

# AVALON HOLDINGS CORPORATION

## AUDIT COMMITTEE CHARTER

### **I. PURPOSE**

The primary purpose of the Committee is to:

- A. Oversee the Company's financial reporting process and internal control system.
- B. Oversee the audit work of the Company's independent auditors.

### **II. COMPOSITION**

The Committee shall be comprised of three directors as determined by the Board, each of whom shall be independent directors, within the meaning of Section 10A(m) of the Securities Exchange Act of 1934, and free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise.

The members of the Committee shall be elected by the Board of Directors. Unless a Chairman is designated by the full Board, the members of the Committee may designate one of its members as its Chairman.

### **III. MEETINGS**

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Committee shall meet at least annually with management and the independent auditors in separate executive sessions to discuss any matters that the Committee or either of these groups believe should be discussed privately. In addition, the Committee shall meet with the independent auditors and management quarterly to review the Company's interim reports. The Committee may ask members of management or others to attend the meetings. The Committee is authorized to obtain all pertinent information from management.

### **IV. ENGAGEMENT OF INDEPENDENT AUDITORS**

The Committee shall appoint the independent auditors for the purpose of conducting any audit, review or attest service for the Company, subject to approval by the full Board. The Committee shall approve in advance any fees to be paid to the independent auditors. The Committee shall confirm the independence of the independent auditors. Any independent auditor engaged for such purpose shall report directly to the Committee. The Committee shall work with management and the independent auditor in resolving any disagreements between management and the independent auditors regarding financial reporting.

**V. ANNUAL AUDIT & THE REVIEW OF QUARTERLY AND ANNUAL FINANCIAL STATEMENTS**

- A. The Committee shall consider, in consultation with the independent auditors and the Company's Chief Financial Officer, the audit scope and procedural plans of the independent auditor.
- B. The Committee shall review the following with the independent auditors and management:
  - 1. The adequacy of the Company's internal controls, including computerized information system controls and security.
- C. Significant risks and exposures of the Company.
- D. The quality of the Company's accounting principles as applied in its financial reporting.
- E. The clarity of the Company's financial disclosures.
- F. The degree of aggressiveness or conservatism of the Company's accounting principles and underlying estimates.
- G. Any other significant decisions made by management in preparing the financial disclosures.
- H. Any significant findings and recommendations made by the independent auditors.
- I. After the annual audit is completed, the Committee shall review the following with management and the independent auditors:
  - 1. The Company's annual financial statements and related footnotes.
  - 2. The independent auditors' audit of and report on the financial statements.
  - 3. Any serious difficulties or disputes with management encountered during the course of the audit.
  - 4. Anything else about the audit procedures or findings that Generally Accepted Auditing Standards or Codification requires the independent auditors to discuss with the Committee.
- D. The Committee shall provide sufficient opportunity for the independent

auditors to meet with the Committee without members of management present. Among the items to be discussed in these meetings are the independent auditors' evaluation of the Company's financial and accounting, personnel, and the cooperation that the independent auditors received during the course of the annual audit.

- E. The Committee shall review with management:
  - 1. Any significant findings of the independent auditors during the year and management's responses to them.
  - 2. Any difficulties encountered by the independent auditors while conducting audits, including any restrictions on the scope of their work or access to required information.
- F. The Committee shall review the interim financial reports and annual filings containing the Company's financial statements, together with any press releases relating thereto, with the independent auditors and the Chief Financial Officer before they are released to the public or filed with the Securities & Exchange Commission.

## **VI. CERTAIN OTHER RESPONSIBILITIES & AUTHORITY**

- A. The Committee shall report Committee actions to the full Board and may make recommendations which it deems appropriate. The Committee shall keep minutes of its meetings and shall make such minutes available to the full Board for review.
- B. The Committee shall discuss with the Company's General Counsel (a) legal matters that may have a material impact on the Company's financial statements, (b) the Company's compliance policies, (c) any material reports or inquiries received from regulators or governmental agencies and (d) any reports of material violations of securities laws or breaches of fiduciary duty.
- C. The Committee has the power to conduct or authorize investigations into matters within the Committee's scope of responsibilities.
- D. The Committee is authorized to retain independent counsel and other advisors at the Company's expense, as it determines necessary to carry out its duties.
- E. The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company from Company personnel and third parties regarding accounting, internal accounting controls or

auditing matters, including procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

- F. The Committee shall review and approve all related party transactions between the Company that are described in SEC Regulation S-K, Item 404 and any other significant related party transactions, as defined by generally accepted accounting principles or Codification.
- G. The Company shall review and make recommendations regarding the Committee's charter annually.

Notwithstanding that the Committee has the duties and responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with Codification or generally accepted accounting principles. Management is responsible for preparing the Company's financial statements and the independent auditors are responsible for auditing those financial statements.