

# **Alabama Ag Credit, ACA**

## **AUDIT COMMITTEE CHARTER**

### **I. PURPOSE**

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities relating to the quality of financial reporting, the system of internal control, the audit process, and the Association's process for monitoring compliance with laws and regulations.

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

- Serve as an independent and objective party to monitor the Association's financial reporting process and internal control system.
- Evaluate the selection of the independent accountants retained to prepare an annual audit report.
- Evaluate the selection of the accountants and consultants retained to perform internal audit function (including credit review, collateral evaluation review, and collateral custodian audit), and determine the scope of such services.
- Review and appraise the audit efforts of the Association's independent accountants and internal auditors.
- Monitor the Association's compliance with legal and regulatory requirements.
- Provide an open avenue of communication among the independent accountants, financial and senior management, the internal auditors, 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.

### **II. COMPOSITION**

The Board of Directors will appoint an Audit Committee ("Committee") and delegate to that Committee all of the rights, obligations, responsibility and authority necessary to fulfill its duties under this charter. The Committee shall be comprised of four directors 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. The Board Chairman may serve as an "ex officio" member of the committee, with no voting privileges. At least one member of the Committee shall be designated as the

“financial expert” as defined by applicable legislation and regulation. However all members of the Committee should have a working familiarity with general business and/or basic finance and accounting practices, and collectively should have the accounting or related financial management expertise to fulfill their responsibility.

The term of office for each position on the Committee shall be for one year. The Chairman and members of the Committee shall be appointed by the Board at the annual organizational meeting of the Board and shall serve until their successors shall be duly selected and qualified. The Board, upon recommendation of the Committee or otherwise, may remove any Committee member at any time.

### **III. MEETINGS**

For a committee meeting to be official, a quorum must be present, defined as at least two members of the committee. 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 auditors, the independent accountants, and others as deemed necessary, in separate executive sessions to discuss any matters that the Board, Committee or any of these groups believe should be discussed. These meetings should be attended in person if possible, however, use of tele- and/or video-conferencing may be used as well as determined by the Committee. Meeting agendas and appropriate materials will be prepared and provided in advance to members whenever possible, and minutes of meetings will be prepared.

### **IV. RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties the Audit Committee shall, with such assistance from and consultation with management, independent accountants, internal auditors, credit review personnel, regulatory personnel, legal counsel and others, as the Committee deems appropriate:

1. Review the adequacy of this charter on a periodic basis, at least annually, and, if deemed necessary, recommend to the board changes to the charter.
2. Meet at least annually, or as needed, with management to review and discuss the Association's system of internal controls, the quality of credit, and the integrity of the Association's internal and external financial reporting processes.
3. Review the quality and propriety of the Association's accounting principles and practices as applied in its financial reporting, approve changes to those accounting principles and practices as considered appropriate, and monitor implementation of the changes.

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4. Review the Association's financial and other reports with management, the independent accountants, internal auditors and others, as necessary:
  - Quarterly and Annual shareholders' reports (and authorize release of said reports)
  - Internal Audit report
  - Credit Review report
  - Collateral Evaluation Review report
  - Collateral Custodian Audit report
  - any other reports or significant financial information including any certification, report, opinion, or review rendered by the independent accountants.
5. Report to the Board of Directors regarding the independent accountants (i.e., outside auditors):
  - The selection of the independent accountants for the coming year, considering independence and effectiveness;
  - Review the audit plan and staffing for the annual audit;
  - Approve the fees and other compensation to be paid to the independent accountants;
  - Review the performance of the independent accountants and approve any replacement of the independent accountants when circumstances warrant.
6. Report to the Board of Directors regarding the internal auditors (including the credit review, collateral evaluation review, and collateral custodian audit functions):
  - The selection of the internal auditors for the coming year;
  - Review, approve and monitor the audit plan of the internal auditors;
  - Approve the fees and other compensation to be paid to the internal auditors;
  - Review the performance of the internal auditors and approve any replacement of the internal auditors when circumstances warrant.
7. Periodically consult with the independent accountants and internal auditors in executive session to discuss internal controls and the fullness and accuracy of the organization's financial statements.
8. Review any significant recommendations in reports and/or other communications provided by the accountants and the Association's response to those reports/communications.
9. Review, prior to release, any information or reports regarding significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting and any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
10. Following completion of the annual audit and/or internal audit, review separately with management, the independent accountants and the internal auditors any problems or significant difficulties encountered during the course of the audit, including any

restrictions on the scope of work or access to required information, and any disagreement among management and the independent accountants in connection with the preparation of the financial statements, or the internal auditors in connection with performing their respective functions.

11. Review and monitor management's efforts to respond to audit findings.
12. Review periodically (at least annually) and approve any changes to the Association's Expense Allocation Methodology which governs the allocation of expenses between the FLCA and the PCA, and ensure that management has established a system to ensure compliance with the methodology.
13. Review 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.
14. Perform any other activities consistent with this Charter, the Association's By-laws and governing law, as the Committee or the Board deems necessary or appropriate.

#### **V. REPORTING RESPONSIBILITIES**

1. The Committee Chairman will report on the activities of the Committee to the full Board.
2. Minutes of the Committee meetings will be provided to the full Board.
3. The Committee will facilitate an open avenue of communications between internal audit, the external auditors, and the Board.

**Charter revised by Audit Committee on April 24, 2012 and approved by the Board of Directors on April 25, 2012.**