

# High Plains Farm Credit, ACA Audit Committee Charter

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Approval/Revision Date: 2/16/2006; 8/17/2006; 7/19/2007; 7/17/2008; 8/20/09;  
9/23/10; 11/18/10; 1/20/11; 10/25/12; 9/19/13; 11/7/14;  
10/15/15; 10/20/16; 10/19/17; 10/18/18; 12/20/18;  
10/16/19; 10/15/20; 10/21/21; 12/16/21; 7/21/22; 5/18/23;  
9/21/23; 11/21/23; 11/26/24; 11/25/25

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## 1. Mission Statement

The High Plains Farm Credit, ACA (Association) Audit Committee (Committee) is established by and reports to the Board of Directors (Board) to assist the Board in fulfilling its fiduciary and oversight responsibilities. This Committee is established to comply with FCA Regulations 611.210, 612.2180, 618.8430, 620.30, 621.30, 621.31 and 621.32, EM 31.1, EM 31.3, EM 31.8, EM 31.9, EM 1.3 FIRS and IM 7/9/2015.

The mission of the Committee is as follows:

- Review financial statements and significant accounting policies;
- Oversee financial reporting regarding its disclosure to shareholders, and to CoBank, ACB (CoBank), for both CoBank District reporting and reporting to the Federal Farm Credit Banks Funding Corporation (Funding Corporation) for disclosure to investors;
- Oversee the audit activities for the independent auditor; and
- Monitor internal controls, including those relating to compliance with laws and regulations.

## 2. Membership, Qualifications and Terms of Office

### (A) Membership

The Committee shall consist of at least three (3) directors, including all directors designated by the Board to be financial experts, who meet the independence criteria outlined in the Director Independence Criteria Policy and who are designated by the Board to be independent members. The Board Chairperson (Chairperson) shall serve as an ex-officio, non-voting member of the Committee. The Board shall confirm with the Standards of

Conduct Official that each Committee member has no known or potential conflicts of interest with senior officers that could interfere with the Committee member's exercise of independent judgment.

The Chairperson shall have the responsibility of appointing all members of the Committee following the annual reorganization of the Board. Any Board member may attend Committee Meetings.

**(B) Terms of Office**

The term of office for each position on the Committee shall be for one (1) year. The Board, upon recommendation of the Committee, may remove any Committee member at any time.

**(C) Officers**

At its first meeting following appointment by the Chairperson, the Committee will select a Chair and Vice Chair from within its membership.

**(D) Qualifications of Members**

Members of the Committee should have a practical knowledge of finance and accounting and be able to read and understand fundamental financial statements or be able to do so within a reasonable period of time after appointment to the Committee. Each member shall be knowledgeable in public and corporate finance and in financial reporting and disclosure practices or accounting procedures. At least one (1) member of the Committee must be an independent member who is designated by the Board to be a financial expert recognized as having education or experience in accounting, internal accounting controls, or preparing or reviewing financial statements for financial institutions or large corporations consistent with the breadth and complexity of accounting and financial reporting issues that can reasonably be expected to be raised by the institution's financial statements. If the Association hires a financial advisor, as permitted under FCA Regulations, that advisor will also serve as an advisor to the Audit Committee.

Members of the Committee are also considered "institution-affiliated parties" as that term is defined in the Act and therefore subject to certain FCA enforcement authorities contained in part C of title V of the Act. Under the Act, institution-affiliated parties may, under certain circumstances, be subject to discipline including civil money penalties for specified misconduct, as determined by FCA.

**(E) Voting and Quorum**

A majority of the Committee members shall constitute a quorum. Voting on Committee matters shall be on a one (1) member one (1) vote basis. When a quorum is present, the vote of a majority of the committee members present shall constitute the action or decision of the Committee.

**3. Meetings and Other Actions**

The Committee shall meet at least four (4) times annually, with authority to convene additional meetings as circumstances require as determined by the Chairperson. The Committee will invite members of management, auditors, or others to attend meetings and provide pertinent information, as necessary. Meeting agendas will be prepared in consultation with the Chair or Vice Chair and provided in advance to members along with appropriate briefing materials. The Committee may, at times, handle duties and responsibilities of the Committee in concert with the Board during, before, or after Board meetings. Minutes of all Committee meetings will be prepared and approved by the Committee. Minutes will include attendance and will be retained for at least seven (7) fiscal years.

**4. Responsibilities and Authorities**

For the purpose of achieving the Committee’s objectives, the Committee shall have the following responsibilities and authorities. These responsibilities will be discharged with the assistance of appropriate management, independent auditors, and the Audit Coordinator. The Committee shall have the authority to take corrective actions and/or conduct or authorize special or investigative audits into matters within the Committee’s scope of responsibilities. The Committee shall have access to all books, records, facilities, and personnel of the Association necessary to fulfill its responsibilities. Unless otherwise authorized by amendment to this Charter, the Committee shall not delegate any of its authority to any subcommittee. The Committee’s responsibilities and authorities are as follows:

**(A) Financial Reporting and Disclosure**

- (1) Review quarterly accounting and financial reports and shareholder disclosures with management and consider whether they are complete and consistent with the information known to Committee members.
- (2) Require periodic reports from management, the independent auditor, and internal audit regarding any significant proposed regulatory, accounting, or reporting changes and issues, including complex or unusual transactions and highly judgmental areas, and

recent professional and regulatory pronouncements. Understand the potential impact to the financial reporting from these developments.

