

APPENDIX AV

March 25, 2006:21

(Refer to Act 15-770)

Amended 08-15-08:34

AUDIT COMMITTEE POLICY

AUDIT COMMITTEE CHARTER

Purpose

The primary function of the Audit Committee (the “Committee”) is to assist the Board of Governors of the National Speleological Society (the “Society”) in fulfilling its oversight responsibilities relating to: (i) the integrity of the Society’s financial statements, (ii) the Society’s systems of internal control, (iii) the independence and performance of the external and internal audit functions and (iv) the Society’s compliance with legal and regulatory requirements. The Committee shall maintain free and open communication among and between the Committee, independent auditors and the Society’s management. The Committee shall take all appropriate actions to set for the Society the overall tone for quality financial reporting, sound business risk practices, and ethical behavior.

Composition & Independence

The Committee will consist of no less than three, but no more than five persons, three of which are elected members of the directorate, and none are officers of the Society. A quorum shall consist of a simple majority of Committee members.

Committee members, to the extent permissible under applicable law, must be: (i) independent of the management of the Society (including its component units and related organizations) and (ii) free of any financial or personal relationship that would impair such independence.

A majority of Committee members shall be financially literate and, if possible, at least one member shall be a financial expert. Financial literacy is defined as being able to read and understand fundamental financial statements. Financial expert means a person who has one or more of the following: (i) an understanding of generally accepted accounting principles related to not for profit organizations and the related financial statements and disclosures, (ii) experience applying such principles, (iii) experience preparing or auditing financial statements, (iv) experience with internal controls or (v) an understanding of audit committee functions.

Committee Membership Selection

The Chairman of the Directorate, with concurrence of the Directorate, is responsible for the selection of the chairman of the Audit Committee. The chairman of the Audit Committee, with concurrence of the Chairman of the Directorate, is responsible for selecting members of the committee. The Chairman of the Audit Committee is responsible for managing the affairs of the committee.

Duties and Responsibilities

It is not the Committee's duty to plan or conduct audits or to determine that the Society's financial statements are complete, accurate and in accordance with generally accepted accounting principles.

The Society's management is responsible for the preparation, presentation, and integrity of the Society's financial statements and for the appropriateness of the accounting principles and reporting policies used by the Society.

The following duties and responsibilities, shall be the principle duties and responsibilities of the Committee regarding audit matters.

- Be directly responsible for the appointment, compensation, oversight and retention of the Society's independent external auditor. The independent external auditor shall report directly to the Committee.
- If the Committee believes that the independent external auditor can provide tax services to the Society, such as tax compliance, tax planning and tax advice, without impairing the auditor's independence. However, the Committee will not permit the retention of the independent external auditor in connection with a transaction recommended by the independent auditor, the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations.
- Pre-approve all audit and non-audit services provided by the independent external auditor. The independent external auditor is specifically prohibited from performing the following services:
 - o Bookkeeping
 - o Financial information systems design, implementation or operation
 - o Appraisal or valuation services
 - o Actuarial services
 - o Internal audit outsourcing services
 - o Management functions or human resources services
 - o Investment banking services
 - o Legal services
- Provide sufficient opportunity for the independent external auditor and the internal auditor to meet privately with the Committee.
- Confer with the Society's management and the independent external auditor to determine whether the independent external auditor is satisfied with the disclosures in and content of the Society's financial statements, including the nature and extent of any significant changes in accounting principles. Make inquiries of the Society's management and the independent external auditor concerning the effectiveness of the Society's system of internal controls.
- Review with the Society's management, the independent external auditor and their

judgments about: (i) the quality and acceptability of the Society's accounting principles, (ii) the consistency in the application of accounting policies, (iii) the reasonableness of significant judgments, (iv) the degree of aggressiveness or conservatism in applying accounting principles and (v) the clarity and completeness of the financial statements and related disclosures.

- Review and approve the annual financial statements of the Society and, if applicable, the audit report on Federal Awards as required by OMB Circular A-133 as amended or succeeded.
- Review with the Society's management and the independent external auditor all matters required to be communicated to the Committee under generally accepted auditing standards, including communications under Statement of Auditing Standards No. 61 "Communications with Audit Committee," as amended or succeeded.
- Maintain adequate policies and guidelines for receiving complaints regarding accounting controls and reports of financial fraud. Receive briefings on any financial fraud situation or whistleblower complaints from the Society's management.
- Monitor the Society's conflict of interest policies, principles of employee conduct and fraud policy.

