

# Finance and Audit Committee (FAC) Charter



## **Purpose**

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The SERC Finance and Audit Committee (FAC) is a committee of the SERC Board of Directors (Board) that is responsible for assisting the Board in its oversight the financial affairs of the Corporation, primarily to ensure that appropriate controls, policies, and procedures are documented and adhered to, thereby allowing SERC to report accurate financial reports while not exposing the company to undue risks.

## **Responsibilities and Activities**

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The following is a list of the FAC's responsibilities and routine activities:

### Responsibilities:

- 1) Provide oversight of all material aspects of SERC's financial affairs, including:
  - a. financial condition;
  - b. operating and capital budgeting;
  - c. external audits;
  - d. debt structure;
  - e. debt financing and refinancing;
  - f. investments; and
  - g. other significant financial matters; and
- 2) Review all issues involving significant financial transactions prior to final consideration by the Board.

### Activities:

- 1) The FAC shall review the corporation's annual financial statements. Based on its review and discussion, the FAC should determine whether or not to accept the audited financial statements. The FAC's review will include:
  - Discussions with management and the external auditor and a consideration of a report by the external auditor to the FAC of matters related to the conduct of the audit;
  - Discussions with the external auditor with respect to the auditor's judgment with regard to both the acceptability and quality of the financial statements, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case may be, of the accounting policies adopted by the corporation, the process used by management in formulating particularly significant accounting estimates, and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;
  - Significant adjustments arising from the audit;
  - Disagreements with management over the application of accounting policies and the disclosures in the financial statements;
  - The external auditor's suggestions for improvements to the corporation's operations and internal controls as well as the follow-up performed by

- management in order to monitor whether management has implemented an effective system of internal accounting control;
- Compliance with the Sarbanes-Oxley Act of 2002, as appropriate for a non-profit, non-issuer organization; and
  - Compliance with various covenants
- 2) Review with management, the external auditor and legal counsel, the corporation's procedures to ensure compliance with applicable laws and regulations, and any significant litigation, claim, or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the corporation and the disclosure or impact on the results of these matters in the annual financial statements.
  - 3) At least once each year:
    - Meet with management to assess the performance of the external auditor. As appropriate, reappoint the external auditor or take steps to replace the external auditor.
    - Meet privately with the external auditor, amongst other things, to inquire about time pressures on the external auditor, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including restrictions on the scope of their work and access to requested information and the level of cooperation received from management during the performance of their work and their evaluation of the corporation's financial, accounting, and personnel systems.
  - 4) Review the corporation's annual budget. Based on its review and discussion, the FAC should determine whether or not to endorse the annual budget.
  - 5) Review the corporation's quarterly financial statements and variance explanations.
  - 6) Review and approve the Financial Internal Control Procedures and provide guidance on calibration of procedures.
  - 7) Review SERC's investment results on an annual basis.
  - 8) Review the IRS Form 990 and authorize filing.
  - 9) Report to the Board regularly on activities, findings, and conclusions of the Committee.
  - 10) Perform such other functions as may be delegated from time to time by the Board.
  - 11) Perform an annual review of this charter.

## **Representation**

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The FAC shall be composed of not less than three (3) and no more than five (5) Directors from the Board, at least one of which shall be an Independent Director. The

FAC may include a non-Director as a member if the Committee so determines that financial expertise is needed that is not available among the Directors on the Board. The FAC must be chaired by a Director of the Board. In general, a majority of the FAC representatives should be financially literate and knowledgeable about financial statements.

Each FAC representative shall serve for a term of two (2) years, beginning on July 1 of the appointment year, and may be reappointed by the Board to successive terms. To permit the presence of experienced FAC representatives, terms should be staggered, when possible, so that approximately half of the representatives rotate off the FAC each year.

The Nominating Committee shall propose a slate of representatives to serve on the FAC annually at the April meeting of the Board. The Board shall approve the slate as presented, or as modified by the Board.

In the event that a representative of the FAC is unable to complete a term, the Board shall fill such vacancy at its next meeting.

## **Governance**

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The FAC shall meet as required and at least twice per year.

FAC decisions and recommendations are generally made by consensus. If a vote is required, each FAC representative shall have one (1) vote. FAC representatives holding a simple majority of the individual votes shall constitute a quorum. A simple majority of those present is needed to approve any motion or vote.

The FAC shall abide by the SERC Confidentiality Policy, the SERC Antitrust Compliance Guidelines, all other applicable statutes and regulations, and any other applicable policies approved by the Board in carrying out its purpose. The FAC shall otherwise be governed by Robert's Rules of Order.

In the event of a conflict between the language in this document and the SERC Bylaws, the language of the Bylaws will control.

## **Reporting**

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The FAC shall report to the Board as necessary.