



Chautauqua, Cattaraugus, Allegany & Steuben Counties

Southern Tier Extension Railroad Authority

Center for Regional Excellence, 4039 Route 219, Suite 200, Salamanca, New York 14779
TEL (716) 945-5301 FAX (716) 945-5550 TDD (716) 945-5301

"This institution is an equal opportunity organization"
John Margeson, Chairman

CHAUTAUQUA, CATTARAUGUS, ALLEGANY AND STEUBEN COUNTIES SOUTHERN TIER EXTENSION RAILROAD AUTHORITY

AUDIT COMMITTEE CHARTER

This Audit Committee Charter was adopted by the Board of Directors of the Southern Tier Extension Railroad Authority, a public benefit corporation established under the laws of the State of New York, on this 18 day of June, 2007.

1. PURPOSE OF THE AUDIT COMMITTEE

Consistent with Article 7, Section 5 of the Authority's bylaws, the purposes of the Audit Committee shall be to assist the Board by:

- Assuring that the Authority's Board fulfills its responsibilities for the Authority's internal and external audit process, the financial reporting process and the system of risk assessment and internal controls over financial reporting; and
- Recommending to the Corporation's Board the hiring of a specific certified independent accounting firm for the Corporation, establishing the compensation to be paid to the accounting firm, and providing direct oversight of the performance of the independent audit performed by the accounting firm hired for such purposes.
- Providing an avenue of communication between management, the independent auditors, the internal auditors, and the Authority's Board of Directors.

2. POWERS OF THE AUDIT COMMITTEE

A. It shall be the responsibility of the Audit Committee to:

- Recommend to the Corporation's Board the hiring of a specific certified independent accounting firm for the Corporation, establish the compensation to be paid to the accounting firm, and provide direct oversight of the performance of the independent audit performed by the accounting firm hired for such purposes.
- Conduct or authorize investigations into any matters within its scope of

responsibility.

- Seek any information it requires from Authority employees or contract staff, all of whom should be directed by the Board to cooperate with Audit Committee requests.
- Meet with Authority employees or contract staff, independent auditors, or outside counsel, as necessary.
- Retain, at the Authority's expense, such outside counsel, experts and other advisors, as the Audit Committee may deem appropriate.

B. The Audit Committee shall have access to the services of at least one financial expert; whose name shall be disclosed in the annual report of the Authority. The Audit Committee's financial expert should have:

- An understanding of generally accepted accounting principles and financial statements; and
- Experience in preparing or auditing financial statements of comparable entities; and
- Experience in applying such principles in connection with the accounting for estimates, accruals and reserves; and
- Experience with internal accounting controls; and,
- An understanding of Audit Committee functions.

C. The Southern Tier Extension Railroad Authority Board will ensure that the Audit Committee has sufficient resources to carry out its duties.

3. COMPOSITION OF AUDIT COMMITTEE AND SELECTION OF MEMBERS

A. The Audit Committee shall be established as set forth in and pursuant to Article 7, Sections 1 and 5 of the Authority's bylaws. The Audit Committee shall consist of at least three independent members of the Authority's Board of Directors. The Board of Directors determines the size of the Committee. The Authority's Board Chairman will appoint the Audit Committee members and the Audit Committee Chairperson. The Audit Committee members shall serve at the discretion of the Board of Directors, provided that the members of the Audit Committee shall serve until their resignation, retirement, removal by the Board or until their successors shall be appointed and qualified. When feasible, the immediate past Audit Committee Chair will continue serving as a member of the Audit Committee for at least one year to ensure an orderly transition.

B. Audit Committee members shall be prohibited from being an employee of the Authority or an immediate family member of an employee of the Authority. In addition, Audit

Committee members shall not engage in any private business transactions with the Authority or receive compensation from any private entity that has material business relationships with the Authority, or be an immediate family member of an individual that engages in private business transactions with the Authority or receives compensation from an entity that has material business relationships with the Authority.

- C. Ideally, all members on the Audit Committee shall possess or obtain a basic understanding of governmental financial reporting and auditing.

