

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 will oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information. The Audit Committee will also review:

- The effectiveness of SDSU Research Foundation's internal financial control and risk management system;
- The independent audit process, including recommending the appointment and assessing the performance of the external auditor;
- SDSU Research Foundation's 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 SDSU Research Foundation. 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 SDSU Research Foundation's activities, operations and risks. The Committee will take all appropriate actions to set the overall tone at SDSU Research Foundation 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:

- Perform activities within the scope of its charter.
- Consult independent counsel and other advisers, as it deems necessary to carry out its duties and SDSU Research Foundation will fund such costs.
- Have unrestricted access to members of management, faculty and employees as well as to all books, records and facilities of SDSU Research Foundation.
- Establish procedures for the receipt, retention and treatment of complaints received regarding accounting internal accounting controls or auditing matters.
- Be directly responsible for the appointment, compensation, retention and oversight of the external auditor to be ratified by the Board of Directors.

- Review and approve the policies for the provision of non-audit services by the external auditors.

III. Organization Membership

- The Board designates Audit Committee members and selects the chairman of the Audit Committee from its members.
- The Audit Committee will comprise 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 SDSU Research Foundation and are not affiliated persons of the SDSU Research Foundation or management.
- Composition of the Audit Committee cannot include staff, and cannot have more than a 50% overlap with SDSU Research Foundation's Investment Committee.
- 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: 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 SDSU Research Foundation's 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:

Internal controls

- Evaluate whether management is setting the appropriate "control culture" by communicating the importance of internal controls.
- Understand the internal control systems implemented by management for the approval of transactions and the recording and processing of financial data.
- Understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.
- Evaluate the overall effectiveness of the internal control framework and consider whether management has implemented recommendations made by the external auditors.
- Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing information in the event of a systems breakdown or to protect against computer fraud or misuse.

Risk management

- Evaluate the overall effectiveness of the risk management framework.

- Evaluate whether management is setting the appropriate tone at the top by communicating the importance of the management of risk.
- Inquire of management and the external auditors about significant risks or exposures to SDSU Research Foundation and how these are being managed.

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 the annual financial statements and the audit report on federal awards that is required under Office of Management and Budget (OMB) Circular A-133.
- 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 SDSU Research Foundation 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.

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 SDSU Research Foundation's 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.
- Be responsible for setting the compensation for the external auditor.
- Review the proposed audit scope and approach for the current year in light of SDSU Research Foundation's 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 SDSU Research Foundation'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.

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.