Board;
- 5.3. Review annually the Committee Charter and recommend any changes to the Governance Committee; and
- 5.4. Recommend to the Board any other actions related to audit matters necessary for The Endowment to fulfill its mission.

COMPOSITION AND TERMS

Composition: The Committee consists of three or more members of the Board who are financially literate. The Committee members shall be recommended by the Board Chair and appointed by the Board. Committee members shall not have any material financial interest in any entity doing business with The Endowment. Investment and Finance Committee members shall constitute less than one-half of the membership of the Audit Committee. Staff of The Endowment, including the President or CEO and the Treasurer or CFO, may not be Audit Committee members. The Board Chair shall designate a member of the Committee to serve as Chair of the Committee. The Audit Committee Chair shall not be a member of the Investment and Finance Committee. At least one Audit Committee member must have accounting or financial management expertise. It is recommended that at least one Committee member will have served on the Committee the previous year.

Terms: Each Committee member serves a one-year term, renewable annually by action of the Board.

MEETINGS

The Audit Committee meets typically at least two times per year, with additional meetings held as needed to fulfill its responsibilities as described above. Meetings are convened by the Committee Chair. The Committee may ask Management or others to attend the meeting and provide pertinent information as necessary.

PROVENANCE AND LIMITATIONS

The Audit Committee is mandated by The Endowment's Bylaws (Article IV, Sections 15(a)). Unless expressly delegated by the full Board when allowed under applicable law and The Endowment's Articles of Incorporation and Bylaws, the Audit Committee shall not have the power or authority to act for the full Board. Meetings and actions of the Audit Committee are governed by provisions of the Bylaws concerning meetings and actions of the Board (Article IV, Section 4).