



Audit Committee Charter

PURPOSE

The Audit Committee of AgStar Financial Services, ACA, is established by and reports to the Board of Directors of the Association. The primary function of the Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the Association's process for monitoring compliance with laws and regulations, the standards of conduct and the code of ethics. The Committee's primary areas of responsibilities are as follows:

- **Financial Reporting** – Provide assurance that all financial disclosures made by Management reasonably portray the Association's financial condition. The Committee will be knowledgeable about the Association's key financial reporting risks and how these risks are managed.
- **Internal Controls** – Provide assurance that the Association has active and reliable internal control systems to safeguard its business assets.
- **Audit Process** – Provide assurances that the Internal Audit department and the external auditors are properly auditing the Association.
- **Corporate Governance** – Provide assurance that the Association is in compliance with all applicable laws and regulations that govern business operations as well as the Association's standards of conduct and the code of ethics.

AUTHORITY

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, retain and oversee the work of their independent auditor, who shall report directly to the Committee, (including resolution of disagreements between 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.

- Pre-approve all internal auditing and allowable non-audit services to be provided by the independent auditors as well as ensure the independent auditors are not providing prohibited non-audit services and receive a written certification from them that they are not providing any prohibited non-audit services.
- Retain independent counsel, accountants or others to advise the committee or assist in the conduct of an investigation.

Association will provide sufficient monetary and non-monetary resources to enable the Committee to perform its functions.

- Provide appropriate funding 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 for the Association, (b) compensating independent counsel and other advisors engaged by the audit committee, and (c) paying ordinary administrative expenses the Audit Committee incurs in carrying out its duties.
- Seek any information it requires from employees—all of whom are directed to cooperate with the committee's requests—or external parties.
- Meet with Association officers, external auditors, or outside counsel, as necessary.

COMPOSITION

The Committee will consist of at least four directors serving on the Association Board. Each committee member will be financially literate and at least one member shall be designated as the “financial expert” as defined by the Association as follows:

An individual who has, through education or work experience:

- An understanding of generally accepted accounting principles and financial statements prepared in accordance with such principles,
- Experience in preparing, auditing, or analyzing financial statements that present accounting issues that are generally comparable to those raised by the Association,

- Experience with internal accounting controls, and
- An understanding of audit committee functions.
- All Committee members must possess some knowledge in at least one of the following: public and corporate finance, financial reporting and disclosure, or accounting procedures.

The Audit Committee will elect a Chairperson and a Vice Chairperson. A quorum for a Committee meeting shall be three members. In the absence of the Chairperson, the Vice Chairperson shall preside. Changes in the Committee membership will be determined annually or as necessary in the event of a vacancy on the Committee. The Board of Directors must approve any change to the Committee structure.

MEETINGS

The Committee will meet at least three times per year with the Association's Internal Auditors to discuss the results of the completed reports and Management's responses. Discussions will include progress made by Management on any corrective action plans from previous internal or external reviews. Other meetings may be held throughout the year at the discretion of the Committee or at the request of the Internal Audit Team and/or examiners. The Chief Executive Officer and/or his designees will attend in order for the Committee to assess Management's responses to Internal Audits and internal control processes. The Committee shall meet in executive session with Internal Audit personnel, as deemed appropriate by the Committee. All records of Committee meetings, including attendance, must be maintained for at least three fiscal years.

RESPONSIBILITIES

The Committee will carry out the following responsibilities:

Financial Statements

- Review significant accounting and reporting issues with Management and external auditors, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.

- Review with Management and the external auditors the results of the audit, including any difficulties encountered.
- Review the press releases and annual financial statements with Management and the external auditors and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- Review other sections of the annual report and related regulatory filings (as needed) before release and consider the accuracy and completeness of the information.
- Review quarterly stockholder report with Management before publishing and consider whether they are complete and consistent with the information known to Committee members.
- Record in the Committee minutes its agreement or disagreement with the items under review.

Internal Control

- Consider the effectiveness of the company's internal control system, including credit review and information technology security and control.
- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.
- 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.

Internal Audit

- Review with Management and the Director Internal Audit the Audit Charter, annual Risk Assessments and Audit Plans, scope of activities, staffing, and organizational structure of the Internal Audit function. The Audit Plan and the related scope of activities will be included in the annual business plan.

- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the Director Internal Audit.
- Meet separately with the Director Internal Audit to discuss any matters the committee or Internal Audit believes should be discussed privately.
- Review all Internal Audit/Credit Review reports.
- Review and evaluate the effectiveness of Internal Audit's efforts on an ongoing basis.

External Audit

- Determine the appointment, compensation and retention of external auditors issuing audit reports of the Association.
- Review external auditors' proposed audit scope and approach, including coordination of audit effort with Internal Audit and Management, and have external auditors report to the Audit Committee as necessary.
- Review and confirm the independence of the external auditors by obtaining statements on relationships between the auditors and the Seventh District of the Farm Credit System, including non-audit services, and discussing the relationships with the auditors.
- Meet separately with the external auditors to discuss any matters the committee or auditors believe should be discussed privately.
- Review all external examination reports.

Compliance

- 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.
- Review the findings of all examinations by regulatory agencies, and all auditor observations, as well as the activities taken by Management on all such recommendations.

- Review the process for communicating the standards of conduct and the code of ethics to Association personnel, and for monitoring compliance therewith.
- Obtain regular updates from Management and company legal counsel regarding compliance/legal matters.

Reporting

- Maintain minutes of each Committee meeting and provide them in the Board Packet to all members of the Board of Directors. The Committee chairperson or designee will be responsible for reporting the results of the Committee meetings at the Association's Board of Directors' meetings.
- Provide an open avenue of communication between Internal Audit, the external auditors, and the Board of Directors.

Other Responsibilities

- Perform other activities related to this charter as requested by the Board of Directors.
- Institute and oversee special investigations as the Committee determines necessary.
- Review and assess the adequacy of the Committee charter annually. This will take place at the first Committee meeting following the Board of Directors' re-organizational meeting and appointment of Committee members.

Revision Approval Date: April 17, 2006

Initial Board Approval Date: February 23, 2005