

Pinnacle Bankshares Corporation

Organizational Functional Area:	Audit
Policy For:	Charter of Audit Committee
Board Original Approval:	November 2000
Last Review Date:	February 2011
Last Revision Date:	February 2011
Board Approval Date:	March 2011
Department/Individual Responsible for Maintaining/Updating Policy:	Internal Auditor / Christine Hunt

This policy is to be reviewed at least annually and/or any other time compliance or circumstances necessitate review and/or updating.

Charter of the Audit Committee of the Board of Directors

I. Audit Committee Purpose

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibility. The Audit Committee's primary duties and responsibilities are to:

- Monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance;
- Appoint, compensate and oversee the work of the Company's independent external auditors and internal auditing department; and pre-approve all auditing and permissible non auditing services;
- Provide an avenue for communication and disagreement resolution among the independent auditors, management, the internal auditing department, and the Board of Directors;
- Review areas of potential significant financial risk to the Company;
- Report to the Board of Directors any significant areas of risk or recommendations to improve the policies, procedures, and practices of the Company;

- Evaluate complaints received by the Company regarding accounting, internal controls and auditing for appropriate treatment.

In fulfilling its responsibilities, the Audit Committee has direct access to the independent auditors. In addition, the Audit Committee has the ability to retain, at the Company's expense and subject to board approval, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

II. Audit Committee Composition and Meetings

Audit Committee members shall meet the requirements of the Securities and Exchange Commission (SEC). The Audit Committee shall be comprised of three or more directors as determined by the Board of Directors, each of whom shall be independent non-executive directors, free from any relationship that would interfere with the exercise of his or her independent judgment. Independent is defined as not receiving, other than for service on the board, any consulting, advisory or other compensatory fee from the company, and as not being an affiliated person of the Company or any subsidiary thereof. The SEC has established 3 criteria for assessing independence of non-executive directors:

- Former employees. Must be a minimum of three years since he/she was an employee;
- Family members of former employees. Must be a minimum of three years since the relative was an employee;
- An Audit Committee member's compensation cannot be impacted by an employee of the Company.

All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Committee shall have accounting or related financial management expertise and knowledge of the regulatory requirements of the Banking Industry.

Audit Committee members shall be appointed by the Board of Directors. If an audit committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. The Committee should meet privately in executive session at least annually with management, the director of the internal auditing department, the independent auditors, and as a committee to discuss any matters that the Committee or each of these groups believes should be discussed. In addition, the Committee, or at least its Chair,

should communicate with management quarterly and the independent auditors at least annually to review the Company's financial statements and significant findings based upon the auditor's limited quarterly review procedures.

III. Audit Committee Responsibilities and Duties

Review Procedures

1. Review and reassess the adequacy of this Charter at least annually. Submit the charter to the Board of Directors for approval and have the document published at least every three years in accordance with SEC regulations.
2. Review the Company's annual audited consolidated financial statements prior to filing or distribution. Review should include discussion with management and independent auditors of significant issues regarding accounting principals, practices, and judgments.
3. In consultation with the management, the independent auditors, and the internal auditors, consider the integrity of the Company's financial reporting processes and internal controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors and the internal auditing department together with management's responses. Discuss with management and auditors any complaints received by the Company regarding accounting, internal controls and auditing and determine that appropriate corrections have been instituted for valid concerns.
4. Review with financial management the Company's quarterly financial results prior to the release of earnings and/or the Company's quarterly financial statements prior to filing or distribution. Discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent auditors in accordance with generally accepted auditing standards (see item 9). The Chair of the Committee may represent the entire Audit Committee for purposes of this review.

Independent Auditors

5. The independent auditors are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.

6. Approve the fees and other significant compensation to be paid to the independent auditors.
7. On an annual basis, the Committee should review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditors' independence. (Independence Standards Board (ISB) Statement No. 1) The committee will ensure lead audit partners are rotated, if they have performed the function for five consecutive years.
8. Review the independent auditors audit plan and engagement letter – discuss scope, staffing, locations, reliance upon management, and internal audit, and general audit approach.
9. Prior to filing the annual report on Form 10-K, discuss the results of the audit with the independent auditors. Discuss certain matters required to be communicated to audit committees in accordance with generally accepted auditing standards. Items to be communicated include:
 - The auditors' responsibility under Generally Accepted Auditing Standards (GAAS);
 - Significant accounting policies;
 - Management judgments and accounting estimates
 - Audit adjustments;
 - Other information in documents containing audited financial statements;
 - Disagreements with management – including accounting principles, scope of audit, disclosures;
 - Consultation with other accountants by management;
 - All critical accounting policies and practices to be used;
 - All alternative treatments within Generally Accepted Accounting Principles for policies and practices related to material items that have been discussed with management including ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the registered public accounting firm; and
 - Other material written communications between the registered public accounting firm and the management, such as any management letter or schedule of unadjusted differences.
10. Consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.

Internal Audit Department and Legal Compliance

11. Review the budget, plan, changes in plan, activities, organizational structure, and qualifications of the internal audit department, as needed.
12. Review the appointment, performance, and replacement of the senior internal auditor.
13. Review significant reports prepared by the internal audit department together with management's response and follow-up to these reports.
14. On at least an annual basis, review with the Company's counsel, any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with all applicable laws and regulations, and inquiries received from regulators or governmental agencies.
15. Review all reports concerning any significant fraud or regulatory noncompliance that occurs at the Company. This review should include consideration of the internal controls that should be strengthened to reduce the risk of a similar event in the future.

Other Audit Committee Responsibilities

16. Annually prepare a report to shareholders as required by the Securities and Exchange Commission. The report should be included in the Company's annual proxy statement. The report should state whether the Audit Committee has:
 - Reviewed and discussed the audited consolidated financial statements with management;
 - Discussed with the independent auditors the matters required to be discussed by SAS 114, as amended;
 - Received certain disclosures from the auditors regarding their independence as required by the ISB 1 and then include a statement based on this review if the Audit Committee recommended to the Board of Directors to include the audited consolidated financial statements in the annual report on Form 10-K filed with the SEC.
17. Consider whether the provision of other non-audit services (not prohibited by regulation or law) by the Company's external auditors is compatible with maintaining the external auditors' independence. This consideration should be included in the Company's annual proxy statement.
18. Perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate.

19. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.

The Board of Directors originally approved the Audit Committee Charter November 14, 2000, upon recommendation of the Audit Committee.