



**1.70      AUDIT COMMITTEE CHARTER**

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

**A. GOALS AND OBJECTIVES**

The Audit Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to oversee the Association's financial reporting process and internal control system.
- Assume responsibility for the employment of a qualified independent auditing firm.
- Oversee, review and appraise the audit efforts of the Association's independent auditors and internal audit function.
- Review the Farm Credit Administration (FCA) examination processes and results.
- Monitor the Association’s compliance with legal and regulatory requirements.
- Provide an open avenue of communication among the independent auditors, financial and senior management, the internal audit function, the Board of Directors, and the Farm Credit System Audit Committee.

The Audit Committee will fulfill these responsibilities by carrying out the activities and processes enumerated in the following sections of this Charter. In doing so, the Committee has full access to all books, records, facilities, and personnel of the Association and the power to retain outside counsel or other experts considered necessary in discharging its oversight role.

**B. COMPOSITION**

The Board shall annually confirm the membership of the Audit Committee, which will be comprised of at least three and no more than seven Directors, and shall include any



director designated as a financial expert by the Board of Directors pursuant to §611.210(a)(2) of the FCA Regulations. All members of the Committee shall be independent and free from any relationships which might, in the opinion of the Board of Directors, interfere with the exercise of his or her independent judgment as a member of the Committee.

Members of the Committee shall have a working familiarity with general business principles and basic finance and accounting practices. All Audit Committee members should be knowledgeable in at least one of the following:

- Public and corporate finance
- Financial reporting and disclosure
- Accounting procedures

#### **C. TERM OF MEMBERSHIP**

The terms of members shall be four years and shall be staggered so that no more than one-third of the committee shall stand for re-election in any given year. Each member of the Committee shall serve no more than four consecutive four-year terms.

The Chairperson shall be elected annually by the full Committee.

#### **D. MEETINGS**

The Committee shall meet at least four times annually, or more frequently as circumstances dictate.

As part of its job to foster open communications, the Committee shall meet at least annually with management, the internal auditor and the independent auditors in separate executive sessions to discuss any matter that the Committee or each group believes should be discussed privately.

#### **E. CHARTER REVIEW**

The Audit Committee shall review and update this charter at least annually and more often if conditions dictate.

#### **F. DUTIES AND RESPONSIBILITIES**

To fulfill its responsibilities and duties, the Audit Committee shall:

##### **Financial Reporting and Disclosure**



1. Oversee management's preparation of all financial reports to stockholders.
2. Review the impact of any significant accounting and auditing developments
3. Review accounting policy changes relating to preparation of financial statements.
4. Review prior to issuance the Association's quarterly and annual financial statements and any regulatory reports and other financial information submitted to any government regulator or the public, including any certification, report, opinion or review rendered by the independent auditors.
5. Prior to the release, review with Association officers required to make certifications to the FCA on annual and quarterly reports or certifications with respect to compliance with the Disclosure Program, (1) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the respective Association's ability to record, process, summarize and report financial information and (2) any fraud, whether or not material, that involves management or other employees who have a significant role in the Association's internal controls.
6. Review with management and the independent auditors (1) the effect of off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors and (2) earnings press releases and other reports or written or electronic material (including material posted on websites of System institutions) disclosing "pro forma," or "adjusted" non-GAAP, information.
7. Review and discuss with management and the independent auditors their respective disclosure controls and procedures.

### **Independent Auditors**

8. Be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors (including resolution of disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the applicable the Association. The independent auditing firm shall report directly to the Audit



Committee.

9. On an annual basis, review and discuss with the independent auditors all significant relationships the auditors have with the Association, other Farm Credit entities, and Association borrowers to determine the auditors' independence.
10. Pre-approve allowable non-audit services to be provided by the independent auditors and take appropriate steps to ensure that the independent auditors are not providing prohibited non-audit services
11. Periodically consult with the independent auditors in executive session regarding internal controls and the fullness and accuracy of the Association's financial statements.
12. Prior to release of the annual audited financial statements, review with the independent auditors their reports concerning (1) all critical accounting policies and practices used by the institution, (2) all material alternative accounting treatments of financial information within GAAP that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the independent auditors, and (3) other material written communications between the independent auditors and management, such as any management letter, schedule of unadjusted differences, reports on observations and recommendations on internal controls, a listing of adjustments and reclassifications not recorded and the independent auditor's independence letter.
13. Review with the independent auditors their findings regarding differences in accounting methods used by the Association that could materially affect the association's financial statements if only one method were followed by all other System institutions.
14. Review with the independent auditors any problems or difficulties the auditors may have encountered during the annual review process including any disagreement among management and the independent auditors or the internal auditor in connection with the preparation of the financial statements.
15. Review any significant recommendations in the management letter provided by the independent auditors and the Association's response to the letter.
16. Discuss with the independent auditors the matters required to be discussed by Statement of Auditing Standards No. 61.



