

# **LEGACY AG CREDIT, ACA**

## **AUDIT COMMITTEE CHARTER**

### **I. PURPOSE**

The Audit Committee is a committee of the Board of Directors. The primary function of the Audit 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 should foster adherence to, the Association's policies, procedures, and practices at all levels.

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

The Audit Committee's primary duties and responsibilities are to:

- 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 Association's independent accountants and Internal Audit department.
- Monitor the Association's compliance with legal and regulatory requirements.
- Provide an open avenue of communication among the independent accountants, financial and senior management, the Internal Audit department, and the Board of Directors.

The Audit Committee will fulfill these responsibilities by carrying out the activities and processes enumerated in the following sections of this Charter. 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.

## **II. COMPOSITION**

The Audit Committee shall be comprised of at least three 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 have a working familiarity with general business and/or basic finance and accounting practices, and collectively should have the accounting or related financial management expertise to fulfill their responsibility.

The Chairman and members of the Committee shall be appointed by the Chairman of the Board at the annual organizational meeting of the Board and shall serve until their successors shall be duly selected and qualified.

## **III. MEETINGS**

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee shall meet as often as needed, but at least once per year with management, the vice president of the Internal Audit department, and the independent accountants in separate executive sessions to discuss any matters that the Committee or any of these groups believe should be discussed. Meetings may be called by the Chairman of the Committee or by the Chairman of the Board.

## **IV. RESPONSIBILITIES AND DUTIES**

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

### Documents/Reports Review

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 accountants.
3. Discuss with the independent accountants, prior to the release of the annual audited financial statements, all (1) 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, and (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 accountant's independence letter.
4. Review, prior to the issuance, each press release of financial results.
  5. Evaluate the adequacy of the Association's internal controls by review of written reports from the internal and external auditors, and monitor management's response and actions to correct any noted deficiencies.
  6. Review the risk assessment process and approve the scope of Internal Audit's plan for the year.
  7. On a quarterly basis, review the status of the internal audit plan and the Internal Audit department's follow-up activities to ascertain management's efforts to respond to audit issues.
  8. On a quarterly basis, review reports of complaints related to questionable accounting, internal accounting controls, or auditing matters.
  9. Review the interim and annual financial information with management and the independent accountants as reported in the quarterly Call Report with the FCA.
  10. Meet at least annually, or as needed, with the chief executive officer to discuss and provide input on the Association's system of internal controls and the quality of credit.

#### Independent Accountants

11. Recommend to the Board of Directors the selection of the independent accountants considering independence and effectiveness, review the planning, scoping and staffing for the annual audit, and approve the fees and other compensation to be paid to the independent accountants.
12. Pre-approve allowable non-audit services to be provided by the independent accountants. On an annual basis, the Committee should obtain and review a formal written statement from the independent accountants that discusses all significant relationships the accountants have with the Association to determine the accountants' independence.
13. Review the performance of the independent accountants and approve any replacement of the independent accountants when circumstances warrant.

14. Discuss with the independent accountants the matters required to be discussed by Statement of Auditing Standards No. 61, as amended by SAS No. 90.
15. Periodically consult with the independent accountants in executive session to discuss internal controls and the completeness and accuracy of the organization's financial statements.
16. Review with the independent accountants any problems or difficulties the accountants may have encountered during the annual review including any disagreement among management and the independent accountants or the Internal Audit department in connection with the preparation of the financial statements.
17. Review any significant recommendations in the management letter provided by the accountants and management's response to the letter.

#### Financial Reporting Processes

18. In consultation with the independent accountants and the internal auditors, review the integrity of the Association's financial reporting processes, both internal and external.
19. Discuss with the independent accountants their judgments about the quality and appropriateness of the Association's accounting principles as applied in its financial reporting.
20. Consider and approve, if appropriate, major changes to the Association's auditing and accounting principles and practices as suggested by the independent accountants, management, or the Internal Audit department.
21. If deemed appropriate after review and discussion, recommend to the Board that the financial statements be included in the Association's annual report.
22. Review, prior to release of information, any (1) significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting and (2) any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
23. Review (1) the effect of off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors and (2) earnings press releases and other reports or written electronic material disclosing "pro-forma," or "adjusted" non-GAAP information.

Process Improvement

24. Following completion of the annual audit, review separately with management, the independent accountants, and the Internal Audit department any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
25. Review with the independent accountants, the Internal Audit department, and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.)
26. Receive periodic reports on internal controls or certain control environments (i.e. SAS 70, Section 404)

Ethical and Legal Compliance

27. Review annually the Association's Standard of Conduct and Code of Ethics policy and ensure that management has established a system to enforce this policy.
28. Review with the Association's General Counsel, 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 regulators or governmental agencies.
29. Review and provide input into the evaluation of the vice president – Office of Internal Audit.
30. Perform any other activities consistent with this Charter, the Association's By-laws and governing law, as the Committee or the Board deems necessary or appropriate.
31. 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 auditing matters.