

**DIVERSICARE HEALTHCARE SERVICES, INC.**  
**AUDIT & COMPLIANCE COMMITTEE CHARTER**

**I. Purpose**

The purpose of the Audit & Compliance Committee is to assist the Board of Directors of Diversicare Healthcare Services, Inc. (the “Company”) in its oversight of the Company’s accounting and financial reporting processes, the audit of the Company’s financial statements, and the Company’s compliance with applicable regulations and internal policies and procedures.

Although the Audit & Compliance Committee has the powers and responsibilities set forth in this Charter, the role of the Committee is oversight. The members of the Committee are not full-time employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting, auditing, or compliance and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Committee to conduct audits or to determine that the Company’s financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations or audit the Company’s compliance with applicable regulations and internal policies and procedures. These are the responsibilities of management and the independent auditors.

**II. Organization**

The Audit & Compliance Committee shall be comprised of three or more directors as determined by the Board of Directors, each of whom shall satisfy the independence, financial literacy and experience requirements of Section 10A of the Securities Exchange Act of 1934, NASDAQ and any other regulatory requirements. No member of the Committee can have participated in the preparation of the Company’s or any of its subsidiaries’ financial statements at any time during the past three years.

Each member of the Committee must be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement and cash flow statement. At least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting or other comparable experience or background that leads to financial sophistication. At least one member of the Committee must be an “audit committee financial expert” as defined in Item 407(d)(5)(ii) of Regulation S-K. A person who satisfies this definition of audit committee financial expert will also be presumed to have financial sophistication.

Committee members shall be elected by the Board at the annual organizational meeting of the Board of Directors and members shall serve until their successors shall be duly elected and qualified. The Committee’s chairperson shall be designated by the full Board or, if it does not do so, the Committee members shall elect a chairperson by vote of a majority of the full Committee. The Audit & Compliance Committee shall report regularly to the Board regarding its actions and make recommendations to the Board as appropriate. The Committee shall conduct and present to the Board an annual performance evaluation of the Committee.

The Committee may form and delegate authority to subcommittees when appropriate.

### **III. Meetings**

The Audit & Compliance Committee shall meet four times per year on a quarterly basis, or more frequently as circumstances require. The Committee shall require members of management, the corporate audit department, the independent auditors, the Chief Compliance Officer and others to attend meetings and to provide pertinent information, as necessary. As part of its job to foster open communications, the Committee shall meet in separate executive sessions at least annually with management, the Chief Compliance Officer and the Company's independent auditors to discuss any matters that the Committee (or any of these groups) believes should be discussed privately.

### **IV. Responsibilities and Duties**

In recognition of the fact that the Company's independent auditors are ultimately accountable to the Audit & Compliance Committee, the Committee shall have the sole authority and responsibility to select, evaluate, and, where appropriate, replace the independent auditors or nominate the independent auditors for shareholder approval. The Committee shall approve all audit engagement fees and terms and all non-audit engagements with the independent auditors. The Committee shall consult with management but shall not delegate these responsibilities.

To fulfill its responsibilities and duties, the Audit & Compliance Committee shall:

*With respect to the independent auditors:*

1. Be directly responsible for the appointment, compensation and oversight of the work of the independent auditors (including resolution of disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing its audit report or related work.
2. Have the sole authority to review in advance, and grant any appropriate preapprovals of, (i) all auditing services to be provided by the independent auditors, (ii) all non-audit services to be provided by the independent auditors as permitted by Section 10A of the Securities Exchange Act of 1934, and (iii) in connection therewith to approve all fees and other terms of engagement. The Committee shall also review and approve disclosures required to be included in Securities and Exchange Commission periodic reports filed under Section 13(a) of the Securities Exchange Act of 1934 with respect to non-audit services.
3. Review the performance of the Company's independent auditors on at least an annual basis.
4. On an annual basis, review and discuss with the independent auditors all relationships the independent auditors have with the Company in order to evaluate the independent auditors' continued independence. The Committee: (i) shall ensure that the independent auditors submit to the Committee on an annual basis a written statement (consistent with Independent Standards Board Standards No. 1) delineating all relationships and services that may impact the objectivity and independence of the independent auditors; (ii) shall discuss with the independent

auditors any disclosed relationship or services that may impact the objectivity and independence of the independent auditors; and (iii) shall satisfy itself as to the independent auditors' independence.

5. At least annually, obtain and review an annual report from the independent auditors describing (i) the independent auditors' internal quality control procedures and (ii) any material issues raised by the most recent internal quality control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues.

6. Confirm that the lead audit partner, or the lead audit partner responsible for reviewing the audit, for the Company's independent auditors has not performed audit services for the Company for each of the five previous fiscal years.

7. Review all reports required to be submitted by the independent auditors to the Committee under Section 10A of the Securities Exchange Act of 1934.

8. Review, based upon the recommendation of the independent auditors and management, the scope and plan of the work to be done by the independent auditors for each fiscal year.

*With respect to financial statements:*

1. Review and discuss with management and the independent auditors the Company's quarterly financial statements (including disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the independent auditors' review of the quarterly financial statements) prior to submission to shareholders, any governmental body, any stock exchange or the public.

2. Review and discuss with management and the independent auditors the Company's annual audited financial statements (including disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations").

3. Discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, relating to the conduct of the audit.

4. Recommend to the Board of Directors, if appropriate, that the Company's annual audited financial statements be included in the Company's annual report on Form 10-K for filing with the Securities and Exchange Commission.

5. Prepare and review the report required by the Securities and Exchange Commission to be included in the Company's annual proxy statement and any other Committee reports required by applicable securities laws or stock exchange listing requirements or rules.

