

LIIF Terms of Reference for Board and Standing Committees

Terms of Reference Audit Committee Low Income Investment Fund

Revised: November 10, 2016

The Audit Committee (AC) is appointed by the Board of Directors and consists of three or more directors.

The Chair of this Committee may not also serve on the Finance Committee. Members of the Finance Committee must constitute less than half of the membership of this Committee. In addition, the Board seeks to identify at least one member of the Audit Committee who is deemed a financial expert¹ as outlined below. The Committee may include a financial expert who is not a director as long as two or more directors also serve on the Audit Committee.

Duties and Responsibilities

Management is responsible for the preparation, presentation, and integrity of LIIF's financial statements, for the appropriateness of the accounting principles, internal controls and reporting policies that are used by LIIF, for implementing and maintaining control over financial reporting, for meeting and discussing the audit results with the independent auditor, and for bringing issues and concerns in these areas to the Audit Committee's (AC) attention.

The independent auditor is responsible for auditing LIIF's financial statements and preparing associated tax returns and other reports or audits required by either the Federal or State governments.

The AC has the following duties and responsibilities:

- The AC reviews and makes recommendations to the Board regarding the appointment, compensation and retention of an external independent auditor for the purposes of auditing the corporation's financial statements on an annual basis and preparing associated tax returns and other reports or audits required by either the Federal or State governments. After the Board appoints the auditor, the AC oversees that relationship (including resolution of disagreements between management and the auditor) and pre-approves any non-audit services, not identified in the annual engagement letter, provided by the external audit firm. The AC reports the terms and conditions of any non-audit services at the first regularly scheduled Board meeting held after the execution of any such pre-approval. The independent auditor reports directly to the Board.
- At least annually, the AC obtains and reviews a report by the independent auditor describing: (i) the audit firm's internal quality control procedure; (ii) any material issues raised by the most recent internal quality control review, or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the past five (5) years, related to one or more independent audits carried out by the firm and any

steps taken to deal with any such issues; and (iii) all relationships between the independent auditor and LIIF (to assess and ensure the auditor's independence).

- After reviewing the foregoing report and the independent auditor's work throughout the year, the AC evaluates the auditor's qualifications, performance and independence. Such evaluation should include the review and evaluation of the lead engagement partner of the independent auditor and take into account the opinions of management.
- The AC deliberates annually as to the need to rotate the lead engagement partner. The AC recommends any proposed rotation to the Board for its approval. While it is common for such a rotation to occur every five years, this is not an absolute requirement.
- The AC reviews, at least annually, with management and separately (in executive session) with the independent auditor any audit problems or difficulties encountered during the course of the audit work, including any restrictions on the scope of the auditor's activities or access to requested information and management's response. The AC reviews any accounting adjustments that were noted or proposed by the auditor but were passed (as immaterial or otherwise); any communications between the audit team and the audit firm's national office relating to problems or difficulties encountered with respect to significant auditing or accounting issues; and any management or internal control letter issued by the auditor to the company.
- The AC reviews and discusses the annual audited financial statements with management and separately with the independent auditor, and determines whether or not to recommend that the Board accept the audit report. This review should include: (i) major issues regarding accounting principles and financial statement presentation including significant changes, if any, and major issues as to the adequacy of the company's internal controls and any specific remedial actions adopted in light of material control deficiencies; (ii) discussions with management and the auditor regarding significant financial reporting issues and judgments made in connection with the preparation of the financial statements and the reasonableness of those judgments; (iii) consideration of the effect of regulatory accounting initiatives, as well as off-balance sheet structures on the financial statements; (iv) consideration of the judgment of both management and the auditor about the quality, not just the acceptability, of accounting principles; (v) the clarity of the disclosures in the financial statements; and (vi) any other matters required to be communicated to the AC by the independent auditor under professional standards.
- The AC reviews and approves LIIF's IRS Form 990 annually prior to its filing.
- The AC establishes procedures for the receipt, retention, and treatment of complaints received by LIIF regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of LIIF of concerns regarding questionable accounting or auditing matters. The AC is responsible for complaints received under LIIF's Whistleblower Policy.

- The AC evaluates its performance at least annually to determine whether it is functioning effectively.
- The AC is responsible for the corporation's Enterprise Risk Policy and for providing governance over Management's implementation of the Enterprise Risk Framework. The Audit committee may engage the Finance Committee as needed in this work.
- The AC reviews internal controls audit reports and receives quarterly status updates on the action items resulting from these audits.
- The AC monitors LIIF's compliance systems with respect to legal and regulatory requirements through annual reports from management.
- The AC reviews and assesses these Terms of Reference at least annually and recommends proposed changes, if any, to the Board of Directors for approval.

Definition of Financial Expert:

Since adoption of the Sarbanes Oxley Act of 2002, additional guidance has been provided for the public companies to which it applies. That guidance defines the five attributes an Audit Committee member should have to be considered a financial expert. The attributes are:

- (i) an understanding of Generally Accepted Accounting Principles (GAAP) and financial statements;*
- (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;*
- (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities;*
- (iv) an understanding of internal controls and the procedures for financial reporting; and*
- (v) an understanding of audit committee functions.*

These attributes may be acquired in one or more of four ways:

- (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor, or experience in one or more positions that involve the performance of similar functions;*
- (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;*

(iii) *experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or*

(iv) *other relevant experience.*