

## **Audit Committee Charter Legacy Ag Credit, ACA**

### **Purpose & Authority:**

The Audit Committee (the Committee) is a Committee of the Board of Directors. The primary function of the Committee is to fulfill 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 foster adherence to, association policies, procedures, and practices at all levels. To insure proper adherence to association internal controls, a program dubbed “Listen Up” for the **anonymous** reporting of concerns regarding accounting and/or auditing deviations has been purchased and employees will be encouraged to report questionable practices or procedures through this program. (See #20 of Duties and Responsibilities)

While the Committee has the powers set forth in this charter, it is not the duty of the Committee to plan or conduct audits, or to determine that the Association’s financial statements are complete and accurate, and in accordance with generally accepted accounting practices. This is the responsibility of management and the independent accountant. However, it is the responsibility of the Committee to ensure reasonable steps are taken by management to ensure the accuracy of financial reporting and adequacy of the institutions system of internal controls.

The Committee’s primary duties and responsibilities are:

- Evaluate the selection of the independent accountants retained to prepare an annual audit report.
- Serve as an independent and objective party to review the financial information and internal control assertion presented by management to the shareholders, regulators, and the general public.
- Review and appraise the audit efforts of the Associations independent accountants.
- Monitor the Association’s compliance with legal and regulatory requirements.
- Monitor the activities of the internal audit function.
- Provide an open avenue of communication among the independent accountants, financial and senior management, and the Board of Directors.
- Continuing education in the field of auditing shall be attended annually.

The Committee will fulfill these responsibilities by carrying out the activities and processes listed in the following sections. 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 or other experts considered necessary in discharging its oversight role, including retaining services for training on industry best practices.

## **Composition:**

The Committee shall be comprised of at least three (3) 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 be knowledgeable in public and corporate finance, financial reporting and disclosure or accounting procedures. The Committee must have one financial expert as required by the regulator. (§620.30).

The Chairman and members of the Committee shall be appointed by the Board Chairman at the annual organizational meeting of the Board and shall serve for one (1) year or until circumstances otherwise cause a need for removing or adding appointees.

## **Meetings:**

The Committee shall meet at least four (4) times annually, or more frequently as circumstances may dictate. To keep open communications, the Committee shall meet at least once annually with management and independent accountants in a separate executive session to discuss any matters that the Committee or these groups feel should be discussed. The Board Chairman or the Committee Chairman may schedule meetings.

## **Duties and Responsibilities:**

To fulfill its duties and responsibilities, the Committee shall, with such assistance from management and the internal auditor:

1. Review the adequacy of this charter on an annual basis.
2. Review the Association's annual and quarterly financial statements and any reports or other significant financial information including any certification, report, opinion, or review rendered by the independent accounts.
3. Discuss with the independent accountants, prior to the release of the annual audited financial statements, (1) all critical accounting policies and practices used by the Association, (2) all material alternative accounting treatments of financial information within GAAP that have been discussed with management, including the ramifications of the use of such alternative treatments, and disclosures and the treatment preferred by the independent accountant, (3) other material written communications between the independent accountants and management, such as management letter, schedule of unadjusted differences, reports on observations and recommendations on internal controls, a listing of adjustments and reclassifications not recorded, and the independent accountants independence letter.
4. Evaluate the adequacy of the Association's internal controls by the review of written reports from the internal and external auditors, and monitor management's response and actions to correct any noted deficiencies.

5. Review the risk assessment process and approve the scope of the internal audit plan each year.
6. Review the interim and annual financial information with management and the independent accountant quarterly.
7. Meet with the Chief Executive Officer at least annually to discuss and provide input into the Association's system of internal controls and quality of credit.

**Independent Accountants:**

8. Determine the selection of the independent accountant considering independence and effectiveness, review the planning, scope and staffing for the annual audit, and approve fees and other compensation to be paid to the independent accountants.
9. On an annual basis, the Committee should obtain and review a formal written statement from the independent accountant that discusses all significant relationships the accountant may have with the Association for determination of the accountant's independence.
10. Review the performance of the independent accountant and approve any replacement of the independent accountant when circumstances warrant.
11. Discuss with the independent accountant the matters required to be discussed by FAS No. 61, as amended by SAS No. 90.
12. Periodically consult with the independent accountant in executive session to discuss internal controls and the completeness and accuracy of the Association's financial statements.
13. Review any significant recommendations in the management letter provided by the accountant and management's response to the letter.

**Financial Reporting Process:**

14. Consult with independent accountant and outside internal auditors, on the integrity of the Association's financial reporting process, both internal and external.
15. Discuss with the independent accountants their judgments as to the quality and appropriateness of the Association's accounting principles as applied in its financial reporting.
16. Review the effect of any off-balance sheet arrangements that either has, or are reasonably likely to have, a current or future effect on the financial condition, changes in financial

condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

**Process Improvement:**

17. Following completion of the annual audit, review separately with management, the independent accountant, and the outside internal auditor any significant difficulties encountered during the course of the audit.
18. Review with the independent accountant, management, and those designated to furnish internal audit information for an audit, to the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented.

**Ethical and Legal Compliance:**

19. Review, if needed, with outside counsel any legal compliance matters that may have a material impact on the financial statements, the Association's compliance policies, and any material reports or inquiries received from the regulators or government agencies.
20. Establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters for the confidential, anonymous submission by Association employees of concerns regarding questionable accounting or other auditing matters. (Listen Up Program)

**Training:**

21. Continue to attend all training in conjunction with the Committee's function. This should include seminars, special training, and Farm Credit Bank meetings on Committee functions. All Committee members shall attend training at least once each year.

*Note:* An outside Director (Board appointed) has been selected and will serve as the "Financial Expert" for this Committee. This person holds a CPA certificate from the State of Texas. An outside Auditor will be selected to perform the internal audit and Association staff shall supply all data requested for the audit. The Audit Committee or a representative of the Committee shall meet with the auditor after the completion of the internal audit.

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