*Periodic and Annual Reviews:*

1. Periodically review separately with each of management and the independent auditors (i) any significant disagreement between management and the independent auditors in connection with the preparation of the financial statements, (ii) any difficulties encountered during the course of the audit (including any restrictions on the scope of work or access to required information), and (iii) management's response to each.

2. Periodically discuss with the independent auditors, without management being present, (i) their judgments about the quality, appropriateness, and acceptability of the Company's accounting principles and financial disclosure practices, as applied in its financial reporting, and (ii) the completeness and accuracy of the Company's financial statements.

3. Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the independent auditors or management. Review with the independent auditors and management, at appropriate intervals, the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.

4. Review with management, the independent auditors and the Company's counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including significant changes in accounting standards or rules as promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission or other regulatory authorities with relevant jurisdiction.

5. Obtain and review an annual report from management relating to the accounting principles used in preparation of the Company's financial statements (including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof).

*Discussions with Management:*

1. Review and discuss with management the Company's earnings press releases (including the use of "pro forma" or "adjusted" non-GAAP information) as well as financial information and earnings guidance provided to analysts and rating agencies.

2. Review and discuss with management all material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses.

3. Inquire about the application of the Company's accounting policies and its consistency from period to period, and the compatibility of these accounting policies with generally accepted accounting principles, and (where appropriate) the Company's provisions for future occurrences which may have a material impact on the financial statements of the Company.

4. Review and discuss with management (i) the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures (including management's risk assessment and risk management policies), and (ii) the program that management has established to monitor compliance with its code of business ethics and conduct for directors, officers and employees.

5. Review and discuss with management all disclosures made by the Company concerning any material changes in the financial condition or operations of the Company.

6. Obtain explanations from management for unusual variances in the Company's annual financial statements from year to year, and review annually the independent auditors' letter of the recommendations to management and management's response.

*With respect to the internal audit function and internal controls:*

1. Review, based upon the recommendation of the independent auditors and management, the scope, plan and personnel of the work to be done by the corporate audit department.

2. In consultation with the independent auditors and management, (i) review the adequacy of the Company's internal control structure and system, and the procedures designed to ensure compliance with laws and regulations, and (ii) discuss the responsibilities, budget and staffing needs of the corporate audit department.

3. Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

4. Review and discuss with management (i) the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures (including management's risk assessment and risk management policies), and (ii) the program that management has established to monitor compliance with its code of business ethics and conduct for directors, officers and employees.

*With respect to the Chief Compliance Officer and compliance program:*

1. Review and oversight of matters related to compliance with Federal health care program requirements and the obligations of the Corporate Integrity Agreement ("CIA").

2. Review and oversight of Diversicare's compliance program, including but not limited to the periodic reporting to the Committee by the Chief Compliance Officer, results of the compliance program, and performance of the Compliance Officer and the Corporate Compliance Committee.

3. Submitting to the Office of Inspector General ("OIG") a description of the documents and other materials it reviewed, as well as any additional steps taken, such as the

engagement of an independent advisor or other third-party resources, in its oversight of the compliance program.

4. For each Reporting Period of the CIA, the Committee shall provide information to the full Board regarding the Committee's compliance oversight sufficient to enable each member of the Board, in conjunction with reports by management, to vote in favor of a resolution certifying that the Company has implemented an effective compliance program to meet Federal health care program requirements and the obligations of the CIA.

5. For the first and third Reporting Periods of the CIA, the Committee, in conjunction with the Chief Compliance Officer, shall engage and retain an individual or entity with expertise in compliance with Federal health care program requirements (Compliance Expert) to perform a review of the effectiveness of Diversicare's Compliance Program (Compliance Program Review). The Compliance Expert shall create a work plan for the Compliance Program Review and prepare a written report about the Compliance Program Review. The written report (Compliance Program Review Report) shall include a description of the Compliance Program Review and any recommendations with respect to Diversicare's compliance program.

6. Review the Compliance Program Review Report as part of its review and oversight of Diversicare's compliance program. A copy of the Compliance Program Review report shall be provided to OIG in the Annual Report, for years one and three, submitted by Diversicare. In addition, copies of any materials provided to the Committee by the Compliance Expert, along with minutes of any meetings between the Compliance Expert and the Committee, shall be made available to OIG upon request.

7. Review the reports and findings from each of the annual reviews conducted by the Independent Review Organization ("IRO") and incorporate the review of those results into its oversight responsibilities related to the effectiveness of the compliance program.

*Other:*

1. Review and approve all related-party transactions.
2. Review and approve (i) any change or waiver in the Company's code of business conduct and ethics for directors or executive officers, and (ii) any disclosure made on Form 8-K regarding such change or waiver.
3. Establish the policy for the Company's hiring of employees or former employees of the independent auditors who were engaged on the Company's account.
4. Review any management decision to seek a second opinion from independent auditors other than the Company's regular independent auditors with respect to any significant accounting issue.
5. Review and reassess the adequacy of this Charter annually and recommend to the Board any changes the Committee deems appropriate.

6. The Committee shall conduct an annual performance evaluation. 7. Perform any other activities consistent with this Charter, the Company's By-laws and governing law as the Committee or the Board deems necessary or appropriate.

## **V. Resources**

The Audit & Compliance Committee shall have the authority to retain independent legal, accounting and other consultants to advise the Committee. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall determine the amount of and the Company shall provide the funding necessary for payment of compensation to the independent auditors for purpose of rendering or issuing the annual audit report and to any independent legal, accounting and other consultants retained to advise the Committee.

This Charter will be made available on the Company's website at "www.dvcr.com."