

AgTexas Farm Credit Services Board Audit Committee Charter

Board Approved: July 26, 2006

Members:	Terry Sherrill, Chair	Kevin Buxkemper, Vice Chair
	James Ray Schronk, Member	Lance Gaillard, Member
	Ryan Smith, Member	

Members Updated: November 2017

Board Approved Revisions: November 2017

PURPOSE

The primary purpose of the Audit Committee is to assist the Board to fulfill its oversight responsibility for accounting policies, internal controls, financial reporting practices, and regulatory requirements.

1. Promote AGTEXAS' awareness of, and commitment to, a strong internal control environment.
2. Oversee and monitor the propriety of AGTEXAS' internal control.
3. Provide independent and objective review and approval of financial information presented to stockholders, FCBT, regulators, and the general public to ensure reliability.
4. Facilitate communication among the Board, internal audit, and external auditor to promote an exchange of views and information, and confirm their respective authorities and responsibilities.
5. Oversee 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 AGTEXAS' external financial statement auditor.
2. Resolve any disagreements between management, internal, and external auditors.
3. Approve all attest and permitted non-attest services to be performed by AGTEXAS' external auditor.
4. Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation.
5. Meet with AGTEXAS' officers, external auditors, internal auditors and/or outside counsel as necessary and have unrestricted access to information, records and files as appropriate to accomplish its duties.
6. Members of the Committee shall avoid conflicts of interest regarding the areas under evaluation.
7. 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.

8. AGTEXAS shall provide appropriate funding, as determined by the Committee, for payment of compensation to advisors employed by the Committee to fulfill the above responsibilities, except that a 2/3rds majority vote of the board may deny monetary and/or non-monetary financial resources for the Audit Committee.
9. Approve financial reports to be released to stockholders and regulators.
10. At least annually review the whistleblower program and code of ethics.

COMPOSITION

The Committee will consist of at least three independent members of the Board, including at least one appointed non-stockholder director. The Board will appoint Committee members with a rotation providing a minimum of two members having previous audit committee experience. In addition:

1. No member of the Committee shall accept any consulting, advisory or other compensatory fee from AGTEXAS, other than in connection with serving on the Committee or as a member of the Board.
2. All members of the Committee shall have a practical knowledge of finance and accounting and be able to read and understand financial statements (including footnote disclosures) or be able to do so within a reasonable period of time after appointment to the Committee.
3. In accordance with the Sarbanes-Oxley Act of 2002, at least one member of the Committee shall be designated an "Audit Committee financial expert" and shall possess the qualifications for this designation as defined by such regulations. If the board does not designate a financial expert, they may contract the service to fulfill the requirement.
4. The audit committee chair and vice chair will be selected by the full board during board annual reorganization.
5. All voting members present constitutes a quorum and shall have the full authority of the board for responsibilities as stated within this charter.

RESPONSIBILITIES

The Committee is responsible for the following activities. The committee will use the internal auditors, external auditors and appropriate Association management to fulfill these responsibilities.

A. Financial Statements and Disclosure Issues

1. Review and understand significant accounting and financial reporting issues and their impact.
2. Review and discuss with the external auditors and management AGTEXAS' audited financial statements that are to be included in AGTEXAS annual & quarterly stockholder reports and the related external auditors' opinion on the annual financial statements. This will include reviewing the nature and extent of any significant changes in accounting principles or application of such accounting principles and "Management's Discussion and Analysis of Financial Condition and Results of Operation."
3. Discuss with management and the external auditor, significant financial reporting issues and judgments made in connection with the preparation of AGTEXAS financial statements, including any significant changes in AGTEXAS selection or application of accounting principles, any significant issues with the propriety of AGTEXAS' internal controls, and any special steps adopted in light of significant deficiencies or material weaknesses in internal control. The

Committee will inquire into any accounting adjustments that were proposed by the external auditors, whether recorded or “passed” as immaterial or otherwise.

