

Audit Committee

Charter

Purpose:

The primary function of the Audit Committee (Committee) is to fulfill its oversight responsibilities relating to the quality of financial reporting and internal controls. Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, the Association's policies, procedures and practices at all levels.

While the Committee has the powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Association's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent accountant. However, it is the responsibility of the Committee to ensure reasonable steps are taken by management to ensure the accuracy of financial reporting.

Composition:

The Board chairperson will appoint a Board member to serve as the Committee chairperson until the annual re-organization of the Board, and the Committee chairperson will participate with the Board chairperson to appoint at least three additional Board members to serve on the Committee. In the event the Committee Chairperson cannot attend a meeting, the Board Chairman may appoint another member of the Audit Committee to serve as an interim Chairperson.

Every Committee member must be free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a Committee member and all Committee members should be knowledgeable in at least one of the following: public and corporate finance, financial reporting and disclosure, or accounting procedures and must be able to read and understand the Association's financial statements. At least one member of the Committee shall be the Board member who has been designated as a "financial expert" by the Board. At least one member will be a director-elected-director.

Meetings:

The Committee will meet at least four times annually, with additional meetings as necessary. Meetings may be called by the Board chairperson, the Committee chairperson, the chief executive officer, or the Director of Internal Review and Audit (DIRA). The Committee will invite members of management, auditors, or others to attend meetings and provide pertinent information. The Committee chairperson will appoint one person at the meeting to prepare minutes of the meeting. The minutes of the meeting shall include attendance records and shall be safely maintained by a corporate officer for a period of no less than three years from the date of the meeting.

Authority and Resources:

The Committee has all necessary authorities and has access to all resources needed to accomplish the responsibilities of the Committee as described in this Charter. The Committee will have access to all financial, credit, administrative and operational records, facilities and employees of the Association. It is empowered to:

- Appoint, compensate, retain and oversee the work of any public accounting firm employed by the Association.
- Resolve any disagreements between management and the auditors regarding financial reporting.
- Retain independent counsel or accountants or consultants to advise the Committee or assist in the conduct of an investigation.
- Oversee and appraise the audit of the Association's internal audit/review function.
- A two-thirds majority vote of the full Board of Directors is required to deny the Committee's request for resources.

Duties and Responsibilities:

The Committee will be responsible for the following activities. The Committee will rely on the assistance of the DIRA, external auditors and the appropriate Association management in accomplishing these tasks.

Financial Statements and financial data released publicly

- Review quarterly and annual financial reports before release, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- Review significant accounting and reporting changes and issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on financial statements.
- Review financial data to be released publicly prior to its release.
- Approve changes proposed by management to the allowance for loan losses

Internal Controls

- Review the results of all testing of internal controls performed to comply with SOX 404 requirements.
- Review the representation letter provided to the FCBT regarding SOX testing
- Consider the effectiveness of the Association's internal control system, including information technology security and control.
- Understand the scope of internal and external auditor's review of internal controls and obtain reports of significant findings and recommendations, together with management's responses.
- Establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission of concerns regarding questionable Association accounting or auditing matters.

Internal Audit/Review

- Review with the DIRA and management the annual internal audit and credit review plans for the Association.
- Approve the staffing and organizational structure of the internal credit review team and internal audit function.
- Review and approve an annual risk assessment and three-year audit plan developed by the DIRA.
- Review and concur in the appointment, replacement, dismissal, performance standards and evaluation, compensation and bonus of the DIRA.
- Review and approve the engagement letter prior to any reviews to be performed by

auditors other than Association staff.

- Review all reports and findings of the DIRA.
- Review and concur with management's responses to address all audit recommendations and follow up on any corrective actions.
- At least annually, meet with the DIRA and CFO (as well as any other member of senior management deemed appropriate by the Committee) individually to discuss any matters the Committee or the DIRA believes should be discussed in executive session.

External Audit

- Review the performance of the external auditors, review and approve the engagement letter, and exercise final approval on appointment and discharge of external auditors.
- Prior to the release of the annual audited financial statements, review with management and the external auditors the results of the audit, including any difficulties encountered. This includes all matters required to be communicated to the Committee by generally accepted auditing standards.
- Review any management representation letter provided to external auditors on a timely basis.
- Obtain a statement of independence from external auditors detailing relationships between the auditors and the Association, including non-audit services. Pre-approve any non-audit services to be provided.
- Review prior to release and concur with management's responses to address all audit recommendations and follow up on any corrective actions.
- At least annually, meet separately with the external auditors to discuss any matters the Committee or the external auditor believes should be discussed in Board executive session.

Compliance

- Review the findings of any examinations by FCA and any auditor observations and review prior to the release and concur with management's responses to address all examination recommendations and follow up on any corrective actions.
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Receive on a current basis any report from Listen Up of any complaints regarding accounting, internal accounting controls or auditing matters.
- Obtain regular updates from management and/or legal counsel regarding compliance matters.
- As requested by FCA's Office of Inspector General, participate with the CEO in responding to the follow-up survey subsequent to an audit by the FCA.

Training

- Strive to attend at least annually one seminar with emphasis on Farm Credit audit committee functions and responsibilities, as appropriate.

Reporting

- Approved minutes of Committee meetings will be provided to the Board on a current basis.
- The Committee chairperson will report to the Board on the activities of the Committee.
- On an annual basis, the Audit Committee will prepare a written summary of its

activities for the year and submit it to the full Board.

- The Committee should facilitate an open avenue of communication between internal audit and review, the external auditors, and the Board.

Other

- At least annually, reassess the adequacy of and, if appropriate, propose to the full Board, any desired changes to the Committee Charter.
- At least annually, conduct a self-evaluation of Committee performance.
- Report annually to the stockholders, describing the Committee's composition, responsibilities and any other required information.

Reporting Requirements:

The Committee shall report to the full Board during the next regular board meeting regarding the actions taken during the most recent Committee meeting(s). In addition, the Committee shall make available to the full Board copies of approved minutes of the Committee.

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