

Fresno Madera Farm Credit, ACA
Audit Committee Charter
As Adopted on October 26, 2004

1. Mission Statement

The Fresno Madera Farm Credit, ACA (the Association, FMFC) Audit Committee is established by resolution of the FMFC Board of Directors. The primary function of the Committee is to fulfill the Board's oversight responsibilities in relation to the quality of financial reporting and internal controls.

The mission of the Committee is:

- to fulfill its fiduciary responsibilities relating to accounting and reporting practices of the Association;
- to oversee and appraise the quality of the audit effort of the Association's internal audit function and its independent auditor;
- to maintain, by scheduling regular meetings, open lines of communications between the internal audit function and the independent auditor to exchange views and information as well as confirm their respective authority and responsibilities; and
- to serve as an independent and objective party to review the financial information presented by management to shareholders, regulators, and the general public.

2. Membership, Qualifications and Terms of Office

(a) Membership

The Audit Committee shall consist of the same individuals who concurrently serve as the FMFC Board. The Chairman and Vice-Chairman of the Board shall serve as the Chairman and Vice-Chairman of the Audit Committee. The Bylaws of FMFC ACA establishes a 10 man Board with 8 elected by the membership and 2 appointed by the Board; thus the Audit committee shall also have ten positions. Vacancies on the FMFC Board shall be reflected identically with vacancies on the Audit Committee. Members of the audit committee shall be free from any relationship that could interfere with the exercise of his or her independent judgment as a member of the Committee. Members of the Committee should have a practical knowledge of finance and accounting and be able to read and understand fundamental financial statements. At least one member of the Committee should be a Board appointed member who shall have related financial management and or accounting expertise with experience in agriculture, a related field or other business. The Association Board shall appoint the members to Audit Committee at the annual re-organizational meeting.

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(b) Qualifications of Members

- Each member shall be knowledgeable in public and corporate finance and in financial reporting and disclosure practices.
- Each member shall be independent of management of any System disclosure entity or any Association, and shall be free from any relationship that, in the opinion of the Association board of directors, would interfere with the exercise of independent judgment as a Committee member.
- Members must continue to serve in the capacity that allowed their selection as a Committee member. If, prior to the expiration of their term of office on the Committee, any Committee member ceases to serve in the capacity that allowed that person's selection as a Committee member, the member shall continue in office until his/her successor is appointed unless they no longer serve in the capacity that allowed his/her selection as a Committee member because of regulatory action or conviction of a felony.

(c) Terms of Office

If other than the full board serves as the Committee, members will serve three-year staggered terms that coincide with their FMFC Director positions. One third of the Committee members shall be appointed annually. If there is a vacancy, the Association's board of directors will appoint a member to the Committee.

3. Meetings and Other Actions

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. These meetings may be in conjunction with regularly scheduled Board meetings. 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 (CEO, CFO, CCO) and the independent auditor 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 Association board. All meetings and other actions of the Committee shall be held or otherwise taken pursuant to the Association's bylaws, including bylaw provisions governing notices of meetings, waivers, the number of Committee members required to take actions at meetings or by written consent, and other related matters. With Audit Committee meetings held in conjunction with regular Board meetings, these provisions shall be deemed satisfied with the same action taken relative to the Board meetings.

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Minutes of the meetings shall be prepared and distributed to the Committee and the board. Reports of meetings and actions taken at meetings or by consent by the Committee since the most recent Association board meeting (except to the extent covered in an interim report circulated to the board) shall be made by the Committee chairman or his/her delegate to the board at its next regularly scheduled meeting following the Committee meeting or action and shall be accompanied by any recommendations from the Committee to the board. In addition, the Committee chairman or his/her delegate shall be available to answer any question the board members may have regarding the matters considered and actions taken by the Committee. Minutes of the Audit Committee meetings may be included within the regular Board meeting minutes.

4. Responsibilities and Authorities

For the purpose of achieving the Committee's objectives, the Committee shall have the following responsibilities and authorities. Unless otherwise authorized by an amendment to this Charter, the Committee shall not delegate any of its authority to any subcommittee.

