

AgHeritage Farm Credit Services, ACA
Audit Committee Charter
As Adopted on May 16, 2006

Mission Statement

The AgHeritage Farm Credit Services, ACA, Audit Committee is established by and reports to the board of directors of the Association. The primary function of the Committee is to assist the board of directors in fulfilling its oversight responsibilities in relation to the quality of financial reporting and internal controls.

The mission of the Committee is:

- to assist the board of directors in fulfilling its fiduciary responsibilities relating to accounting and reporting practices of the Association;
- to oversee and appraise the quality of the audit effort of the Association's internal audit function and its independent auditor;
- to maintain, by scheduling regular meetings, open lines of communications among the board, its internal audit function and its independent auditor to exchange views and information as well as confirm their respective authority and responsibilities; and
- to serve as an independent and objective party to review the financial information presented by management to shareholders, regulators, and the general public.

Membership

The Committee shall consist of no less than three and no more than five members as determined by the board, each of whom shall be free from any relationship that, in the opinion of the board, would interfere with the exercise of his or her independent judgment as a member of the Committee. Members of the Committee should have a practical knowledge of finance and accounting and be able to read and understand fundamental financial statements or be able to do so within a reasonable period of time after appointment to the Committee. At least one member of the Committee should be an independent member who should have accounting or related financial management expertise and by nature of their expertise should be a standing member of the committee. The Association's Board Chairman and Vice Chairman will appoint the members of the Committee.

Meetings

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. Meetings may be called by the chairman of the Committee or by the chairman of the Association board.

Minutes of the meetings shall be prepared and distributed to the Committee and the board. Reports of meetings shall be made by the Committee chairman or his/her delegate to the board at its next regularly scheduled meeting following the Committee meeting. In addition, the Committee chairman and other members of the committee shall be available to answer any questions the board members may have regarding the matters considered and actions taken by the Committee.

Authorities:

- ✍ Responsible for the appointment, compensation, retention and oversight of the work of the independent auditor, who shall report directly to the Committee, (including resolution of disagreements between Association management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services at the Association.
- ✍ Review the independent auditor's annual engagement letter with the Chief Financial Officer.
- ✍ Consult with the Association's legal counsel as the Committee may deem appropriate, in order to discharge its responsibilities and authorities. The Committee shall have the authority to engage independent counsel and other advisers as the Committee deems necessary to carry out its duties, with funding to be provided by the Association, as determined by the Committee, for (a) compensating any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services at the Association, (b) compensating independent counsel and other advisers engaged by the Committee, and (c) paying ordinary administrative expenses the Committee incurs in carrying out its duties.

Responsibilities

For the purpose of achieving the Committee's objectives, the Committee shall have the following responsibilities. Unless otherwise authorized by an amendment to this Charter, the Committee shall not delegate any of its authority to any subcommittee.

Financial Statement:

- ✍ Evaluate the adequacy of the Association's administrative, operating and accounting policies through active communications with operating management, internal audit, and the independent auditor.
- ✍ Review current regulatory, accounting or reporting developments, and any significant accounting changes with management and the independent auditor.
- ✍ Review, prior to issuance, quarterly and annual press releases of financial results as well as any interim press releases.
- ✍ Review with Association management or others required to make certifications to the FCA on annual and quarterly reports or certifications with respect to compliance with the Disclosure Program, including all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the association's ability to record, process, summarize and report financial information and any fraud, whether or not material that involves management or other employees who have a significant role in the association's internal controls.
- ✍ Receive from the independent auditors, a report of the Association's annual audited financial statement prior to distribution. The report should include discussions on all critical accounting principles and practices used by the institution, all material alternative accounting treatments of financial information and other material written communications between the independent auditor and management, such as management letters, schedule of unadjusted differences, reports on observations and recommendations on internal controls, a listing of adjustments and reclassifications and the independent auditor's independence letter.
- ✍ Review with management and the independent auditors the effect of off-balance sheet arrangements that could have current or future effect on financial conditions, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, and earnings press releases and other reports or written or electronic materials, including material posted on websites of the association disclosing "pro-forma" or "adjusted non-GAAP information."

- ✍ Review each quarterly or annual report of the Association prior to its dissemination to the public.

Independent Auditor:

- ✍ Periodically review and discuss with Association management and the independent auditor the Association's disclosure controls and procedures.
- ✍ Meet periodically with (or receive communications from) the independent auditors to review their annual audit plans and receive reports based on their audit activity.
- ✍ Pre-approve allowable non-audit services to be provided by the independent auditor to the association, and receive written certification on an annual basis that they are not providing any prohibited non-audit services to the association.
- ✍ Review and determine there are no restrictions or limitations being placed on the independent auditors by management.

Internal Auditor or Contracts/Engagements:

- ✍ Review and approve the annual audit plans developed and recommended by the internal audit function.
- ✍ Ensure the internal auditor and/or vendored audit service reports directly to the audit committee and the board of directors.
- ✍ Approve the performance standards, performance evaluation, and compensation of the internal auditor. Consult with the board of directors on appointment, replacement, or dismissal of the internal auditor.
- ✍ Review and approve the budget, staffing, and organizational structure of the internal audit function including contracts and engagements.
- ✍ Review and determine there are no restrictions or limitations being placed on the internal auditors by management.

Internal Controls:

- ✍ Evaluate the adequacy of the Association's internal accounting control by review of written reports from the internal and independent auditors. Review all reports and findings resulting from the internal audit function's independent evaluation of the systems of internal control and continuing operations. Monitor management's response and actions to correct any noted deficiencies.
- ✍ Review, along with the board, all examination reports of the association issued by the Farm Credit Administration and monitor management's response to the reports.
- ✍ Oversee the Association's system of internal controls, including those controls relating to the Association's compliance with applicable laws and regulations or relating to the preparation of each quarterly or annual report.
- ✍ 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.
- ✍ Review the process for communicating the standards of conduct to Association personnel and for monitoring compliance therewith.
- ✍ Review, on at least an annual basis, with management and the independent and internal auditors, compliance with the Association's code of ethics.

Other:

- ✍ Call for executive sessions with the Association's internal and independent auditors regularly.

- ✍ Respond to any concerns identified by the District Bank and/or Farm Credit System Audit Committee and conduct any audit committee activities that are necessary for the District Bank and/or Farm Credit System Audit Committee to fulfill its chartered responsibilities.
- ✍ Perform an annual self-evaluation of the Committee's performance and annually reassess the adequacy of and, if appropriate, propose to the board of directors, any desired changes in, the Committee's Charter.
- ✍ Report regularly to the Association board of directors the work performed by the Committee, including the dissemination of meeting minutes, to discharge its responsibilities and authorities.

The Committee may at times handle duties and responsibilities of the Committee in concert with the board of directors at board of director meetings. The Committee shall have access to all books, records, facilities, and personnel of the Association.