4. MEETINGS

- A. The Audit Committee will meet a minimum of twice a year, with the expectation that additional meetings may be required to adequately fulfill all the obligations and duties outlined in this Charter.
- B. Members of the Audit Committee are expected to attend each Committee meeting, in person or via telephone or videoconference. The Audit Committee may invite other individuals, such as members of management, auditors or other technical experts to attend meetings and provide pertinent information, as necessary.
- C. The Audit Committee will meet with the Authority's independent auditor at least annually to discuss the financial statements of the Authority.
- D. Meeting agendas will be prepared for every meeting and provided to the Audit Committee members along with briefing materials a minimum of 2 business days before the scheduled Audit Committee meeting. The Audit Committee will act only on the affirmative vote of a majority of the members at a meeting or by unanimous consent. Minutes of these meetings will be recorded.

5. RESPONSIBILITIES OF THE AUDIT COMMITTEE

- A. The Audit Committee shall have responsibilities related to: (a) the independent auditor and annual financial statements; (b) the Authority's internal auditors; (c) oversight of management's internal controls, compliance and risk assessment practices; (d) special investigations and whistleblower policies; and (e) miscellaneous issues related to the financial practices of the Authority. These responsibilities are outlined in the remaining sections of this article.

B. Independent Auditors and Financial Statements

The Audit Committee shall:

- Recommend to the Corporation's Board the hiring of a specific certified independent accounting firm for the Corporation, establish the compensation to be paid to the accounting firm, provide direct oversight of the performance of the independent audit performed by the accounting firm hired for such purposes, and pre-approve all audit

services provided by the independent auditor.

- Establish procedures for the engagement of the independent auditor to provide permitted audit services. The Authority's independent auditor shall be prohibited from providing non-audit services unless having received previous written approval from the Audit Committee. Non-audit services include tasks that directly support the Authority's operations, such as bookkeeping or other services related to the accounting records or financial statements of the Authority, financial information systems design and implementation, appraisal or valuation services, actuarial services, investment banking services, and other tasks that may involve performing management functions or making management decisions.
- Review and approve the Authority's audited financial statements, associated management letter, report on internal controls and all other auditor communications.
- Review significant accounting and reporting issues, including complex or unusual transactions and management decisions, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Meet with the independent audit firm on a regular basis to discuss any significant issues that may have surfaced during the course of the audit.
- Review and discuss any significant risks reported in the independent audit findings and recommendations and assess the responsiveness and timeliness of management's follow-up activities pertaining to the same.

C. Internal Auditors

The Audit Committee shall:

- Review with management and the internal audit director, the charter, activities, staffing and organizational structure of the internal audit function. The Audit Committee shall have authority over the appointment, dismissal, compensation and performance reviews of the internal audit director.
- Ensure that the internal audit function is organizationally independent from Authority operations.
- Review the reports of internal auditors, and have authority to review and approve the annual internal audit plan.
- Review the results of internal audits and approve procedures for implementing accepted recommendations of the internal auditor.

D. Internal Controls, Compliance and Risk Assessment

The Audit Committee shall:

- Review management's assessment of the effectiveness of the Authority's internal controls and review the report on internal controls by the independent auditor as a part of the financial audit engagement.

E. Special Investigations

The Audit Committee shall:

- Ensure that the Authority has an appropriate confidential mechanism for individuals to report suspected fraudulent activities, allegations of corruption, fraud, criminal activity, conflicts of interest or abuse by the Directors, officers, or employees of the Authority or any persons having business dealings with the Authority or breaches of internal control.
- Develop procedures for the receipt, retention, investigation and/or referral of complaints concerning accounting, internal controls and auditing to the appropriate body.
- Request and oversee special investigations as needed and/or refer specific issues to the appropriate body for further investigation (for example, issues may be referred to the State Inspector General or, other investigatory organization.).
- Review all reports delivered to it by the Inspector General and serve as a point of contact with the Inspector General.

F. Other Responsibilities of the Audit Committee

The Audit Committee shall:

- Present annually to the Authority's Board a written report of how it has discharged its duties and met its responsibilities as outlined in the charter.
- Obtain any information and training needed to enhance the Committee members' understanding of the role of internal audits and the independent auditor, the risk management process, internal controls and a certain level of familiarity in financial reporting standards and processes.
- Review the Committee's charter annually, reassess its adequacy, and recommend any proposed changes to the Board of the Authority. The Audit Committee charter will be updated as applicable laws, regulations, accounting and auditing standards change.
- Conduct an annual self-evaluation of its performance, including its effectiveness and

compliance with the charter and request the Board approval for proposed changes.

Approved and adopted this 18th day of June 2007.

Name

Title