

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 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.

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 financial auditors. 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 will fulfill its 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.

The Association is responsible for providing monetary and nonmonetary resources to enable the Committee to contract for external auditors, outside advisors and ordinary administrative expense. A two-thirds majority vote of the full board of directors is required to deny an audit committee’s request for resources.

Composition:

The Committee shall be comprised of at least three (3) directors, 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 and 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.

Each Committee member shall review FCA Regulation 620.30 no less than annually and will sign an attestation stating they have individually reviewed the regulation and believe themselves to meet the financial knowledge and independence requirements outlined therein.

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.

Minutes, including a record of attendees, of all Committee meetings will be prepared and approved by the Committee and will be made available to Committee members during their term of service. Minutes shall be retained for a minimum period of three (3) years.

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. Monitor the Association's compliance with legal and regulatory requirements.
3. Provide an open avenue of communication among the external auditors, outside advisors, senior management, and the Board of Directors.
4. 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.
5. 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 financial auditors, and review the impact of any significant accounting and auditing developments. Discuss directly with the financial auditors, 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 financial auditor, (3) matters required to be discussed by FAS No. 61, as amended by SAS No. 90, (4) other material written communications between the financial auditors and management, such as management's letter, including any significant recommendations in the letter, and management's response, schedule of unadjusted differences, reports on observations and

recommendations on internal controls, a listing of adjustments and reclassifications not recorded, and the financial auditors independence letter.

6. 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.
7. Review the risk assessment process and approve the scope of the internal audit plan each year.
8. At least annually, discuss with and provide input to the Chief Executive Officer regarding the Association's system of internal controls and quality of credit.
9. Evaluate and determine the selection of the external auditors considering independence and effectiveness, review the planning and staffing of the audit, review and approve the scope for the audits, and approve fees and other compensation to be paid to the external auditors. Give prior approval for any non-audit services performed by any external auditor, except the audit committee may not approve those non-audit services specifically prohibited by FCA regulation.
10. Review and approve any deviations or changes from the approved scope of external audits which were previously approved by the Committee.
11. On an annual basis, the Committee should obtain and review a formal written statement from the external auditors that discusses all significant relationships the external auditors may have with the Association for determination of the external auditors independence.
12. Review the performance of the external auditors and approve any replacement of the external auditors when circumstances warrant.
13. Following the completion of the external audits, review separately with management and the external auditors any significant difficulties encountered during the course of the audits. Offer external auditors a consultation in executive session to discuss their findings.
14. Consult with the financial auditor and outside internal auditors, on the integrity of the Association's financial reporting process, both internal and external.
15. Discuss with the financial auditors their judgments as to the quality and appropriateness of the Association's accounting principles as applied in its financial reporting.
16. Review with management 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.

17. Review with the financial auditors, 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.
18. 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.
19. 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)
20. 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.

Review/Revised 12/21/2011