



Audit Committee Charter

I. PURPOSE & AUTHORITY

The Audit Committee is a committee of the Board of Directors. The primary function of the Audit Committee is to fulfill 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.

While the Audit Committee has the powers set forth in this charter, it is not the duty of the Audit 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 Audit Committee to ensure reasonable steps are taken by management to ensure the accuracy of financial reporting and adequacy of the institution's system of internal controls.

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

- Evaluate the selection of the independent accountants retained to prepare an annual audit report. The independent accountant shall report directly to the Audit Committee.
- Determine the selection of the independent accountants retained to perform the internal audit function and the scope of such services. The internal auditor shall report directly to the Audit Committee.
- Determine the selection of the independent examiner retained to perform an internal credit review and the scope of such services. The independent examiner shall report directly to the Audit Committee.
- Serve as an independent and objective party to review the financial information and internal control assertion presented by management to the shareholders, regulators and the general public.
- Review and appraise the audit efforts of the Association's independent accountants, internal auditor, and internal credit reviewer.
- Monitor the Association's compliance with legal and regulatory requirements.
- Review and supervise the internal audit function.
- Provide an open avenue of communication among the independent accountants, financial and senior management, the internal auditor, and the board of directors.

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 including retaining services for training on industry best practices. A two-thirds majority vote of the Board of Directors is required to deny request for resources.

II. COMPOSITION

The Audit Committee shall be comprised of at least three directors as determined by the full Board. Each member 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 be knowledgeable in public and corporate finance, financial reporting and disclosure or accounting procedures. The Committee must have one financial expert.

III. MEETINGS

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee shall meet as often as needed, but at least once per year with management, the internal auditor and the independent accountants in separate executive sessions to discuss any matters that the committee or any of these groups believe should be discussed. Meetings may be called by the chairman of the Committee or by the chairman of the Board.

These meetings should be attended in person if possible; however, use of telephone and/or video conferencing may be used as well as determined appropriate by the Committee. Meeting agendas and appropriate materials will be prepared and provided in advance to members, and minutes of meetings will be prepared. The Committee Chair shall report on the activities of the Committee to the full Board.

IV. RESPONSIBILITIES AND DUTIES

In fulfilling its responsibilities and duties, the Audit Committee shall seek assistance from management, independent accountants, the internal auditor, general counsel, and others as the Committee deems appropriate.

Documents/Reports Review

The Audit Committee shall:

1. Review the adequacy of this charter on an annual basis and revise the charter to reflect relevant new legal and other requirements relating to Audit Committee responsibilities.
2. Review the Association's annual and quarterly financial statements and any reports or other significant financial information including any certification, report, opinion or review rendered by the independent accountants.
3. Discuss with the independent accountants, prior to the release of the annual audited financial statements, all (a) critical accounting policies and practices used by the Association, (b) 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 accountant, and (c) other material written communications between the independent accountants and management, such as management letters, schedule of unadjusted differences, reports on observations and recommendations on internal controls, a listing of adjustments and reclassifications not recorded, and the independent accountant's independence letter.
4. Review, prior to the issuance, each press release of financial results.
5. In addition, discuss with management, independent accountants, internal auditors, and others as necessary, the:
 - Quarterly Call reports required by the Farm Credit Administration
 - Special examination reports of the Farm Credit Administration
 - Quarterly Sarbanes-Oxley management certifications
 - Internal Audit reports
 - Summary of Accumulated Deficiency (SAD) reports
 - Internal Credit Review reports
 - Risk management reports
 - Any other reports or significant financial information
6. Evaluate the adequacy of the Association's internal controls by review of written reports from the internal and external auditors, and monitor management's response and actions to correct any noted deficiencies.
7. Review the risk assessment process and approve the scope of the internal audit plan for the year.

8. On a quarterly basis, review the status of the internal audit plan and the internal auditor's follow-up activities to ascertain management's efforts to respond to audit issues.
9. On a quarterly basis, review reports of complaints related to questionable accounting, internal accounting controls or auditing matters.
10. Review the interim and annual financial information with management and the independent accountants as reported in the quarterly Call Report with the FCA.
11. Meet at least annually, or as needed, with the chief executive officer to discuss and provide input on the Association's system of internal controls and the quality of credit.
12. Regularly review the Asset/Liability Committee's (ALCO) analysis of and processes for the allowance for loan losses.

Independent Accountants

The Audit Committee shall:

13. Determine the selection of the independent accountants considering independence and effectiveness; review the planning, scoping and staffing for the annual audit; and approve the fees and other compensation to be paid to the independent accountants.
14. Pre-approve allowable non-audit services to be provided by the independent accountants. On an annual basis, the committee should obtain and review a formal written statement from the independent accountants that discusses all significant relationships the accountants have with the Association to determine the accountants' independence.
15. Review the performance of the independent accountants and approve any replacement of the independent accountants when circumstances warrant.
16. Discuss with the independent accountants the matters required to be discussed by Statement of Auditing Standards No. 61, as amended by SAS No. 90.
17. Periodically consult with the independent accountants in executive session to discuss internal controls and the completeness and accuracy of the organization's financial statements.
18. Review with the independent accountants any problems or difficulties the accountants may have encountered during the annual review, including any disagreement among management and the independent accountants or the internal auditor in connection with the preparation of the financial statements.
19. Review any significant recommendations in the management letter provided by the accountants and management's response to the letter.

Financial Reporting Processes

The Audit Committee shall:

20. In consultation with the independent accountants and the internal auditor, review the integrity of the Association's financial reporting processes, both internal and external.
21. Discuss with the independent accountants their judgments about the quality and appropriateness of the Association's accounting principles as applied in its financial reporting.
22. Consider and approve, if appropriate, major changes to the Association's auditing and accounting principles and practices as suggested by the independent accountants, management, or the internal auditor.

23. If deemed appropriate after review and discussion, recommend to the Board that financial statements be included in the Association's annual report.
24. Review, prior to release of information, any (a) significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting and (b) fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
25. Review (a) 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 (b) earnings press releases and other reports or written electronic material disclosing proforma, or adjusted non-GAAP information.

Process Improvement

The Audit Committee shall:

26. Following completion of the annual audit, review separately with management, the independent accountants and the internal auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
27. Review with the independent accountants, the internal auditor and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.)
28. Receive periodic reports on internal controls or certain control environments (i.e. SAS 70, Section 404).

Ethical and Legal Compliance

The Audit Committee shall:

29. Review annually the Association's Standard of Conduct and Code of Ethics policy and ensure that management has established a system to enforce this policy.
30. Review with the Association's general counsel, legal compliance matters that may have a material impact on the financial statements, the Association's compliance policies and any material reports or inquiries received from regulators or governmental agencies.
31. Establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters for the confidential, anonymous submission by Association employees of concerns regarding questionable accounting or auditing matters.
32. Establish a tracking system to ensure completion of corrective actions for identified weaknesses and the causes noted in internal and external audits, credit reviews, and examination reports.
33. Perform any other activities consistent with this charter, the Association's bylaws and governing law, as the Committee or the Board deems necessary or appropriate.

Communication and Documentation

The Audit Committee shall:

34. Assess performance relative to the Audit Committee's purpose, duties, and responsibilities.
35. Maintain records of meetings including attendance for three fiscal years.

36. Record in Audit Committee minutes agreement or disagreement with financial policies, procedures and reports that are under review.

V. Amendments

This charter may be amended by action of the Association's Board of Directors. The Audit Committee shall recommend amendments to the Board of Directors as considered necessary.

Revised with Board approval 9/28/2010