

COMMUNITY BANKS, INC.
COMMUNITY BANKS
AUDIT COMMITTEE CHARTER

The Boards of Directors of Community Banks, Inc. (the “Corporation”) and Community Banks hereby constitute and establish an Audit Committee with its authority, structure, membership, responsibilities, processes, and specific duties as follows:

AUTHORITY

The authority for the Audit Committee is derived from the full Boards of Directors of Community Banks, Inc. and Community Banks. The Committee has the authority to engage independent counsel and other advisors, as deemed necessary, with appropriate funding to be provided by the Corporation. Committee membership is reviewed annually, and members and the chairperson are appointed accordingly.

FUNDING

In addition to providing funding for independent counsel and advisors employed by the Committee, as discussed above, the Corporation will provide appropriate funding, as determined by the Committee, in its capacity as a committee of the board of directors, for payment of:

Compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation;

Ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

STRUCTURE AND MEMBERSHIP

The Committee shall be comprised of at least three members and consist of independent Corporation directors only. A director is independent if he or she both: a.) is independent as that term is defined in the NASDAQ Marketplace rules and b.) meets the criteria for independence set forth in SEC Rule 10A-3(b)(1) (subject to the exemptions provided in Rule 10A-3(c)). Also, committee members must not have participated in the preparation of the financial statements of the Corporation or any current subsidiary of the Corporation at any time during the past three (3) years. All members must be able to read and understand fundamental financial statements, including the company’s balance sheet, income statement, and cash flow statement. At least one member must have past employment experience in finance/accounting, requisite professional certification in accounting, or other comparable experience or background, including a current or past position as a chief executive or financial officer or other senior officer with financial oversight responsibilities which results in the individual’s financial expertise.

Notwithstanding the requirement that the members of the Committee be independent, as discussed above, one director who:

- i) is not independent as defined in NASDAQ Marketplace Rule 4200;
- ii) meets the criteria set forth in Section 10A(m)(3) under the Securities Exchange Act of 1934 and the rules there under, and
- iii) is not a current officer or employee or a Family Member (as that term is defined in the NASDAQ Marketplace Rules) of such officer or employee, may be appointed to the Committee, if the board, under exceptional and limited circumstances, determines that membership on the Committee by the individual is required by the best interests of the Corporation and its shareholders, and the board discloses, in the next annual proxy statement subsequent to such determination, the nature of the relationship and the reasons for that determination. A member appointed under this exception may not serve longer than two years and may not chair the Committee.

RESPONSIBILITIES, PROCESSES, AND SCOPE

The Committee's purpose is to oversee the accounting and financial reporting processes of the Corporation and the audits of the financial statements of the Corporation. To this end, the responsibilities of the Committee include the monitoring of risks; oversight of the internal and external audit, accounting and financial reporting functions; and the analysis of regulatory examinations. Specific responsibilities include:

Meetings

*** Meet at least quarterly, but as many times as the Committee deems necessary.

Independent Public Accountant

*** The independent public accountant (IPA) reports to the Audit Committee. The IPA will be engaged for the purpose of preparing and/or issuing an audit report or performing other audit, review or attest services for the Corporation. The Committee, in its capacity as a committee of the board of directors, is directly responsible for the appointment, compensation, retention, and oversight of the work of the IPA (including resolution of disagreements between management and the IPA regarding financial reporting). Typically, all services provided by the IPA must be pre-approved by the Committee. A "de minimus" exception exists for permissible services that do not aggregate more than 5% of total fees paid to the IPA in a fiscal year and were not recognized at the time of original engagement. These exceptions are to be reported to the Committee or its representative as soon as practicable.

*** Discuss with IPA the matters required by Statement of Auditing Standards No. 61, "Communication with Audit Committees" and Statement of Auditing Standards No. 90,

“Audit Committee Communications.”

- ***Ensure receipt from the IPA of a formal written statement delineating all relationships between the auditor and the company, consistent with Independence Standards Board Standard 1, and actively engage in a dialogue with the auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor and take, or recommend that the full Corporate Board take appropriate action to oversee the independence of the external auditor.
- *** Review the scope and general extent of the external audit examination, including the management and engagement letters. The Committee should discuss with the IPA the quality of the Corporation’s financial and accounting practices, and any relevant recommendations. Fees are to be presented annually to the Committee for approval. This process establishes the auditor’s ultimate accountability to the Corporation Board of Directors and the Audit Committee, as representatives of shareholders, and these shareholder representatives’ ultimate authority and responsibility to select, evaluate, and where appropriate, replace the external auditor.
- *** Meet with the IPA in executive session annually or more frequently as deemed necessary.
- *** Ensure the rotation of the IPA audit partners as required by law.
- *** Review with the IPA its report on critical accounting policies, discussions of alternative treatments of financial information within GAAP and material written communications between the firm and management.

Internal Audit

- *** Appointment, compensation, retention, and oversight of the work of the internal auditors.
- *** Review, discuss, and approve the annual internal audit program. Meet quarterly with internal audit to review audit reports issued and monitor disposition of internal audit findings.
- *** Meet with internal audit in executive session quarterly or more frequently as deemed necessary.

Internal Controls and Financial Reporting

- *** Review the adequacy of internal control systems and the extent to which significant audit recommendations have been implemented.

- *** Review with management the Corporation's audited financial statements for inclusion in the Annual Report on Form 10-K. Review with management the quarterly filed financial reports on Form 10-Q and ensure compliance with Statement of Auditing Standards No. 100, "Interim Financial Information."
- *** Review management's assertion regarding the effectiveness of internal controls over financial reporting, review management's assertion regarding compliance with designated laws and regulations, and review the IPA's attestation on management's assertions regarding internal controls over reporting.

Other Responsibilities

- *** Review the reports of examinations of the Corporation and its subsidiaries by regulatory authorities, as appropriate, and management's responses.
- *** Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
- *** Establish procedures for receipt of communications from shareholders.
- *** Inquire of management, internal auditors, and IPA about significant risks or exposures facing the Corporation; assess the steps management has taken or proposes to take to minimize such risks; and periodically review compliance with such steps.
- *** Keep detailed minutes of the meetings that will document the audit reports and major findings discussed and record any action taken. These minutes will be used by the Audit Committee Chairman when making his regular report to the full Boards at the regularly scheduled Board Meetings.
- *** Annually report to the shareholders, describing the Committee's composition, responsibilities, how they were discharged, and approval of non-audit services.
- *** Annually review and approve the Audit Committee Charter.

This Audit Committee Charter has been reviewed and approved by the Boards of Directors of Community Banks, Inc. and Community Banks.

August 5, 2005 Date

_____, Secretary