

TEXAS AGFINANCE, FCS AUDIT COMMITTEE CHARTER

PURPOSE

The Board of Directors (Board) of Texas AgFinance, FCS (Association) has created a committee of directors to be known as the Audit Committee (Committee) for the purpose of assisting the Board in fulfilling its fiduciary and oversight responsibilities for the financial reporting process, the systems of internal control, the audit process, and the Association's process for monitoring compliance with laws, regulations, policies, the standards of conduct, and public responsibilities. To this end, the Committee will:

- Oversee and appraise the quality of the audit effort of the Association's Internal audit function and those of its independent accountants;
- Serve as an independent and objective party to review the financial information presented by management to stockholders, regulators, and the general public; and
- Determine the adequacy of the Association's administrative, operating, and internal accounting controls and evaluate adherence thereto:

COMPOSITION

The Committee will consist of all members of the Board. Annually, the Board will designate the Committee Chairman and Vice Chairman. Each Committee member will be independent from management and be knowledgeable of and understand the Association's balance sheets, income statements, and cash flow statements.

AUTHORITY

The Board of Directors, through the adoption of the Charter, delegates to the Committee those authorities necessary to accomplish the responsibilities of the Committee as set out in this Charter. The committee shall have access to all books, records, facilities, and personnel of the Association and the power to retain outside counsel or other experts considered necessary by the Committee.

MEETINGS

The Committee will meet at least annually, with authority to convene additional meetings, as circumstances require. Meetings can be called by the Chairman of the Board, the Chairman of the Committee, or the Chief Executive Officer. The Committee will invite members of the management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors and management in executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

RESPONSIBILITIES

The Committee is responsible for the following activities. These responsibilities will be discharged through the assistance of external auditors and appropriate Association management.

Financial Statements

- Review with management and the external auditors the results of the audit, including any difficulties encountered. Prior to the release of the annual audited financial statements, the Committee will receive a report from the external auditors that includes:
 - All critical accounting policies and practices used by the institution.
 - All material alternative accounting treatments of financial information within Generally Accepted Accounting Principles (GAAP) that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and treatment preferred by the external auditors.
 - Other material written communications between the external auditors and management, such as any 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 auditor's independence letter.
- Review significant accounting and reporting changes and issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review other sections of the annual report and/or related regulatory filings before release and consider the accuracy and completeness of the information.
- Review disclosures made by Association' CEO and other Association Officers about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have significant role in the Association's internal controls.
- Review disclosures made by management and the external auditors concerning:
 - 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.
 - Earnings press releases and other reports or written or electronic material disclosing "pro-forma" or "adjusted" non-GAAP information.

- Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- If deemed appropriate after review and discussion, recommend to the Board that the financial statements be included in The Association's annual report.
- Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- Review monthly financial reports with management and consider whether they are complete and consistent with the information known to Committee members.

Internal Control

- Consider the effectiveness of the Association's internal control environment related to annual and interim financial reporting, including information technology security and control.
- Understand the scope of external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- Evaluate the adequacy of internal control systems by reviewing written reports from the external auditors and regulators along with management's response and actions to correct any noted deficiencies.
- Identify and direct any special projects or investigations deemed necessary.

Internal Audit

- Review and approve the annual risk assessment and the annual and three year audit plans developed and recommended by the CEO.
- Review and approve the budget, staffing, and organizational structure of the internal audit function.
- Ensure there are no unjustified restrictions or limitations on the internal audit function.
- Ensure that auditors utilize adequate scopes of work and have full access to all information needed.

- Ensure that the CEO has full responsibility for contracting with external parties to perform any contract audits according to audit plan or special request.
- Review all reports and findings resulting from the internal audit function's independent evaluation of the systems of internal control and continuing operations.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
- On a regular basis, meet separately with the independent internal auditor to discuss any matters that the Committee or internal auditor believes should be discussed in an executive session.

External Audit

- Ensure that an audit is conducted in compliance with statutory requirements.
- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review and pre-approve and audit or permitted non-audit services performed by the external auditors.
- Review the performance of the external auditors, and exercise final approval of the compensation, appointment or discharge of the auditors.

Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the Association, including non-audit services, and discussing the relationships with the auditors, including matters specifically required in the statement of Auditing Standards No. 61.

- Ensure there are no unjustified restrictions or limitations on the external audit.
- Review with management and the external auditors the results of the audit, including any difficulties encountered, including any significant recommendations in the management letter provided by the external auditors and management's response to the letter.
- Review the scope of all external audits.
- On a regular basis, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

Compliance

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the standards of conduct to Association personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and company legal counsel regarding compliance matters.

Reporting Responsibilities

- The Committee Chairman will report on the activities of the Committee.
- Minutes of the Committee will be provided. Copies of Audit Committee meeting minutes, including attendance, will be retained for a minimum of three years.
- The Committee will facilitate an open avenue of communication between the external auditors and the Board.

Other Responsibilities

- The Audit Committee will respond to any concerns identified by the Farm Credit Bank of Texas (Bank) and/or Farm Credit System (System) Audit Committee and will conduct any audit committee activities that are necessary for the Bank and/or System Audit Committee to fulfill its chartered responsibilities.
- Evaluate the adequacy and effectiveness of the financial, credit, administrative, operating, and accounting policies through active communication with appropriate management, internal auditors, and the independent accountants.
- Require periodic reports from appropriate management and the independent accountants, any significant proposed regulatory, accounting, or reporting issue and the potential impact on the organization.
 - Review annually with management and the external auditor's compliance with the Association's Code of Ethics for the Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, Chief Operating Officer, and other senior financial and accounting professionals.
 - Establish procedures for the receipt, retention, and treatment of complaints received by the Association regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by

employees of the Association of concerns regarding questionable accounting or auditing matters.

- Review quarterly accounting and financial reports.
- Perform other activities related to this charter as requested by Board members.
- Identify and direct any special projects or investigations deemed necessary. The Committee shall have unrestricted access to members of management and relevant information. The Committee may retain independent counsel, internal or external accountants or others to assist in conducting any investigation. The Association shall provide for appropriate funding, as determined by the Committee.
- Review and assess the adequacy of the Committee charter annually, requesting Board approval for proposed changes.
- Confirm annually that all responsibilities outlines in this charter have been carried out.

The Audit Universe

The Association's audit plan includes a list of operational areas, functions and reporting requirements categorized into Administration, Accounting and Credit. A risk indicator and audit rotation are assigned to each element. The Board of Director's Audit Committee should review risk indicator definitions and audit scheduling annually. This review should include a cost/benefit consideration and any implications from internal or external factors affecting the Association. (Please see following plan for more details.)