

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION AUDIT COMMITTEE CHARTER

I. Overall purpose/objectives

The Audit Committee is appointed by the Board of Directors of San Diego State University Research Foundation to assist the Board in discharging its oversight responsibilities. The Audit Committee oversees the financial reporting process to ensure the balance, transparency and integrity of published financial information.

The primary purpose of the Audit Committee (“Committee”) shall be to act on behalf of the SDSU Research Foundation (“SDSURF”) in fulfilling its oversight responsibilities with respect to the adequacy of SDSURF’s internal controls, accounting, financial reporting practices and audits of financial statements, the quality, integrity, and reliability of the financial statements and financial reports, as well as the performance of the independent outside auditors (“auditors”). The Committee will also take all appropriate actions to set the overall tone at SDSURF for quality financial reporting, sound risk practices and ethical behavior.

The Committee, in discharging these obligations, shall maintain and foster an open avenue of communication between the Committee, Board Members, and SDSURF Senior Management. Additionally, the Committee shall maintain free and open communication and effective working relationships among the Committee members, independent external auditors and management of SDSURF. To perform his or her role effectively, each Committee member must develop and maintain his or her skills and knowledge, including an understanding of the Committee’s responsibilities and of SDSURF’s activities, operations and risks.

II. Authority

The Board authorizes the Audit Committee, within the scope of its responsibilities, to:

- Perform activities within the scope of its charter.
- Consult independent counsel and other advisers, as it deems necessary to carry out its duties; SDSURF will fund such costs.
- Have unrestricted access to members of management, faculty and employees as well as to all books, records and facilities of SDSURF.
- Be directly responsible for the appointment, compensation, retention and oversight of the external auditor to be ratified by the Board of Directors.
- Preapprove all non-audit services provided by the independent auditors before the services are provided.

The Committee shall have authority to retain, at SDSURF’s expense, special legal, accounting or other advisers or consultants as it deems necessary or appropriate in the performance of its duties. The Committee shall have the authority to require that any of the personnel, counsel, auditors, or any other consultant or adviser to SDSURF attend any meeting of the Committee or

meet with any member of the Committee or any of its special legal, accounting, or other advisers and consultants.

The Committee's responsibilities are limited to oversight. Management is responsible for SDSURF's financial statements, including the estimates and judgements on which they are based, as well as the financial reporting process, accounting policies, internal controls, disclosure controls, and procedures. The independent auditor is responsible for performing an audit of the annual financial statements and expressing an opinion as to the conformity of the annual financial statements with generally accepted accounting principles and applicable laws, rules and regulations.

III. Membership

- The Board designates Audit Committee members and selects the Chair of the Audit Committee from its members.
- The Audit Committee is comprised of at least three independent members. Members are considered independent as long as they do not accept any consulting, advisory, or other compensatory fee from SDSURF on its own account (as distinct from governmental or other third-party sponsored research funds) and are not otherwise affiliated persons of SDSURF or management.
- Composition of the Audit Committee cannot include staff, and cannot have more than a 50% overlap with SDSU Research Foundation's Finance and Investment Committee membership.
- 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 defined by Sarbanes-Oxley Act: *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.*

IV. Meetings

- A majority of the members of the Committee constitutes 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 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 SDSU Research Foundation's financial reporting cycle.
- Special meetings may be convened as required.
- The CFO or designee of SDSURF will prepare a draft agenda for each meeting and provide to the Chair; the Chair of the Audit Committee shall finalize the meeting agendas, in consultation with management.
- 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.*

V. Roles and responsibilities

In carrying out its responsibilities, the Committee will:

Basic Functions

- Adopt a written Audit Committee Charter that is approved by the Board and annually reassess that charter and propose necessary changes to the Board for its approval.
- Evaluate the performance of, and recommend to the Board, the selection, compensation, retention, or termination, of the independent auditors.
- Meet with SDSURF financial management and the independent auditors to review the proposed scope of the current year audit and the audit procedures to be utilized. At the conclusion of the audit, the Committee will review the audit results and any comments or recommendations made by the independent auditors.
- Obtain from and discuss with the auditors, reports prepared by the auditors regarding:
 - All accounting policies and practices that the auditors identify as critical;
 - All alternative treatments within generally accepted accounting principles for policies and practices that have been discussed among management and the auditors and the ramifications of such alternative disclosures and treatments, and the treatment preferred by the auditors;
 - All other material written communications between the auditors and management;
 - Any changes in the accounting policies and practices of SDSURF or any changes (or initiatives or proposals to change) of any accounting or financial reporting rules that could reasonably be expected to have a material impact on the financial statements.
- The Chair of the Committee, or such other member designated by the Committee, shall report to the Board on a regular basis regarding the Committee's actions and fulfillment of the Committee's responsibilities under this charter.
- Evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal controls.

Financial Reporting

- Prior to issuance, review of the published annual financial statements with management and the independent auditors, in order to determine that the disclosures in and content of the financial statement are appropriate. The Committee shall also review and approve any changes in accounting principles.
- Meet privately with the independent auditors in order to discuss their evaluation of the finance personnel and to comment upon any sensitive matters, which may have been disclosed during the course of their audit.
- Review any related-party transactions, other than those transactions with SDSU and its auxiliaries in the normal course of business, or potential conflict-of-interest situations disclosed to the Committee, which are within the scope of its responsibilities. Report the results of such review, with appropriate recommendations, to the Board.
- The Committee will discuss with the Chief Financial Officer and/or Executive Director any legal compliance matters brought to the Committee's attention that could reasonably be expected to have a material impact on the financial statements.
- Discuss with management and independent auditors significant risks facing SDSURF, financial or other, assess steps management has taken or proposes to take to minimize such risks, and review compliance with such steps.

Internal Control

The Committee will review, at least annually, or as otherwise might be required, with the Executive Director, CFO, and independent auditors, the following:

- The adequacy and effectiveness of the internal control system, including information technology security and control and the staffing of the finance function.
- The scope of independent auditors' reviews of internal control, and reports on significant findings and recommendations, together with management's responses.
- All significant deficiencies in the design or operation of internal controls identified by the independent auditors which could adversely affect the ability to (1) record, process, summarize, and report financial data, including any material weaknesses in internal controls, (2) achieve compliance with applicable laws and regulations, and (3) conduct operations effectively and efficiently.
- Any fraud, whether or not material, that involves management or other employees who have a role in the system of internal controls.
- Any significant changes in internal controls or in other factors that could significantly affect internal controls.

Compliance with laws and regulations

- Obtain reports concerning financial fraud resulting in losses involving any member of senior management.
- Obtain regular updates from management regarding compliance matters that may have a material impact on SDSURF's financial statements or its compliance policies.

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.
- 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.
- Be responsible for setting the compensation for the external auditor.
- Review the proposed audit scope and approach for the current year in light of SDSURF's present circumstances and any relevant changes in the regulatory environment.
- At the end of the audit, review any relevant required communications from the external independent auditors; discuss with external auditor the quality and appropriateness of SDSURF's 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 separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

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.