

FARM CREDIT OF NORTHWEST FLORIDA

AUDIT COMMITTEE CHARTER

I. PURPOSE

The Audit Committee is a committee of the Board of Directors. The function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities relating to the quality of financial reporting and internal controls.

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.

II. COMPOSITION

The Audit Committee will be comprised of at least three directors. Members appointed to the Audit Committee should not serve on the Director Loan Committee and must be free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a Committee member. 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 responsibilities.

The Chairman and members of the Committee will be appointed by the Board of Directors at the annual organizational meeting of the Board and serve until their successors are duly selected and qualified.

III. MEETINGS

The Committee will meet at least four times annually, or more frequently as circumstances dictate. To foster open communication, the Committee will 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 matters that the Committee or any of these groups believe should be discussed. Special meetings may be called at any time by the Chair of the Audit Committee. Members of the Audit Committee may participate in a meeting through use of conference telephone or similar communication equipment, so long as all members participating in the meeting can hear one another, have all information needed to participate, have been given time to examine all materials, and are able to participate in discussions. Participation in a meeting constitutes attendance at the meeting, except for purposes of compensation, which will be treated in accordance with the Association's Director Compensation Policy.

IV. QUOROM AND VOTING

If the Audit Committee is comprised of an even number of directors, one-half of the number of directors will constitute a quorum for the transaction of business. If the Audit Committee is comprised of an odd number of directors, a majority of the Audit Committee members will constitute a quorum for the transaction of business. If the quorum consists of three or more members, majority vote is required for any action. If the quorum consists of two members, a unanimous vote is required for any action.

V. RESPONSIBILITIES AND DUTIES

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

- Serve as an independent and objective party to monitor the internal control system and financial reporting process including oversight of management's preparation of the annual report to shareholders.
- Evaluate the selection of the independent accountants retained to prepare an annual audit report and the selection of the firm retained to perform the internal audit function including development of the scope of the annual audit plans.
- Review and appraise the audit efforts of the independent accountants and internal auditor including compliance with, or deviation from, approved audit plans.
- Monitor compliance with legal and regulatory requirements.
- Review the impact of any significant accounting and auditing developments, and review accounting policy changes relating to the preparation of financial statements
- Review quarterly and annual reports prior to release. (FCA Regulation 620.30 (d)(1))
- Review the Farm Credit Administration (FCA) examination processes and results.
- Provide an open avenue of communication to the independent accountants, senior management, internal auditor, and the Board of Directors.

In fulfilling its duties, the Committee has full access to all books, records, facilities and personnel of the Association and the authority to retain outside counsel or other experts necessary to discharge their oversight role including retaining services for training on industry best practices.

To fulfill its responsibilities and duties the Audit Committee will, with such assistance from management and the internal auditor as the committee deems appropriate:

Documents/Reports Review

1. Review adequacy of this charter on an annual basis.
2. Review annual financial statements and any reports or other significant financial information including any certification, report, opinion, or review rendered by the independent accountants.
3. Develop and approve the scope of internal audit's plan for the year. The Association's Risk Management Committee will assist the Audit Committee in development of audit scope by reviewing the current audit plan and making recommendations to the Audit Committee for revisions based on changes in risk elements or operating practices.
4. Review additions and revisions to Association policy to determine if they necessitate a requested change in the approved scope of internal audit's plan.
5. Review a summary of major findings by the internal auditor and management's response for addressing the conditions reported and the activities of management responding to audit issues.
6. Request the internal auditor provide information on compliance with or any deviation from approved scope of internal audit's plan with the reported findings. The Committee will review all deviations from approved audit plans and either approve or complete appropriate follow-up action as needed.
7. Review interim financial information.
8. Review the annual FCA examination process and the report of examination issued by the FCA and any response by Association Management.
9. Meet as needed with management to discuss and provide input on the system of internal controls and the quality of credit.

Independent Accountants/Auditors

10. Recommend to the Board of Directors the selection of the independent accountants/auditors considering independence and effectiveness, review the planning and staffing for the annual audit, and approve the fees and other compensation to be paid to the independent accountants.
11. Ensure that the independent accountants/auditors report directly to the Audit Committee.
12. On an annual basis, the Committee should obtain and review a formal written statement from the independent accountants/auditors that discusses all significant relationships with the Association to determine the independence.

13. Review performance of the independent accountants/auditors and approve any replacement of the independent accountants/auditors when circumstances warrant.
14. Periodically consult with the independent accountants/auditors in executive session to discuss internal controls, and the fullness and accuracy of the organization's financial statements.
15. Review with the independent accountants/auditors 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.
16. Review any significant recommendations in the management letter provided by the accountants/auditors and the management's response to the letter.

Financial Reporting Processes

17. In consultation with the independent accountants and the internal auditor evaluate integrity of the financial reporting processes, both internal and external.
18. Discuss with the independent accountants their judgments about the quality and appropriateness of accounting principles as applied in Association financial reporting.
19. Consider and approve, if appropriate, major changes to the auditing and accounting principles and practices as suggested by the independent accountants, management, or the internal auditor.
20. If deemed appropriate after review and discussion, recommend to the Board that the financial statements be included in the Association's annual report.
21. Review, prior to release of information, any 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.

Process Improvement

22. Following completion of the annual audit, review separately with management, 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.
23. Receive and review periodic reports on internal controls or certain control environments and review with the internal auditing firm and management as needed to ensure any needed improvements are known and implemented.

Ethical and Legal Compliance

24. As needed, review legal compliance matters that may have a material impact on the financial statements, compliance policies, and any material reports or inquiries received from regulators or governmental agencies.
25. Perform any other activities consistent with this Charter, By-laws and governing law, as the Committee or the Board deems necessary or appropriate.

Internal Auditors (Internal Operations Auditor and Internal Credit Auditor)

26. Recommend to the Board of Directors the selection of the firm or firms to perform the internal audit functions considering independence, planning, scope of work, and staffing.
27. Determine the appropriate appointment, compensation and retention of the internal auditors issuing audit reports and internal credit review reports.
28. Provide review and oversight of the retained internal auditor(s)' work.

Procedures have been developed to assist the Audit Committee in the performance of their duties and are incorporated as an addendum to this charter.

VI. RECUSAL FROM PROCEEDINGS

The Audit Committee's responsibilities relate to matters of general applicability that affect all stockholders/borrowers in a nondiscriminatory way. However, if any committee member determines that their participation in an issue being deliberated presents a conflict of interest that committee member should recuse themselves from participation in those deliberations. To provide other committee members freedom of discussion, the committee member will physically remove themselves from committee discussion while the issue is under consideration. Meeting minutes will reflect the committee member's disclosure of the potential conflict of interest and recusal from the proceedings.

VII. REPORTING TO THE BOARD

Association staff, approved by the Audit Committee, will record minutes of each meeting and approved minutes will be presented to the Board of Directors at the next regularly scheduled Board meeting.