

**AgTexas Farm Credit Services
Board Audit Committee Charter**

Board Approved: July 26, 2006

Members: Danny Klinefelter, Chair
Kevin Buxkemper

Royce Lesley, Member
Kinley Sorrells, Alternate

PURPOSE

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

1. Promote AGTEXAS awareness of, and commitment to, establishing a strong internal control environment.
2. Determine the adequacy of AGTEXAS administrative and internal accounting controls and evaluate adherence to them.
3. Provide independent and objective review of the reliability and integrity of financial information presented to stockholders, regulators and the general public.
4. Maintain, by scheduling regular meetings, open lines of communication among the Board, internal auditor and external auditor to promote an exchange of views and information, as well as confirm their respective authorities and responsibilities.
5. Enhance the independence of 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 the work of the external auditor employed by AGTEXAS to conduct the annual financial statement audit.
2. Resolve any disagreements between management and the auditor regarding financial reporting.
3. Approve all auditing and permitted non-audit services performed by the AGTEXAS external audit firm.
4. Retain independent counsel, accountants or others to advise the Committee or assist in the conduct of an investigation.
5. Meet with the AGTEXAS officers, external 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 for appropriate funding, as determined by the Committee, for

payment of compensation to advisors employed by the Committee to fulfill the above responsibilities.

9. 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, with an alternate voting member. 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. A quorum shall be present with three voting members and have the full authority of the board for responsibilities as stated within this charter.

RESPONSIBILITIES

The Committee will be responsible for the following activities. The committee will rely on the assistance of the internal auditors, external auditors and the appropriate Association management in accomplishing these tasks.

A. Financial Statements and Disclosure Issues

1. Review significant accounting and reporting issues and understand their impact on the financial statements.
2. Review and discuss with the external auditors and management AGTEXAS audited financial statements that are to be included in AGTEXAS annual report and the external auditors' opinion with respect to such 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 major issues as to the adequacy of AGTEXAS internal controls, and any special steps adopted in light of material control deficiencies. The Committee will inquire into

any accounting adjustments that were noted or 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 deficiencies in the design or operation of internal controls or material weaknesses therein 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 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 structures 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 periodic accounting and financial reports, including the quarterly call reports and stockholders reports.
9. Review and approve financially related press releases prior to issuance.
10. Approve the financial statements and recommend to the entire Board that the financial statements be included in the annual report.

B. Internal Control

1. Meet regularly with the internal auditor to review his assessment of the adequacy and effectiveness of AGTEXAS system of internal controls (including information technology), compliance with laws, regulations, ethics, policies and rules regarding conflict of interest and the quality of credit and consider the risks of any significant deficiencies therein.
2. Review the significant reports by the Internal Audit Department 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 employees of AGTEXAS of concerns regarding questionable accounting or auditing matters.
4. Review the quarterly allowance for loan loss and provision to ensure adequacy 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 chair, and any other member of the Committee, should participate in the meetings held 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 with management and the internal auditors the charter, plans, activities, staffing and organizational structure of the internal audit function annually.
2. Review and approve an annual risk assessment and three-year audit plan developed by management.
3. Ensure there are no unjustified restrictions or limitations, and appoint, compensate and oversee the work of the internal auditors.
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 separately with the internal auditor 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 the internal auditor.
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-audit services performed by the external auditor as negotiated by management. Approval of any non-audit 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 the system for monitoring 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 for communicating the code of conduct to association personnel and for monitoring compliance therewith.
4. Obtain regular updates from management and association legal counsel regarding compliance matters.

F. Reporting Responsibilities

1. Annually, prepare an Audit Committee Report, to be 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 statements, 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.