

Jackson Purchase Agricultural Credit Association  
Audit Committee Charter  
November 18, 2004

## I. PURPOSE

The Audit Committee is a committee of the Board of Directors. 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 and internal controls. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Association's policies, procedures and practices at all levels. The Audit Committee shall provide open avenues of communication among independent accountants, financial and senior management, the internal audit department, the Board of Directors, FCA and the AgFirst Farm Credit Bank Director of Internal Audits.

While the Audit Committee has the powers set forth in this Charter, 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.

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

- Recommend to the Board the employment of a qualified independent accounting firm to prepare an annual audit report.
- Serve as an independent and objective party to monitor the Association's financial reporting process and internal control system..
- Review and appraise the audit efforts of the Association's independent accountants and internal auditing department.
- Review the Farm Credit Administration (FCA) examination processes and results.
- 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 auditing department 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 the 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 of other experts considered necessary in discharging its oversight role.

## II. COMPOSITION

The Audit Committee shall be comprised of at least three 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. Members of the Committee should have a working familiarity with general business and/or basic finance and accounting practices, and at least one member of the Committee should have accounting or related financial management expertise.

The Chairman and members of the Committee shall be elected by the Board at the annual organizational meeting of the Board and shall serve until their successors shall be duly selected and qualified.

## III. MEETINGS

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 director of the internal auditing department and the independent accountants in separate executive sessions to discuss any matters that the Committee or any of these groups believe should be discussed.

## IV. RESPONSIBILITIES AND DUTIES

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

### Document/Reports Review

1. Review the adequacy of this charter on an annual basis.
2. Review the Association's annual financial statements and any reports or other significant financial information including any certification, report, opinion, or review rendered by the independent accountants.
3. Review and approve the scope of internal audit's plan for the year.
4. At least annually, review a summary of major findings by the internal auditing department and management's response for addressing the conditions reported.
5. Review the annual FCA examination process and the report of examination issued by the FCA.
6. Meet at least annually, or as needed, with the chief executive officer to discuss and provide input on the Association's system of internal controls and the quality of credit.

### Independent Accountants

7. Recommend to the Board of Directors the selection of the independent accountants 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.
8. On an annual basis, the Committee should obtain and review a formal written statement from the independent accountants that discusses all significant relationships the accountants have with the Association to determine the accountants' independence.
9. Review the performance of the independent accountants and approve any replacement of the independent accountants when circumstances warrant.
10. Periodically consult with the independent accountants in executive session to discuss internal controls and the fullness and accuracy of the organization's financial statements.
11. Review with the independent accountants 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 auditing department in connection with the preparation of financial statements.
12. Review any significant recommendations in the management letter provided by the accountants and the Association's response letter.

### Financial Reporting Processes

13. In consultation with the independent accountants and the internal auditors, review the integrity of the Association's financial reporting processes, both internal and external.
14. Discuss with the independent accountants their judgments about the quality and appropriateness of the Association's accounting principles as applied in its financial reporting.
15. Consider and approve, if appropriate, major changes to the Association's auditing and accounting principles and practices as suggested by the independent accountants, management, or the internal audit department.

### Ethical and Legal Compliance

16. Review annually the Association's Conflict of Interest policy and ensure that management has established a system to enforce this policy.

17. 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.
18. Promptly report any known immediate violation of the Association's Code of Ethics to the Association's Standards of Conduct Officer and Association Audit Committee and to the AgFirst FCB General Counsel, Chief Executive Officer or Director of Internal Audits.