



Farm Credit
of
East Central Oklahoma

Audit Committee

Ross Love, Chairman
Wayne Johnson, Vice Chairman
Jimmie Jarrell, Member
Dale McDaniel, Member
Don Morris, Member

FCS OF EAST CENTRAL OKLAHOMA AUDIT COMMITTEE CHARTER

Mission Statement

The Audit Committee (Committee) of Farm Credit Services of East Central Oklahoma, ACA (Association) is established by and reports to the Board of Directors (Board) to assist the Board in fulfilling its fiduciary and oversight responsibilities.

The Mission of the Committee is to:

- Review financial statements and significant accounting policies;
- Oversee financial reporting regarding its disclosure to shareholders, and to U.S. AgBank, FCB (AgBank), for both AgBank District reporting and reporting to the Federal Farm Credit Banks Funding Corporation (Funding Corporation) for disclosure to investors;
- Oversee the audit activities of the independent auditor; and
- Monitor internal controls, including those relating to compliance with laws and regulations.

Membership, Qualifications, and Terms of Office

A. Membership

The Committee shall consist of a minimum of 3 directors. Each member will meet the criteria for independence established by the Board. This includes being independent of management of any Farm Credit System (System) disclosure entity or Farm Credit Association and free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a Committee member. The Board Chairman and Vice Chairman shall serve as an ex-officio, non-voting member of the Committee. The Board Chairman shall appoint the Audit Committee Chairman, Vice Chairman, and all members of the Committee. A newly elected director whose predecessor served on the Audit Committee will assume that position on the Audit

Committee until the Board chair makes Committee appointments. Any Board member may attend Committee meetings.

B. Qualifications of Members

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.

Each member shall be knowledgeable in public and corporate finance and in, financial reporting and disclosure practices or accounting procedures. At least one member of the Committee must be an independent member who is designated by the Board to be a financial expert recognized as having education or experience in accounting, internal accounting controls, or preparing or reviewing financial statements for financial institutions or large corporations consistent with the breadth and complexity of accounting and financial reporting issues that can reasonably be expected to be raised by the institution's financial statements. If the Association hires a financial advisor as permitted under FCA regulations, that advisor will also serve as an advisor to the Audit Committee.

C. Terms of Office

The term of office for each position on the Committee shall be for one year. The Board, upon recommendation of the Committee, may remove any Committee member at any time.

Meetings

The Committee will meet at least four times a year, with authority to convene additional meetings as circumstances require as determined by the Chairman. The Committee will invite members of management, auditors, or others to attend meetings and provide pertinent information, as necessary. Meeting agendas will be prepared in consultation with the Chair or Vice-Chair and provided in advance to members, along with appropriate briefing materials. The Committee may, at times, handle duties and responsibilities of the Committee in concert with the Board during, before, or after Board meetings. Minutes of all Committee meetings will be prepared and approved by the Committee. Minutes will include attendance and will be retained for at least 3 fiscal years.

The Board Secretary is available to the Committee to record and prepare these minutes.

Responsibilities and Authorities

The Committee shall have the following responsibilities and authorities. These responsibilities will be discharged with the assistance of appropriate management and independent auditors. The Committee shall have the authority to take corrective actions and/or conduct or authorize special or investigative audits into matters within the Committee's scope of responsibilities. The Committee shall have access to all books, records, facilities, and personnel of the Association. Unless otherwise authorized by amendment to this Charter, the Committee shall not delegate any of its authority to any subcommittee.

A. Financial Reporting and Disclosure

1. Review as appropriate, quarterly and annual accounting, financial, AICR/AIOR and Sarbanes Oxley (Sox) reports with management and consider whether they are complete and consistent with the information known to Committee members.
2. Require periodic reports from management, the independent auditor, and internal audit regarding any significant proposed regulatory, accounting, or reporting changes and

issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements. Understand the potential impact to the financial reporting from these developments.