4. Review disclosures made to the Committee by AGTEXAS Chief Executive Officer and Chief Financial Officer during their certification process about any significant deficiency or material weakness in the design or operation of internal controls and any fraud involving management or other employees who have a significant role in AGTEXAS internal controls.
5. Require the external auditors to discuss with the Committee the auditors’ judgments with regard to the quality of AGTEXAS application of significant accounting principles (not just acceptability), including the completeness and clarity of financial disclosure.
6. Discuss with management and the external auditors the effect of regulatory and accounting initiatives as well as off-balance sheet activity on AGTEXAS’ financial statements.
7. Review with management and the external auditors the results of the audit, including any difficulties encountered. 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.
8. Review and approve periodic accounting and financial reports, including the quarterly call reports and quarterly/annual stockholders reports.
9. Review and approve financially related press releases prior to issuance.

B. Internal Control

1. Meet regularly with internal audit to review their assessment of the adequacy and effectiveness of AGTEXAS’ internal controls (including information technology), compliance with laws, regulations, policies and rules regarding conflict of interest, and the quality of credit; and consider the risks of any significant deficiencies therein.
2. Review internal audit reports 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 AGTEXAS regarding financial reporting, accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by AGTEXAS’ employees of concerns regarding questionable operational, compliance, and accounting or auditing matters.
4. Review the quarterly allowance for loan loss and provision to ensure propriety and compliance with GAAP.
5. Obtain and review reports from management that AGTEXAS complies with AGTEXAS’ Standards of Conduct Policy and Code of Ethics.
6. The Committee should participate in meetings with the Farm Credit Administration (FCA) to discuss regulatory examinations.
7. Consult with the Chief Executive Officer on the annual performance appraisal of the internal auditors.

C. Internal Audit

1. Review the charter, plans, activities, staffing and organizational structure of the internal audit function annually with management and internal audit.
2. Review and approve an annual risk assessment and three-year master audit plan developed by management.

3. Appoint, compensate, and oversee internal audit and ensure there are no restrictions or limitations on their activities.
4. Review and concur in the appointment, replacement, dismissal, performance standards and evaluation, and compensation of internal audit.
5. Review and approve engagement letters prior to reviews to be performed by auditors other than staff.
6. Review and concur with management's responses to address all audit recommendations and follow up on any corrective actions.
7. On a regular basis, meet with internal audit without management present to discuss any matters that the Committee or internal audit believes should be discussed privately.

D. External Audit

1. Appoint, compensate, and oversee the work of the external auditor.
2. Evaluate the qualifications, performance and independence of the external auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and internal audit.
3. Ensure the rotation of the lead audit partner having primary responsibility for the audit and the concurring review audit partner as required by law.
4. Recommend policies to the Board regarding AGTEXAS' hiring of employees or former employees of the external auditor who participated in any capacity in the audit of AGTEXAS.
5. Meet with the external auditor prior to the audit to discuss the relevant audit risk and scope for the annual audit, as recommended by the independent auditors.
6. Provide pre-approval of the annual audit and of all other permitted non-attest services performed by the external auditor as negotiated by management. Approval of any non-attest 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.

E. Compliance

1. Review the effectiveness of internal control over compliance with laws and regulations and the results of management's investigation and follow-up of any instances of noncompliance.
2. Review the findings of any examinations by regulatory agencies and any auditor observations.
3. Review the process to communicate the code of conduct to AGTEXAS personnel and to monitor compliance therewith.
4. Obtain regular updates from management and AGTEXAS legal counsel regarding compliance matters.

F. Reporting Responsibilities

1. Prepare and execute the annual Audit Committee Report included in AGTEXAS' 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 AGTEXAS financial reporting, operations, compliance with legal or regulatory requirements, performance and independence of AGTEXAS external auditors and the performance of the internal audit function.
3. 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. Minutes will be kept for at least three years.

G. Other Responsibilities

1. Discuss major policies with respect to risk assessment and risk management with management.
2. Perform other activities related to this Charter as requested by the Board.
3. Institute and oversee special investigations as needed.
4. Review and assess the adequacy of the Committee 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 Charter have been carried out.
6. Evaluate the Committee's performance at least annually.
7. Respond to any concerns identified by AGTEXAS 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.