- (a) Responsible, after giving due consideration to the need for a single auditor for all System institutions and with the concurrence of the Association board of directors, for the appointment, compensation, retention and oversight of the work of the independent auditor, who shall report directly to the Committee, (including resolution of disagreements between Association management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services at the Association;
- (b) Review and approve the scope and planning of the annual audit by the independent auditor of the Association's financial statements, and to review the interim and final reports of the independent auditor with respect to the audits;
- (c) Evaluate the adequacy and effectiveness of the Association's administrative, operating and accounting policies through active communications with operating management, internal audit, and the independent auditor;
- (d) Evaluate the adequacy of the Association's internal accounting control by review of written reports from the internal and external auditors and monitor management's response and actions to correct any noted deficiencies;
- (e) Review all regulatory reports submitted to the Association and monitor management's response to them;
- (f) Oversee the Association's system of internal controls, including those controls relating to the Association's compliance with applicable laws and regulations or relating to the preparation of each quarterly or annual reports;
- (g) Require periodic reports from management, the independent auditor, and internal audit function on any significant proposed regulatory, accounting or reporting issue to assess the potential impact upon the Association's financial reporting process;

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- (h) Review and assess the impact on the Association's financial reporting process of any significant accounting or auditing developments or any accounting policy changes relating to the Association's financial statements;
- (i) Periodically review and discuss with Association management and the independent auditor the Association's disclosure controls and procedures;
- (j) 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;
- (k) Review, if applicable, prior to issuance, each annual press release of financial results; the chairperson is to review annual press releases of financial results and if the chairperson has questions or concerns on the release, will discuss them with the full Committee, as well as any interim press releases;
- (l) Receive a report, prior to the release of the Association's annual report, from the Association regarding (a) all 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 (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Association's internal controls;
- (m) Receive a report from the Association 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 investors and (b) earnings press releases and other reports or written or electronic material disclosing "pro forma," or "adjusted" non-GAAP (generally accepted accounting principles), information;
- (n) Receive a report from the Association's independent auditor regarding (a) all critical accounting policies and practices used by the Association, (b) all material alternative accounting treatments of financial information within GAAP that have been discussed with Association management, including the ramifications of the use of alternative treatments and disclosures (and or notes) and the treatment preferred by the independent auditor, and (c) other material written communications between the independent auditor and Association 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;

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- (o) 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 any 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 auditor;
- (p) Evaluate annually, after giving due consideration to the need for a single auditor for all System institutions and taking into consideration all relevant circumstances known to the Committee, 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;
- (q) Review any material weakness in the Association's internal accounting control structure identified as a reportable condition¹ by the Association's independent auditor, and to monitor and to recommend, as deemed necessary by the Committee, the correction of any such deficiency;
- (r) The Chairman or his designee shall review each quarterly report of the Association prior to certification;
- (s) The Chairman or his designee shall review each annual report of the Association prior to certification;
- (t) Consult with the Association's legal counsel or outside counsel, as the Committee may deem appropriate, in order to discharge its responsibilities and authorities;
- (u) Hold executive sessions separately with management and the Association's independent auditors;
- (v) 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;
- (w) 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 Association accounting or auditing matters;

¹ A "reportable condition" is a significant deficiency in the design or operation of the internal accounting control structure that could adversely affect an institution's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements of the institution.

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- (x) Review and approve the annual risk assessment and the annual and three year audit plans developed and recommended by the internal audit function;
- (y) Review and approve the contract for the internal audit function; the internal auditor will report directly to the board and Audit Committee;
- (z) Ensure that internal auditors utilize adequate scopes of work and have full access to all information needed;
- (aa) Ensure that the internal audit function has full responsibility for contracting with external parties to perform any contract audits according to audit plan or special request;
- (bb) Review all reports and findings resulting from the internal audit function's independent evaluation of the systems of internal control and continuing operations;
- (cc) Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing;
- (dd) Ensure there are no unjustified restrictions or limitations on the internal or external auditors;
- (ee) 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;
- (ff) Review the process for communicating the standards of conduct to Association personnel and for monitoring compliance therewith;
- (gg) Obtain regular updates from management and legal counsel regarding compliance matters;
- (hh) Respond to any concerns identified by the District Bank and/or Farm Credit System Audit Committee and conduct any audit committee activities that are necessary for the District Bank and/or Farm Credit System Audit Committee to fulfill its chartered responsibilities;
- (ii) Review, on at least an annual basis, with management and the external and internal auditors, compliance with the Association's code of ethics;
- (jj) Discharge any additional responsibilities and authorities as may be imposed by law or regulation;
- (kk) Perform an annual self-evaluation of the Committee's performance and annually reassess the adequacy of and, if appropriate, propose to the board of directors, any desired changes in, the Committee's Charter;

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- (ll) Perform such other duties and responsibilities as may be assigned to the Committee, from time to time, by the Association's board of directors; and
- (mm) Prepare annually a report for the Association board of directors that summarizes the work performed by the Committee to discharge its responsibilities and authorities.

The Committee may at times handle duties and responsibilities of the Committee in concert with the board of directors at board of director meetings. The Committee shall have access to all books, records, facilities, and personnel of the Association.

5. Additional Resources

The Committee shall have the right 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 at the Association, (b) compensating independent counsel and other advisers engaged by the Committee, and (c) paying ordinary administrative expenses the Committee incurs in carrying out its duties.

6. Amendment

This Charter may be amended from time to time by action of the Association board of directors.