

University Corporation for Atmospheric Research
Charter
AUDIT AND FINANCE COMMITTEE
Standing Committee of the UCAR Board of Trustees

PURPOSE

The Audit and Finance Committee (Committee) is established by and amongst the UCAR Board of Trustees (Board) for the primary purpose of assisting the Board in its oversight responsibilities for:

- the integrity of UCAR's financial statements,
- UCAR's compliance with legal and regulatory requirements,
- UCAR's compliance with its ethics policy,
- the performance of UCAR's internal audit function
- the independent auditor's qualifications and independence,
- the performance of UCAR's investments, and
- the incurrence of debt financing and related policies.

Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, UCAR's policies, procedures and practices at all levels. The Committee should also provide an open avenue of communication among the independent auditors, internal audit, financial and senior management, and the Board of Trustees.

The Committee has the authority to seek any information it requires from employees--all of whom are directed to cooperate with the Committee's requests--or external parties.

The Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as deemed appropriate to perform its duties and responsibilities.

UCAR shall provide appropriate funding, as determined by the Committee, for compensation to the independent auditor and to any advisors that the Committee chooses to engage.

The Committee will primarily fulfill its responsibilities by carrying out the activities enumerated in the Responsibilities and Duties section of the Charter. The Committee will report regularly to the Board of Trustees regarding the execution of its duties and responsibilities.

COMPOSITION

The Committee shall be comprised of 4-8 members as determined by the Board, each of whom shall be independent members, 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. The Treasurer of the Board serves as the Chair of the Committee. All members of the Committee shall have a working familiarity with basic finance and accounting practices. The Board shall determine whether at least one member of the Committee qualifies as a financial expert.

MEETINGS

The Committee shall meet at least three times annually, or more frequently as circumstances dictate. The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. One of these three meetings will be dedicated to discussing the annual audited financial statements. Each regularly scheduled meeting shall conclude with an executive session of the Committee, at the Committee's discretion, absent members of management and on such terms and conditions as the Committee may elect.

As part of its job to foster open communication, the Committee should meet periodically with management and the independent auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties the Committee shall:

Documents/Reports/Accounting Information Review

- Review this Charter periodically, at least biennially, and recommend any necessary amendments to the Board.
- Review and discuss UCAR's annual financial statements including any management letter issued by the independent auditors with management and the independent auditor.
- Make a recommendation to the Board regarding the acceptance of UCAR's annual financial statements.

Independent Auditor

- Appoint, compensate, and oversee the work performed by the independent auditor for the purpose of preparing or issuing an audit report or related work. Review the performance of the independent auditor and remove the independent auditor if circumstances warrant. The independent auditor shall report directly to the Committee and the Committee shall oversee the resolution of disagreements between management and the independent auditor in the event that they arise.
- Inquire of the independent auditor whether there have been any disagreements with management that, if not satisfactorily resolved, would have caused the independent auditor to issue a nonstandard report on the organization's financial statements.

- Elicit the comments of management regarding the responsiveness of the independent auditor to the organization's needs.
- Discuss with the independent auditors the quality of the organization's financial and accounting process and any recommendations that the independent auditor may have. Topics to be considered during this discussion include improving internal financial controls, controls over compliance with rules and regulations, the selection of accounting principles, and management reporting systems. Consider whether the auditor's performance of permissible non-audit services is compatible with the auditor's independence.
- Consider the rotation of the lead audit partner (every five years), and whether there should be regular rotation of the audit firm itself.
- Hold timely discussions with the independent auditor regarding the following:
 1. all critical accounting policies and practices;
 2. the cooperation received by the independent auditor during its audit, including its access to all requested records, data and information.
 3. all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
 4. other material written communications between the independent auditor and management including, but not limited to, the management letter and schedule of unadjusted differences.
- At least annually, obtain and review a report by the independent auditor describing:
 1. the firm's internal quality control procedures;
 2. any material issues raised by the most recent internal quality-control review or peer review, or by any inquiry or investigation by governmental or professional authorities, with the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and
 3. (to assess the auditor's independence) all relationships between the independent auditor and UCAR.

Such reports should be used to evaluate the independent auditor's qualifications, performance, and independence. Further, the Committee shall review the experience and qualifications of the lead partner and other senior members of the independent audit team. In addition, the Committee should:

- Actively engage in dialog with the auditor with respect to any disclosed relationships or services that may impact the independence and objectivity of the auditor.
- Review and pre-approve both audit and non-audit services to be provided by the independent auditor.

Financial Reporting Processes, Accounting Policies, and Internal Control Structure

- Review UCAR’s annual financial report, including the financial statements and footnote disclosures and supplemental disclosures required by generally accepted accounting principles prior to recommending acceptance of the report to the board.
- Review major issues regarding accounting principles and financial statement presentations, including any significant changes in the institution’s selection or application of accounting principles, and major material control deficiencies.
- Establish and maintain procedures for the confidential, anonymous submission by institution employees regarding questionable accounting or auditing matters. The Internal Audit and Compliance Officer will review all submissions with the Chair of the Committee.
- Review written responses of management to “letter of comments and recommendations” from the independent auditor and discuss with management the status of implementation of prior-period recommendations and corrective action plans.
- Discuss with management the scope and quality of internal accounting, administrative, compliance, and financial reporting controls in effect.
- Review disclosures made by management about significant deficiencies in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the organization’s internal controls.

Ethical Compliance, Legal Compliance, and Risk Management

- Ensure the existence of and approve policies and procedures regarding compliance with the law and significant organizational policies including, but not limited to UCAR Ethical Conduct Policy 1-1-23 and other matters related to business conduct, fraud and legal compliance designed to prevent and detect violations of laws, rules, regulations, and guidelines..
- Review the effectiveness of the system for monitoring compliance with the law and internal conduct policies and the results of management’s investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Discuss with management UCAR’s policies and procedures to reasonably ensure that financial statements, reports, and other financial information issued to regulatory agencies and outside affiliates comply with the law and significant UCAR policies.
- Review, with UCAR’s counsel, any legal matter that could have a significant impact on UCAR’s financial statements.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Discuss policies with respect to risk assessment and risk management, including appropriate guidelines and policies to govern the process, as well as UCAR’s major financial risk exposures and the steps management has undertaken to control them.

Internal Audit

- Review with management and the chief audit executive the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief audit executive.
- Review the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
- Meet separately with the chief audit executive as requested by either party to discuss any matters that the Committee or internal audit believes should be discussed privately.

Investment and Debt Management

- Establish, review and update investment philosophy, objectives and policies every two years. Recommend changes as needed to the Board of Trustees.
- Oversee implementation of investment policy including decisions on use and selection of professional investment managers; monitor investment activity and performance; monitor asset allocation of funds.
- Oversee incurrence of corporate debt and recommend to the Board of Trustees issuance of debt for approval as required by UCAR by-laws.

Other Responsibilities

- Review with the independent auditor and management the extent to which changes or improvements in financial or accounting practices have been implemented.
- Biennially, perform a self-assessment relative to the Committee's purpose, duties and responsibilities as defined in this Charter.
- Review the annual indirect cost budgets including prior year actual expenditures compared to budget as well as current and future years' proposed rates.
- Institute and oversee special investigations as needed.
- Perform any other activities consistent with this Charter, UCAR's by-laws, and governing law, as the Board deems necessary or appropriate.

**** Charter was approved by the Audit & Finance Committee on May 16, 2006 ****