- (3) Review and assess the impact on the Association and its financial reporting process of any significant accounting or auditing developments or any accounting policy changes relating to preparation of financial statements.
- (4) Periodically, but at least annually, review and discuss with management and the independent auditor disclosure controls and procedures.
- (5) Prior to issuance, approve any annual, quarterly, and interim press release of financial results.
- (6) Oversee the preparation of each quarterly or annual report.
- (7) Receive and review reports from the Disclosure Committee in connection with quarterly and annual financial reporting.
- (8) Review non-financial sections of the annual report before release and consider the accuracy and completeness of the information.
- (9) Prior to the release of annual reports to shareholders, review a report on disclosures made by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) during their certification process about any significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the Association's ability to record, process, summarize and report financial information, and any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
- (10) Prior to the release of annual audited financial statements, review with management and the independent auditors the results of the audits, including any difficulties encountered, and receive reports regarding: (a) all critical accounting policies and practices used by the Association; (b) 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 alternative treatments and disclosures and the treatment preferred by the independent auditor; and (c) other material written communications between the independent auditor and management, such as any management letter and management's response to the 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.

- (11) Review each quarterly and annual report to shareholders prior to its dissemination to the public, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles. Annual reports will be reviewed and discussed in a Committee meeting that includes management and the independent auditors. The Board hereby delegates to the Committee the authority to approve the release of quarterly and annual statements.
- (12) Report annually to the shareholders, describing the Committee's composition, responsibilities, and how they were discharged, and any other required information. The report will include a disclosure that the Committee has reviewed and discussed the audited financial statements with management and discussed matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance) with the independent auditors. The report will also reflect that the Committee received written disclosures and a letter from the independent auditors in accordance with Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), and discussed with the independent auditors their independence from the Association.
- (13) Approve disclosures made by management and the independent auditor regarding: (a) the effect of off-balance sheet arrangements that either have, or are reasonably likely to have, a current or future effect on the financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors; and (b) earnings press releases and other reports or written or electronic material disclosing "pro forma" or "adjusted" non-GAAP information.
- (14) After the Committee reviews a financial policy, procedure, or report, it will record in its minutes its agreement or disagreement with the items under review.

## **(B) Independent Auditors**

- (1) After giving due consideration to the need for a single auditor for all System institutions, the Committee is responsible for approval of the appointment, compensation, retention, or discharge, and oversight and review of the work of the independent auditor, who shall report directly to the Committee for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Association. This includes resolution of disagreements between management and the independent auditor regarding financial reporting.
- (2) Review and approve the scope, approach, and planning of the annual audit by the independent auditor of financial statements, and review of the interim and financial reports of the independent auditor with respect to the audits.
- (3) The Committee must pre-approve allowable non-audit services to be provided by the independent auditor and take appropriate steps to ensure that the independent auditor is not providing prohibited non-audit services, including the receipt of a written certification from the independent auditor to that effect.
- (4) Review any material weaknesses in internal accounting control structure identified as a reportable condition by the independent auditor, and recommend and/or monitor, as deemed necessary by the Committee, the correction of any such deficiency.
- (5) As needed, meet separately in executive session with the independent auditors to discuss any matters that the Committee or auditors believe should be discussed privately.
- (6) Review and confirm the independence of independent 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 Statement of Auditing Standards No. 114 (The Auditor's Communication with Those Charged with Governance) and part 621 of Farm Credit Administration regulations. Receive written disclosures and a letter from the independent auditors in accordance with Independence Standards Board Standard No. 1 and discuss with the independent auditors their independence from the Association. Confirm or discuss with the independent auditors the mechanism in place for rotation of lead and reviewing audit partners after five (5) consecutive years of

service to the institution. Confirm or discuss with independent auditors that the lead and reviewing partners not be allowed to return to the institution's audit for a period of five (5) years.

- (7) Receive a written report annually from the independent auditor that describes: the independent auditing firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the proceeding five (5) years, respecting one (1) or more independent audits carried out by the firm; and any steps taken to deal with such issues. Discuss with the independent auditors the contents of the report on the quality of services performed by the independent auditors.
- (8) Evaluate annually, after giving due consideration to the need for a single auditor for all System institutions and, taking into consideration all relevant circumstances known to the Committee, whether the Association should change its independent auditor or the partner in charge of performing or reviewing the Association's audit or other audit team personnel.
- (9) Ensure there are no unjustified restrictions or limitations on the independent auditors.

**(C) Internal Control**

- (1) Evaluate the adequacy and effectiveness of financial, administrative, operating, and accounting policies through active communications with operating management, internal audit, and the independent auditor.
- (2) Evaluate the adequacy of internal accounting control by review of written reports from the internal and independent auditors and regulators along with Management's response and actions to correct any noted deficiencies.
- (3) At least annually, review and discuss management's internal control report with the independent auditor and Management.
- (4) Oversee system of internal controls related to preparation of financial reports, information technology security and control, those controls relating to compliance with applicable laws and regulations, and controls relating to the preparation of quarterly and annual reports.

