

Farm Credit Services of Western Arkansas

Board of Directors

Audit Committee Charter

Audit Committee Purpose:

To assist the board of directors in fulfilling its oversight responsibilities for financial reporting, the system of internal control, the audit process and the Association's process for monitoring compliance with laws and regulations and the code of ethics.

Committee Structure:

Membership: The Audit Committee shall be comprised of no less than three (3) and no more than five (5) members of the Board.

Appointment: The Chairman of the Board will recommend Committee members to the full Board for approval. Changes in membership on the Committee will be reviewed by the Board Chairman as part of the annual re-organization of the Board. All members of the committee should be familiar with general business and/or basic accounting practices. All Audit Committee members are required to be free from any relationship that may interfere with the committee member's exercise of independent judgment. The Board will consider each potential member's independent judgment and knowledge as a part of their appointment to ensure compliance. Any Director designated as a financial expert by the board will serve on this committee.

Leadership: The Committee members shall determine who will serve as Chairman of the Audit Committee. At least one member will have accounting or financial management expertise and be designated as a financial expert, possessing qualifications prescribed from time to time by FCA regulations, as determined individual-by-individual by a majority vote of the full board. The financial expert's qualifications will be documented in each Annual Shareholder Report.

Meeting Schedule:

- ◆ The Audit Committee will meet at least quarterly or at any such time as determined necessary by the Chairman of the Committee. Meetings will be held prior to the regularly scheduled meeting of the Board of Directors. Any other required meetings of the Committee will generally be scheduled the day before a regularly scheduled board meeting or at the end of the regularly scheduled board meetings.
- ◆ The committee may also meet by conference call as necessary. The duration of the meeting will be dictated by the time required to effectively address the agenda. The Committee will also meet in executive session as deemed necessary.

Key Duties:

- ◆ As delegated by the board of directors, the committee has the authority for the appointment, compensation, retention and oversight of the work of their 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 related work. The independent auditor will report directly to the Audit Committee. If the Audit Committee does not have input into the selection process of the independent auditors for the Association, i.e. AgriBank selects the independent auditor for the Association, then the corresponding responsibilities related to this area may be restated by the Committee.
- ◆ The Committee has the authority to engage independent counsel and other advisors, as they deem necessary to carry out their duties. The Committee shall have the authority to call for special or investigative audits. The Association will provide appropriate funding as required by the committee for payment of service fees to the independent auditor, independent counsel, or other advisors. A 2/3 majority vote of the full board is required to deny an Audit Committee's request for resources.

Financial Statement:

- ◆ Review and determine the adequacy of the Association's accounting policies and practices through discussions with the Audit Department, Independent Auditors and Association management.
- ◆ Review current regulatory, accounting or reporting developments and any significant accounting changes with management and the Independent Auditor.
- ◆ 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 Association, 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 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 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.
- ◆ Review the quarterly financial statement prior to distribution and discuss with financial management any significant changes to the Association's accounting

principles. The Chair of the Committee may represent the entire Committee for purpose of these discussions when deemed necessary.

- ◆ Review, prior to issuance, quarterly and annual press releases of financial results as well as any interim press releases.

Independent Auditor:

- ◆ The Independent Auditors are ultimately accountable to the Audit Committee and the Board of Directors.
- ◆ Meet regularly with the Independent Auditors to review their annual audit plans and receive reports based on audit activity.
- ◆ Review and discuss periodically with management and the independent auditors their respective disclosure controls and procedures.
- ◆ Review and determine that no restrictions are being placed on the Independent Auditors by management.
- ◆ Pre-approve any allowable non-audit services to be provided by the Independent Auditors to the Association.
- ◆ Receive a report from the Independent Auditor at least annually of any non-audit engagements with district associations and receive written certification on an annual basis that they are not providing any prohibited non-audit services to the Association.
- ◆ Review the Independent Auditor's annual engagement letter with the Chief Executive Officer or Chief Financial Officer.
- ◆ Meet in executive session with the Independent Auditor as deemed necessary.

Internal Auditor:

- ◆ The Vice President of Audit/Review will report directly to the Audit Committee and the Board of Directors.
- ◆ Review and determine that no restrictions are being placed on the Audit Department by management.
- ◆ Annually establish the performance objectives and approve the performance evaluation of the Vice President of Audit/Review. Obtain input from the Chief Executive Officer regarding these performance objectives and the performance evaluation. Consult with the Board of Directors on the appointment or replacement of the Vice President of Audit/Review.
- ◆ Review and approve the Annual Audit Plan and any changes to the plan.

Internal Controls:

- ◆ After the committee reviews a financial policy, procedure, or report, it must note its agreement or disagreement with the items in the meeting minutes.
- ◆ Establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of the Association, any concerns regarding questionable accounting or auditing matters.
- ◆ Determine the adequacy of internal controls through a review and discussion of all audit reports issued by the Audit Department or the Independent Auditor relating to the Association or the Association's operations.

- ◆ Review along with the Board of Directors, all examination reports of the Association, issued by the Farm Credit Administration, and evaluate management's response to the report.
- ◆ Review with the General Counsel, the program for monitoring compliance with the Standards of Conduct Regulations and at least annually with management and the independent and internal auditors, compliance with the Association's Code of Ethics for senior management and principal accounting officers.
- ◆ Review management's internal control report with the independent auditor and the internal auditor.
- ◆ Review and discuss with management, any significant findings by the Independent Auditors or the Audit Department together with management's response to such findings.

Other:

- ◆ Annually review and recommend approval of the Audit Committee Charter to the board of directors.
- ◆ Annually prepare a report to be included in the Association's annual report, disclosing the committee's review and discussion of the annual financial statements with management and discussed matters with independent auditors as required.
- ◆ Call for any special projects or investigations necessary, and call for Executive Sessions as deemed necessary with the Vice President of Audit/Review and/or the Independent Auditor.
- ◆ Maintain minutes of meetings and report to the Board of Directors regularly.
- ◆ Perform a self-assessment of the effectiveness of the Audit Committee activities at least bi-annually.
- ◆ Respond to any concerns identified by the Association Audit Committee and conduct any audit committee activities that are necessary for the Association Audit Committee to fulfill its chartered responsibilities.

Approved by Audit Committee:

January 20, 2010


Signed: _____

Approved by Board of Directors:

January 20, 2010


Signed: _____