3. Review and assess the impact on the Association and its financial reporting process of any significant accounting or auditing developments or any accounting policy changes relating to the preparation of financial statements.
4. Periodically, but at least annually, review and discuss with management and the independent auditor disclosure controls and procedures.
5. Prior to issuance, approve any annual, quarterly and interim press release of financial results.
6. Review non-financial sections of the annual report before release and consider the accuracy and completeness of the information.
7. Prior to the release of annual reports, review a report on disclosures made by the Chief Executive Officer, Chief Credit Officer and Vice President Finance during their certification process about any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that 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 internal controls.
8. Prior to the release of annual audited financial statements, review with management and the independent auditors the results of the audits including any difficulties encountered and receive reports regarding: (a) all critical accounting policies and practices used by the Association; (b) all material alternative accounting treatments of financial information within Generally Accepted Accounting Principles (GAAP) that have been discussed with management, including the ramifications of the use of alternative treatments and disclosures and the treatment preferred by the independent auditor; and (c) other material written communications between the independent auditor and management, such as any management letter and management's response to the 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.
9. Review each quarterly report prior to its dissemination to the public, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles. Notification of Committee meetings and draft reports will be provided prior to release to each Board member. Quarterly reports will be reviewed and discussed in a Committee meeting that may include management and/or the independent auditors. The Board hereby delegates to the Committee the authority to approve the release of quarterly statements.
10. Review each annual report prior to its dissemination to the public, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles. Notification of Committee meetings and draft reports will be provided to each Board member. Annual reports will be reviewed and discussed in a Committee meeting that includes management and the independent auditors. If deemed appropriate, after review and discussion, recommend to the Board the inclusion of the financial statements in annual reports. Board action is required for final approval and release of annual reports.

11. After the Committee reviews a financial policy, procedure, or report, it must record in its minutes its agreement or disagreement with the item(s) under review.
12. Report annually to the shareholders, describing the Committee's composition, responsibilities and how they were discharged, and any other required information. The report will include a disclosure that the Committee has reviewed and discussed the audited financial statements with management and discussed matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance) with the independent auditors. The report will also reflect that the Committee received written disclosures and a letter from the independent auditors in accordance with Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), and discussed with the independent auditors their independence from AgBank.
13. Approve disclosures made by management and the independent auditor regarding: (a) the effect of off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on the financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investor's; and (b) earnings press releases and other reports or written or electronic material disclosing "pro forma," or "adjusted" non-GAAP information.

B. Independent Auditors

1. The Committee is responsible for the appointment, compensation, retention or discharge, and oversight and review of the work of the independent auditor, who shall report directly to the Committee for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Association. This includes resolution of disagreements between management and the independent auditor regarding financial reporting.
2. Review and approve the scope, approach, and planning of the annual audit by the independent auditor of financial statements, and review the interim and financial reports of the independent auditor with respect to the audits. Ensure that Association Management is involved in the development of the scope of all external audits.
3. Pre-approve allowable non-audit services to be provided by the independent auditor, and take appropriate steps to ensure that the independent auditor is not providing prohibited non-audit services, including the receipt of a written certification from the independent auditor to that effect. The independent auditor is prohibited from providing bookkeeping, valuation services, financial information system design, actuarial services, internal audit outsourcing services, management or human resources functions, legal and expert services unrelated to the audit, and advocating the institution's interests in litigation, regulatory or administrative investigations or proceedings.
4. Review any material weaknesses in internal accounting control structure identified as a reportable condition by the independent auditor, and recommend and/or monitor, as deemed necessary by the Committee, the correction of any such deficiency.
5. On a regular basis, meet separately in executive session with the independent auditors to discuss any matters that the Committee or auditors believe should be discussed privately.
6. Review and confirm the independence of the independent auditors by obtaining statements from the auditors on relationships between the auditors and the Association, including non-audit services, and discussing the relationships with the auditors, including

matters specifically required in Statement of Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance) and Part 621 of Farm Credit Administration regulations. Receive written disclosures and a letter from the independent auditors in accordance with Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), and discuss with the independent auditors their independence from the Association.

7. Receive a written report annually from the independent auditor that describes: the independent auditing firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm; and any steps taken to deal with such issues. Discuss with the independent auditors the contents of the report and the impact of the matters addressed in the report on the quality of services performed by the independent auditors.
8. Evaluate annually, whether the Association should change its independent auditor or the partner in charge of performing or reviewing the Association's audit or other audit team personnel.
9. Ensure there are no unjustified restrictions or limitations on the independent auditors.

