



## **CHARTER OF THE ~~BOARD OF DIRECTORS OF PEDERNALES ELECTRIC COOPERATIVE, INC.~~ AUDIT COMMITTEE CHARTER OF THE**

### **1. PURPOSE OF THE AUDIT COMMITTEE**

The purpose of the Audit Committee of Pedernales Electric Cooperative, Inc. (~~the "PEC" or "Cooperative"~~) Board of Directors ("Board") is to provide independent review of the Cooperative's accounting and financial reporting, oversee the annual financial audit, make recommendations to the Board, and receive periodic reports from the Cooperative's internal auditor ~~of function~~.

### **2. COMPOSITION AND TERM OF THE COMMITTEE**

The Audit Committee shall be elected annually at a regular ~~B~~board meeting, within three (3) months after the Annual Meeting. It shall be composed of three (3) members of the Board, each to serve one (1) year terms. The Board President shall appoint the chair of the ~~Audit~~ Committee with approval by the Board.

### **3. DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE**

The duties and responsibilities of the Audit Committee shall be to:

- a) 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 as part of the annual financial audit.
- b) ~~to~~ Determine whether the Cooperative is complying with specific Board directions and adopting best management practices to cover all regular and special audit requirements.
- ~~b)c)~~ Recommend selection of an external independent financial auditor ("external auditor").
- ~~e)d)~~ ~~to~~ Periodically meet with the ~~external financial~~ auditors to review the preparation of the annual financial audit and management letter, and to coordinate with management to discuss the management letter with the full Board and to review ~~expense audit and internal~~ audit issues.
- ~~e)e)~~ Review with management and the external auditors all matters required to be communicated to the ~~Audit C~~ommittee under generally accepted auditing standards.
- ~~e)~~ ~~recommend selection of an external independent auditor;~~
- f) Understand how management develops interim financial information, and the nature and extent of ~~internal and~~ external auditor involvement.
- ~~g)~~ ~~Review interim financial reports with management and the external auditors when filing with regulators, and to consider whether they are complete and consistent with the information known to ~~Audit C~~ommittee members.~~

**Commented [MB1]:** Note: Changes were made to this section to reflect the clarification of the item, the relocation of the item for improved organization, or the removal of the item because it is otherwise managed by the Board under a separate PEC policy.



- ~~h)g)~~ Consider the effectiveness of the company's internal controls ~~system, including information technology security and control.~~
- ~~h)h)~~ Review the effectiveness of the ~~Cooperative's internal~~ audit function, including conforming with the ~~Institute of Internal Auditors' Definition of Internal Auditing, PEC Code of Conduct, and PEC Ethics and Compliance Program, and the International Standards for Professional Practice of Internal Auditing.~~
- ~~h)i)~~ On a regular basis, meet separately with the ~~chief audit~~ executive overseeing the Cooperative's audit function to discuss any matters that the Audit Committee or the Cooperative's internal audit function believes should be discussed privately.
- ~~h)j)~~ Review the external auditor's' proposed audit scope and approach, including coordination of the audit effort with ~~internal~~the Cooperative's audit function.
- ~~h)k)~~ Review the performance of the external auditors.
- ~~h)l)~~ On a regular basis~~As needed~~, meet separately with the external auditors to discuss any matters that the Audit Committee or external auditors believe should be discussed privately.
- ~~h)m)~~ Regularly report to the Board ~~of Directors~~ about Audit Committee activities, issues, and related recommendations.
- ~~e)~~ ~~institute and oversee special investigations as needed;~~
- ~~p)n)~~ ~~R~~to review the Cooperative's Form 990 Return of Organization Exempt From Income Tax including, but not limited to, expenses of the Board, the financial compensation package of PEC executive-level/key employees staff, and employee benefits;
- ~~q)~~ ~~to consider and make recommendations to the Board in all matters concerning the Board's role as sponsor of the Cooperative's Employees Defined Benefit Retirement Plan, Insurance Continuation Plan, the Cooperative's Employees' 401(k) Savings Plan (collectively, the "Plans"); and~~
- ~~h)o)~~ ~~to~~ Perform any and all such other duties as may be assigned to the Audit Committee by the Board from time-to-time, including, without limitation, overseeing special investigations as may be needed.

#### 4. COMMITTEE MEETING

The Audit Committee shall meet at least two (2) times per year with authority to convene additional meetings as necessary and convenient. Personal attendance of Audit Committee members is preferred and encouraged, but Audit Committee members may attend via tele-conference or video conference when attendance in person is not possible.

#### 5. SCOPE OF AUTHORITY OF THE AUDIT COMMITTEE

The Audit Committee is advisory, and shall have no authority to act on behalf of the Board or the Cooperative, except in matters where that authority has been expressly granted or otherwise delegated to the Audit Committee by Board approval of this Ceharter, or by Board vote in a meeting conducted in compliance with the Cooperative's Board Meetings Policy. Notwithstanding the foregoing, the Chair of the Audit Committee is authorized, as a duly authorized agent of the



Cooperative, for and in the name and on behalf of the Cooperative, to execute any engagement letter(s) with an external auditor~~s~~, consistent with and pursuant to terms of such engagements~~s~~ as approved by Board resolution.

## 6. GOVERNING LAWS AND POLICY

The Audit Committee will be governed in all respects by state and federal law, the Cooperative's Articles of Incorporation, the Cooperative's Bylaws, the Board Meetings Policy, and the Board Committee Guidelines.

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| Date adopted:       | September 21, 2009   |
| Last reviewed:      | <del>June 19, 2020</del> <u>TBD</u>  |
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| Effective date:     | <del>June 19, 2020</del> <u>TBD</u>  |
| Approver:           | Board of Directors   |
| Applies to:         | Board of Directors Audit Committee   |
| Administrator:      | Board of Directors and General Counsel   |
| Superseding effect: | This <del>Charter</del> <u>Policy</u> supersedes all previous <del>policies and memoranda</del> <u>charters</u> concerning the subject matter. Only the Approver may authorize exceptions to this <del>Policy</del> <u>Charter</u> . |