- (5) Review a summary of the background checks completed on officers and employees involved in accounting and financial reporting tri-annually or as deemed necessary.

**(D) Internal Audit**

- (1) Review and approve the annual risk assessment and the annual and three (3) year audit plans developed and recommended by the Internal Audit function.
- (2) Review and approve the budget, staffing, and organizational structure of the Internal Audit function.
- (3) Ensure there are no unjustified restrictions or limitations on the Internal Audit function.
- (4) Ensure that internal auditors utilize adequate scopes of work and have full access to all information needed.
- (5) The Audit Coordinator will report to the Committee on Audit Committee responsibilities. The Audit Committee will provide performance standards and performance evaluation ratings/comments to the CEO to complete the Audit Coordinator's performance ratings. As deemed appropriate by the Committee, the CEO and Audit Coordinator will consult with the Committee on the Audit Coordinator's compensation, bonus, appointment, replacement, and/or dismissal.
- (6) Approve and oversee completion of contracts when internal audit and/or credit review functions are outsourced.
- (7) Ensure that the Audit Coordinator has full responsibility for contracting with independent parties to perform any contract audits according to the audit plan or special request.
- (8) Review all reports and findings resulting from the internal audit function's independent evaluation of the systems of internal control and continuing operations.
- (9) Review the effectiveness of the internal audit function.
- (10) On a regular basis, meet separately with the Audit Coordinator to discuss any matters that the Committee or Audit Coordinator believes should be discussed in an executive session.

**(E) Compliance**

- (1) Review all examination and other reports from regulators submitted and monitor management's response to any findings included in these reports.
- (2) 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.
- (3) Review, on at least an annual basis, with management, the independent auditor, and internal auditors, compliance with codes of Ethics for Board members, the CEO, the CFO, the CCO, all Senior Vice Presidents, including the Controller and the Audit Coordinator.
- (4) Obtain regular updates from management and legal counsel regarding compliance matters.

**(F) Coordination with the CoBank and/or System Audit Committees**

- (1) Review reports from the Association with the CoBank and/or System Audit Committee regarding all significant deficiencies and material weaknesses in the design or operation of key internal controls over financial reporting that are identified.
- (2) Review reports from the Association with the CoBank and/or System Audit Committee regarding any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
- (3) Review reports from the Association with the CoBank and/or System Audit Committee regarding any significant issues regarding questionable accounting, auditing matters, or fraud originating from the Whistleblower Program.
- (4) Respond to any concerns identified by the CoBank and/or System Audit Committee and conduct any investigations or other audit committee activities that are necessary to enable the CoBank and/or System Audit Committees to fulfill their chartered responsibilities.

## **(G) Other Responsibilities**

- (1) Establish and maintain procedures for the confidential, anonymous submission of questions, tips, or complaints regarding violations of law, regulation, or policy (including accounting, internal accounting controls, or auditing matters) or fraud, corruption, or operational weaknesses, and for the receipt, retention, and treatment of the same (Whistleblower Program).
- (2) Consult with legal counsel or outside counsel, as the Committee may deem appropriate, in order to discharge its responsibilities and duties.
- (3) Adopt such additional procedures, undertake such activities, or utilize such resources as the Committee may deem appropriate in order to discharge its responsibilities and authorities and to accomplish the stated objectives.
- (4) Discharge any additional responsibilities and authorities as may be imposed by law or regulations.
- (5) Perform an annual self-evaluation of the Committee's performance and communicate the results to the Board.
- (6) Make regular reports to the Board and prepare annually a report for the Board that summarizes the work performed by the Committee to discharge its responsibilities and authorities.
- (7) Perform such other duties and responsibilities as may be assigned to the committee, from time to time, by the Board.

## **5. Resources**

The Committee shall have the authority to engage independent counsel and other advisers as the Committee deems necessary to carry out its duties, with funding to be provided by the Association, as determined by the Committee, for: (a) compensating any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services; (b) compensating independent counsel and/or other advisers engaged by the Committee; and (c) paying ordinary administrative expenses the Committee incurs in carrying out its duties. A two-thirds (2/3) majority vote of the full Board is required to deny the Committee's request for resources.

## **6. Reporting**

The Committee will:

1. Make regular reports to the Board on the routine discharge of its responsibilities under this Charter;
2. Ensure that the Board is kept informed of substantial or exceptional matters or developments pertaining to major areas of its responsibility and, if decision making is involved or a recommendation is developed, report on the process followed, the options considered, and the rationale used to support the Committee's decision or recommendation; and
3. Prepare annually a report for the board that summarizes the work performed by the Committee to discharge its responsibilities and authorities.

## **7. Reviews and Amendments**

This Charter will be reviewed by the Board at least annually and may be amended from time to time by Board action. The Committee will review and assess the adequacy of this Charter annually, requesting Board approval for any proposed changes.

## **8. Disclosure of the Charter**

This Charter will be posted on the "public" area of the Association website and copies made available in printed form upon request.