C. Internal Control

1. Evaluate the adequacy and effectiveness of administrative, operating, and accounting policies through active communications with operating management, internal audit, and the independent auditor.
2. Evaluate the adequacy of internal accounting control by review of written reports from the internal and independent auditors and regulators along with management's response and actions to correct any noted deficiencies.
3. At least annually, review and discuss internal controls with the independent auditor and Association Management.
4. Oversee system of internal controls related to preparation of financial reports, information technology security and control, those controls relating to compliance with applicable laws and regulations, and controls relating to the preparation of quarterly and annual reports.

D. Internal Audit

1. Review and approve the Internal Audit Charter.
2. Review and approve the annual risk assessment and the annual and three year audit plans developed and recommended by Association Management.
3. Review the budget, staffing, and organizational structure of the internal audit function.
4. Ensure there are no unjustified restrictions or limitations on the internal audit function.
5. Ensure that internal auditors utilize adequate scopes of work and have full access to all information needed.
6. Prior approve the appointment, replacement and/or dismissal, of the Association's Internal Auditor.

7. Ensure that the CEO has full responsibility for contracting with independent parties to perform any contract audits according to the audit plan or special request.
8. Review all reports and findings resulting from the internal audit functions independent evaluation of the systems of internal control and continuing operations.
9. Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing.
10. The committee may meet separately with the Internal Auditor to discuss any matters that the Committee or Internal Auditor believes should be discussed in an executive session.

E. Compliance

1. Review all examination and other reports from regulators submitted and monitor management's response to any findings included in these reports.
2. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up, including disciplinary action, of any instances of noncompliance.
3. Obtain updates from management and legal counsel regarding compliance matters, as needed.

F. Coordination with the AgBank and/or System Audit Committees

1. Review reports from the Association to the AgBank and/or System Audit Committee regarding all significant deficiencies and material weaknesses in the design or operation of key internal controls over financial reporting that are identified.
2. Review reports from the Association to the AgBank and/or System Audit Committee regarding any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
3. Review reports from the Association to the AgBank and/or System Audit Committee regarding any significant issues regarding questionable accounting, auditing matters or fraud originating from the Whistleblower Program.
4. Respond to any concerns identified by the AgBank and/or System Audit Committee and conduct any investigations or other audit committee activities that are necessary to enable the AgBank and/or System Audit Committees to fulfill their chartered responsibilities.

G. Other Responsibilities

1. 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 accounting or auditing matters (Whistleblower Program).
2. Adopt such additional procedures, undertake such activities or utilize such resources as the Committee may deem appropriate, in order to discharge its responsibilities and authorities and to accomplish the stated objectives.

3. Discharge any additional responsibilities and authorities as may be imposed by law or regulations.
4. Annually assess the adequacy of and, if appropriate, propose to the Board any desired changes in the Committee's Charter.
5. Make regular reports to the Board that summarizes the work performed by the Committee to discharge its responsibilities and authorities.
6. Perform such other duties and responsibilities as may be assigned to the Committee, from time to time, by the Board.

Resources

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; (b) compensating independent counsel and/or other advisers engaged by the Committee; and (c) paying ordinary administrative expenses the Committee incurs in carrying out its duties. A two-thirds majority vote of the full Board of Directors is required to deny the Committee's request for resources.

Amendment

This Charter may be amended from time to time by action of the Board. The Committee will request Board approval for any proposed changes. This Charter will be reviewed by the Board at least annually.

- ❖ New "Audit Committee Charter" adopted 01-29-04.
- ❖ Replaces "Selection of Appointed Director Policy" dated 04-28-06.
- ❖ Revised "Audit Committee Charter" dated 07-26-06.
- ❖ Revised "Audit Committee Charter" dated 09-20-07.
- ❖ Revised "Audit Committee Charter" dated 07-28-08.
- ❖ Revised "Audit Committee Charter" dated 08-18-09.
- ❖ Revised "Audit Committee Charter" dated 02-24-10.