

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
working draft for discussion purposes only
PHONE: (806) 747-3815
FAX: (806) 747-3815
8215 NASHVILLE AVENUE
LUBBOCK, TEXAS 79423-1954

April 2, 2018

Board of Directors
Pedernales Electric Cooperative, Inc.
Johnson City, Texas

We have audited the financial statements of Pedernales Electric Cooperative, Inc. (the Cooperative) for the year ended December 31, 2017, and have issued our report thereon dated April 2, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter June 14, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control over financial reporting of Pedernales Electric Cooperative, Inc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control over financial reporting. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meetings about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Pedernales Electric Cooperative, Inc. are described in the notes to the financial statements. In 2017, the Cooperative did not adopt any new accounting policies.

We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements are unbilled revenue calculations, the allowance for uncollectible accounts, and lives used to calculate depreciation on distribution plant in service. Management's estimates related to unbilled revenue are based on industry accepted guidelines and the revenue calculations are within those guidelines. Management's estimates of the allowance for uncollectible accounts are based on historical activity and current regulatory actions. Management's estimate of the depreciation life used is based on industry accepted guidelines and the lives selected are within those guidelines. We evaluated the key factors and assumptions used to develop unbilled revenue estimates, the allowance for uncollectible accounts, and accumulated depreciation and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Key disclosures are Notes 3, 7, 8, 12, 13 and 14 relating to plant, equity, debt, commitments and contingencies, and benefits.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 2, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of Directors and management of Pedernales Electric Cooperative, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants