

**NORTHWEST FARM CREDIT SERVICES
BOARD OF DIRECTORS**

Audit Committee Operating Statement

Board Approved: May 2010

Members:

Christy Burmeister-Smith, Chair

Herb Karst, Vice Chair

Jim Farmer

Karen Schott

Kevin Riel

Dave Nisbet

Coordination of Committee Activities.

The agenda and activities of each board committee may overlap or impact that of other committees. To ensure effective committee and board operations, each committee will through communications, minutes and board reporting endeavor to ensure the close and effective coordination of all committee activities.

Purpose—Key Objectives.

To assist the board of directors in fulfilling its oversight responsibilities for internal controls, the integrity of the association's financial statements, the association's compliance with legal and regulatory requirements, the external auditor's qualifications and independence, and the performance of the association's internal audit function and external auditors.

1. Promote Northwest FCS' awareness of, and commitment to, establishing a strong internal control environment.
2. Determine the adequacy of Northwest FCS' internal controls and evaluate adherence to them.
3. Provide independent and objective review of the reliability and integrity of financial information presented to stockholders, regulators and the general public.
4. Maintain, by scheduling regular meetings, open lines of communication among the Board, internal auditor and external auditor to promote an exchange of views and information, as well as confirm their respective authorities and responsibilities.
5. Enhance the independence of the internal audit function and monitor the independence and performance of the external auditor.

Authority.

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

1. Appoint, compensate and oversee the work of the external auditor employed by Northwest FCS to conduct the audit.

2. Resolve any disagreements between management and the auditor regarding financial reporting.
3. Pre-approve all auditing and permitted non-audit services performed by the external audit firm.
4. Retain independent counsel, accountants or others to advise the committee or assist in the conduct of an investigation.
5. Meet with the officers, external auditors and/or outside counsel as necessary and have unrestricted access to information, records and files as appropriate to accomplish its duties.
6. Unanimous direction by the committee, within the scope of its delegated authorities from the full Board, shall carry the same force and effect as though a full quorum of the Board was duly convened, present and acting.
7. Northwest FCS shall provide for appropriate funding, as determined by the committee, for payment of compensation to advisors employed by the committee to fulfill the above responsibilities.
8. A two-thirds majority vote of the Board is required to deny request for resources.

Composition.

The committee will consist of at least four members of the Board, including at least one appointed non-customer director. The Board or its nominating committee will appoint committee members. In addition:

1. Members of the committee shall avoid conflicts of interest regarding the areas under evaluation.
2. No member of the committee shall accept any consulting, advisory or other compensatory fee from Northwest FCS, other than in connection with serving on the committee or as a member of the Board.
3. All members of the committee shall be Board members and shall 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.
4. At least one member of the committee shall be designated a “financial expert” and shall possess the qualifications for this designation as defined by FCA Regulations. The director identified as the Board’s “financial expert” shall serve on this committee and act as chair.
5. To the extent two or more directors qualify as a “financial expert”, the Board may designate an alternate to serve in that capacity should the designated Financial Expert become unable or unwilling to serve in that capacity.
6. At least two members of the committee shall also serve on the Board Risk Committee.

Meetings.

The committee will meet at least four times a year with authority to convene additional meetings, as circumstances require. The committee may request members of management, auditors or others (both internal and external) to attend meetings and provide pertinent information as necessary and will meet in executive session periodically. Meeting agendas will be prepared and

provided in advance to members, along with appropriate briefing materials. Minutes will be prepared and presented to the full Board for approval.

Records Retention.

Minutes and agendas will be kept for at least three years.

Responsibilities.

The committee will carry out the following responsibilities:

Financial Statements and Disclosure Issues.

The committee, to the extent it deems necessary or appropriate, will:

1. Review significant accounting and reporting issues and understand their impact on the financial statements.
2. Review periodic accounting and financial reports.
3. Review and discuss with the external auditors and management Northwest FCS' audited financial statements that are to be included in the Northwest FCS annual report and the external auditor's opinion with respect to such financial statements. This will include:
 - Significant financial reporting issues and judgments made in connection with the preparation of Northwest FCS' financial statements,
 - Reviewing the nature and extent of any significant changes in accounting principles or applications of such accounting principles,
 - Inquire of the external auditors regarding their judgments with respect to the quality of Northwest FCS' accounting principles (not just acceptability), including the clarity of financial disclosure,
 - Discuss the effect of regulatory and accounting initiatives as well as off-balance sheet structures on Northwest FCS' financial statements,
 - Reviewing any major issues as to the adequacy of Northwest FCS' internal controls over financial reporting, and any special steps adopted in light of material control deficiencies,
 - Inquiry into any accounting adjustments that were noted or proposed by the external auditors but were "passed" as immaterial or otherwise,
 - Discuss Northwest FCS' disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations,"
 - Review the results of the audit, including any difficulties encountered and significant changes from the planned audit procedures. This review will include any restrictions on the scope of the external auditor's activities and/or access to requested information, as well as any significant disagreements with management.
4. Review and approve financially related press releases prior to issuance.
5. Approve the annual financial statements and recommend to the Board that the financial statements be included in the annual report.
6. Review and approve the quarterly financial statements, including the disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

7. Review disclosures made to the committee by Northwest FCS' Chief Executive Officer and Chief Financial Officer during their certification process about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in Northwest FCS' internal controls.
8. Record in minutes the committee's agreement or disagreement with financial policies, procedures, and reports.

Internal Control.

The committee, to the extent it deems necessary or appropriate, will:

1. Meet regularly with the Chief Audit Executive to review his assessment of the adequacy and effectiveness of Northwest FCS' system of internal controls, compliance with laws, regulations, ethics, policies and rules regarding conflict of interest and the quality of credit.
2. Review the significant reports to management prepared by the Internal Audit Department and management's responses. Review proposed actions taken by management to address weaknesses identified and report significant concerns to the Board.
3. Establish and review procedures for (a) the receipt, retention and treatment of complaints received by Northwest FCS regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of Northwest FCS of concerns regarding questionable accounting or auditing matters.
4. Review the quarterly allowance for loss provision and balance and determine adequacy.
5. Obtain and review reports from management that Northwest FCS is in conformity with Northwest FCS' Standards of Conduct Policy and ethics.
6. The committee chair, and any other member of the committee, may participate in the Executive Committee meeting held with the Farm Credit Administration to discuss the exam of Northwest FCS.
7. Consult with the Chief Executive Officer on the annual performance appraisal of the Chief Audit Executive.
8. Consider the effectiveness of Northwest FCS' internal control system, including information technology security and control.

Internal Audit.

The committee, to the extent it deems necessary or appropriate, will:

1. Review with management and the Chief Audit Executive the charter, plans, activities, staffing and organizational structure of the internal audit function annually.
2. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement or dismissal of the Chief Audit Executive.
3. Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditor's *Standards for the Professional Practice of Internal Auditing*.
4. On a regular basis, meet separately with the Chief Audit Executive to discuss any matters that the committee or internal audit believes should be discussed privately.

External Audit.

The external auditor shall report directly to the committee. The committee, to the extent it deems necessary or appropriate, will:

1. Evaluate and recommend to the Board the selection, and, where appropriate, the replacement of the external auditors.
2. The committee will evaluate the qualifications, performance, and independence of the external auditor. In performing this review, the committee will at least annually obtain and review a report by the external auditor describing:
 - The 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;
 - All relationships, including permitted non-audit services, between the external auditor and the association to assess the auditor's independence.

In addition, the committee will take into account the opinions of management and the Chief Audit Executive.

3. Ensure the rotation of the lead audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.
4. Recommend policies to the Board regarding Northwest FCS' hiring of employees or former employees of the external auditor who participated in any capacity in the audit of Northwest FCS.
5. Meet with the external auditor prior to the audit to discuss the planning, scope, staffing and procedures to be used on the annual audit, as recommended by the external auditors.
6. Provide pre-approval of the annual audit and of all other permitted non-audit services performed by the external auditor as negotiated by management. Approval of any non-audit services must be obtained from the committee in advance of engaging the external auditors to render such services. The committee will not approve the engagement of the external auditors to render non-audit services prohibited by law or rules and regulations promulgated by appropriate rule-making bodies.
7. At least annually, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance.

The committee, to the extent it deems necessary or appropriate, will:

1. 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.
2. Review the findings of any examinations by regulatory agencies and any auditor observations.

3. Review the process for communicating the code of conduct to association personnel and for monitoring compliance therewith.
4. Obtain regular updates from management and association legal counsel regarding compliance matters.

Reporting Responsibilities.

The committee, to the extent it deems necessary or appropriate, will:

1. Annually, prepare an Audit Committee Report, to be included in Northwest FCS' Annual Report to Stockholders. This report will disclose whether the committee has reviewed and discussed the audited financial statements with management and discussed the matters noted in Item 306 of Regulation S-K with the external auditors. The name of each Audit Committee member will appear at the bottom of the Audit Committee Report.
2. Regularly report to the Board about committee activities and issues that arise with respect to the quality or integrity of Northwest FCS' financial statements, compliance with legal or regulatory requirements, performance and independence of Northwest FCS' external auditors and the performance of the internal audit function.
3. Provide an open avenue of communication between internal audit, the external auditors and the Board.

Other Responsibilities.

The committee, to the extent it deems necessary or appropriate, will:

1. Discuss with management Northwest FCS' major policies with respect to risk assessment and risk management.
2. Perform other activities related to this operating statement/charter as requested by the Board.
3. Institute and oversee special investigations as needed.
4. Review and assess the adequacy of the committee operating statement/charter annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
5. Confirm annually that all responsibilities outlined in this operating statement/charter have been carried out.
6. Evaluate the committee's performance at least annually.
7. Respond to any material concerns identified by Northwest FCS' funding bank and/or Farm Credit System Audit Committee and conduct any committee activities that are necessary for the funding bank and/or Farm Credit System Audit Committee to fulfill its chartered responsibilities.

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