

# **AUDIT COMMITTEE CHARTER OTTER TAIL CORPORATION**

Approved 12/16/2003

## **I. Purpose**

The Audit Committee of the Board of Directors (“Board”) of Otter Tail Corporation (“Corporation”) has been formed to provide oversight to corporate accounting and financial reporting practices, and to ensure the integrity of financial reports as well as legal compliance and business ethics. The Audit Committee's primary duties and responsibilities are to:

- Provide an open avenue of communication among the independent accountants, financial and senior management, the internal audit function and the Board.
- Serve as an independent and objective party to oversee the Corporation's financial reporting processes, the audits of the financial statements, and internal control system.

## **II. Membership**

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent directors as defined in Rule 4200 of the National Association of Securities Dealers and Rule 10(a)(3) of the Security and Exchange Commission. All members of the Audit Committee will have a working familiarity with basic finance and accounting practices and shall be able to read and understand fundamental financial statements. At least one member of the Audit Committee shall be a financial expert as that term has been defined by the Security and Exchange Commission.

Terms of members shall continue until a successor is appointed by the Board. The Board may remove, replace or add new members to the Audit Committee at any time in its sole discretion.

## **III. Duties and Responsibilities**

The Audit Committee shall have all of the authority of the Board to act or exercise corporate powers with respect to the following:

- Review the Audit Committee Charter at least annually and make recommendations to the Board for modifications.
- Select and retain the independent accountants for the annual financial audit, considering independence and effectiveness. Determine the appropriate compensation for the independent accountants, additional duties to be assigned to them, including non-audit services and review their work.

- Retain such other advisors as it deems necessary to fulfill its work.
- Consult with the independent accountants without management's presence about internal controls, disagreements between the independent accountants and management, and the completeness and accuracy of the financial statements.
- Review, prior to the annual audit, the scope and general extent of the independent accountants' audit examinations including their engagement letter.
- Be apprised on audit work performed by other accounting firms upon which the independent accountants rely.
- Review and discuss with the independent accountants significant relationships they have with the Corporation to determine and ensure their independence.
- Review the internal audit function of the Corporation including its independence, review its compliance with the Institute of Internal Auditors Standards, and review the annual internal audit plan.
- Review the findings of completed internal audits and be apprised of any difficulties encountered by the internal audit team during the course of its work, including any restrictions on the scope of work or access to required information.
- Meet at least annually with internal audit, without management present, to allow opportunity for free and open dialogue.
- Review annual and quarterly financial statements with management and the independent accountants to determine that the independent auditors are satisfied with the disclosure and content of the financial statements, and approve such financial statements prior to release.
- Review the SEC Form 10-K, Form 10-Q and other Forms as appropriate prior to filing.
- Consider the independent accountants' judgments regarding the quality and appropriateness of financial statements.
- Make inquiries of management and the independent accountants concerning the adequacy of the Corporation's system of internal controls.
- Inquire of management and the independent accountants about material risks or exposures, including legal matters, and assess the steps management has taken to minimize such risks and exposures.

- Following completion of the annual audit, be apprised of any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
- Approve material related party transactions.
- Review the Corporation's Code of Conduct annually and direct management to establish a system reasonably designed to ensure compliance with the Code, and to ensure that the Committee has an opportunity to review and act upon complaints related to accounting, internal controls and audit matters, and approve any waivers of the Code of Conduct for Directors and Executive Officers.

#### **IV. Agenda**

The Chair of the Committee, in consultation with appropriate members of the Corporation's management, will develop the Audit Committee's agenda for each meeting. The agenda shall be included with the written notice of the meeting.

#### **V. Meetings and Actions**

The Audit Committee will normally meet at least four (4) times each year. Meetings of the Audit Committee shall be called at the request of the Chair with not less than 10 calendar days prior written notice to members. Any action by the Audit Committee can be taken at a meeting or, in lieu of a meeting, by written action signed by not less than a majority of the members of the Audit Committee. A meeting of the Audit Committee may be conducted by conference call, video conference, or other similar electronic arrangement allowing for verbal discussion of the matters being considered. Any action taken by the Audit Committee shall require the approval of a majority of the members of the Audit Committee. A majority of the members of the Audit Committee shall constitute a quorum for the transaction of the business of the Audit Committee. Attendance at a meeting of the Audit Committee shall constitute a waiver of notice of the meeting.

#### **VI. Standard of Conduct:**

The standard of conduct for the members of the Audit Committee shall be the same as the standard of conduct for directors of the Board under Section 302A.251 of Minnesota Statutes.

#### **VII. Amendment**

The Charter for the Audit Committee is subject to amendment at any time and for any reason by the Board.