

# **LONE STAR ACA**

## **AUDIT**

### **COMMITTEE CHARTER**

#### **Audit Committee Charter**

April 27, 2011

#### **Purpose**

To assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, and credit review, the audit process, and the association's process for monitoring compliance with laws and regulations and the code of conduct.

#### **Authority**

The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Retain outside counsel, accountants or others to advise the committee or assist in the conduct of an investigation.
- Seek any information it requires from employees—all of whom are directed to cooperate with the committee's requests—or external parties.
- Meet with association's officers, external auditors or outside counsel, as necessary.

The retention of outside counsel is subject to prior notification of board Chairman or Vice – Chairman as the situation may dictate. A two-thirds majority vote by the full board of directors is required to deny an audit committee's request for resources.

#### **Composition**

The audit committee will consist of at least three and no more than six members of the board of directors. The term of office for each position on the committee shall be for three years. The board chairman will appoint committee members and the committee chair at the appropriate annual organizational meeting of the board and shall serve until their successors shall be duly selected and qualified. The board, upon recommendation of the committee or otherwise, may remove or replace any committee member at any time.

Each committee member will be both independent and financially literate. At least one member shall have expertise in financial reporting. Further, the minutes shall include documentation evidencing each member's knowledge, independence, and experience on a periodic basis for existing members or at the time of the first meeting following the appointment of new members.

## **Meetings**

The committee will meet at least four times a year with authority to convene additional meetings, as circumstances require. All committee members are expected to attend each meeting. The committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and executive sessions. Minutes will be prepared.

## **Responsibilities**

The committee will carry out the following responsibilities:

### Financial Statements

- Review significant accounting and reporting 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 with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing standards.

### Internal Control

- Consider the effectiveness of the company's internal control over annual and interim financial reporting and credit review, including information technology security and control.
- Understand and concur in the scope of internal and external auditors' review of internal control over financial reporting and credit review, and obtain reports on significant findings and recommendation, together with management's responses to any findings.

### Internal Audit Function

Currently performed by utilization of non-staff third party experts:

- Management will provide rationale it used to select the contractor engaged for the internal audit, together with a copy of the engagement letter.
- In consultation with the firm selected for the engagement, determine the scope and timing of the audit.
- Upon the conclusion of the audit, meet separately from association management with the outside audit firm to 1) Discuss any matters that the committee or audit firm believe necessary, 2) present the findings of the audit, and 3) to confirm there were no restrictions, or limitations, or barriers imposed upon the firm by management during the audit.

- Require of management a written response to the findings of the audit, which includes identification of corrective actions.

#### External Audit Function

- Determine the selections, and direct the retention, of outside third party audit firm in order to evaluate the effectiveness of the association's external audit function.
- In consultation with the firm selected for the engagement, determine the scope and timing of the audit.
- Upon the conclusion of the audit, meet separately from association management with the outside audit firm to 1) Discuss any matters that the committee or audit firm believe necessary, 2) present the findings of the audit, and 3) to confirm there were no restrictions, or limitations, or barriers imposed upon the firm by management during the audit.
- Require of management a written response to the findings of the review, which includes identification of corrective actions.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationships with the auditors.

#### Internal Credit Review Function

- Determine the selection, and direct the retention, of qualified experts to perform the association internal credit review.
- In consultation with the expert selected for the engagement, determine the scope and timing of the review.
- Ensure that the engagement letter reflects the scope approved by the audit committee.
- Upon the conclusion of the review, meet separately from association management with the credit review firm to 1) Discuss any matters that the committee or credit review firm believe necessary, 2) present the findings of the review, and 3) to confirm there were no restrictions, or limitations, or barriers imposed upon the firm by management during the review.
- Require of management a written response to the findings of the review, which includes identification of corrective actions.

#### Collateral Review Function

- Management will provide rationale it used to select the contractor engaged for the collateral review, together with a copy of the engagement letter.
- In consultation with the firm selected for the engagement, determine the scope and timing of the review.
- Upon the conclusion of the review, meet separately from association management with the outside collateral review firm to 1) Discuss any matters that the committee or collateral review firm believe necessary, 2) present the findings of the review, and 3) to confirm there were no restrictions, or limitations, or barriers imposed upon the firm by management during the review.
- Require of management a written response to the findings of the review, which includes identification of corrective actions.

## 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 code of conduct to company personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and company legal counsel regarding compliance matters.

## Reporting Responsibilities

- Regularly report to the board of directors about committee activities, issues and related recommendations, and by maintaining meeting minutes evidencing committee members' agreement or disagreement with items it acts upon.
- Provide an open avenue of communication between outsourced audit functions, the external auditors and the board of directors.
- Report annually to the shareholders, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule.
- Review any other reports the company issues that relate to committee responsibilities.

## Other Responsibilities

- Perform other activities related to this charter as requested by the board of directors.
- Institute and oversee special investigations as needed.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the committee's and individual members' performance on a regular basis.
- Require that meeting minutes and related material be maintained for at least three years.