### **Independent Counsel and Advisors**

17. Have the authority to engage independent counsel and other advisors as they deem necessary to carry out their duties.

### **Internal Controls**

18. Oversee the Association's system of internal controls relating to preparation of financial reports, including controls relating to the Association's compliance with applicable laws and regulations.

### **Internal Audit & Risk Manager/Chief Reviewer**

19. Review and approve the scope of the plan of the internal audit function.
20. Be directly responsible for the appointment, compensation, retention and oversight of the work of the contracted internal auditors (including resolution of disagreements between management and the internal auditors) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the applicable the Association. The contracted internal auditing firm shall report directly to the Audit Committee.
21. Review with contracted internal auditors any problems or difficulties the auditors may have encountered during the annual review process including any disagreement among management and the contracted internal auditors.
22. Review any significant recommendations in the summary of findings report provided by the contracted internal auditors and the Association's response to the report.
23. Ensure that the Risk Manager/Chief Reviewer is properly trained to carry out the responsibilities of the position and encourage continuing education and development including designation as a Certified Internal Auditor.
24. Participate with the association President in the annual employee review and evaluation of the Risk Manager/Chief Reviewer.
25. Approve the compensation of the Risk Manager/Chief Reviewer and ensure his or her participation in any incentive compensation program does not impair his or her independence.
26. On a quarterly basis, review a summary of major findings by the Risk



Manager/Chief Reviewer and management's response for addressing the conditions reported.

### **Farm Credit Administration**

27. Review the annual FCA examination process and the Report of Examination issued by the Farm Credit Administration.
28. Review management's response to weaknesses or recommendations noted in the FCA Report of Examination.

### **Changes in Regulations, Accounting Practices and Reporting**

29. Review with management, the independent auditors, and internal auditor any significant proposed regulatory, accounting, or reporting issue to assess the potential impact upon the Association's financial reporting process.
30. Consider and approve, if appropriate, major changes to the Association's auditing and accounting principles and practices as suggested by the independent auditors, management, or the internal auditor.

### **Processes and Process Improvement**

31. Evaluate the effectiveness of both the internal and external audit effort through regular meetings with each respective group.
32. Evaluate the adequacy and effectiveness of the Association's administrative, operating and accounting policies through active communications with management, the internal auditor, and the independent auditors.
33. Evaluate the adequacy of the Association's internal accounting control system by review of the written reports from the internal auditor and independent auditors and monitor management's response and actions to correct any noted deficiencies.
34. Review with the independent auditors and the internal auditor management's assessment report regarding internal control over financial reporting.
35. Following completion of the annual audit, review with management, the internal auditor and the independent auditors in separate executive sessions any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required



information.

36. Review any significant disagreement among management, the internal auditor or the independent auditors in connection with the preparation of the Association's financial statements.

### **Ethical and Legal Compliance**

37. Determine that no management restrictions are being placed upon either the internal auditor or independent auditors.
38. Review annually the Association's Conflict of Interest policy and ensure that management has established a system to enforce this policy.
39. Review with the Association's outside counsel any legal matter that may arise that could have a significant impact on the Association's financial statements or represent significant risk to the Association.
40. Establish procedures for the receipt, retention and treatment by the Association of complaints regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of the Association of concerns regarding questionable accounting or auditing matters.
41. Review, on at least an annual basis, with management and the independent and internal auditors, compliance with the Association's Code of Ethics for its principal executive officers, principal accounting officers and controllers.

### **Committee Reporting**

42. On an annual basis, submit a report to the full Board summarizing the work performed by the Committee to fully discharge its duties during the calendar year.

## **G. FUNDING**

The Association shall provide appropriate funding, as determined by the Committee, for (1) compensating any auditing firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the respective System institution, (2) compensating independent counsel and other advisors engaged by such Committee, and (3) paying ordinary administrative expenses the Committee incur in carrying out their duties.