

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

Purpose of the Audit Committee

The purpose of the Audit Committee of Pedernales Electric Cooperative, Inc. (the "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.

Composition and Term of the Committee

The Audit Committee shall be elected annually at a regular 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 Committee with approval by the Board.

Duties and Responsibilities of the Audit Committee

The duties and responsibilities of the Audit Committee shall be:

- (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;
- (b) to determine whether the Cooperative is complying with specific directions and adopting best management practices to cover all regular and special audit requirements,
- (c) to periodically meet with the 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;
- (d) review with management and the external auditors all matters required to be communicated to the committee 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 consider whether they are complete and consistent with the information known to committee members;
- (h) consider the effectiveness of the company's internal control system, including information technology security and control;

- (i) review the effectiveness of the internal audit function, including conforming with the Institute of Internal Auditors' Definition of Internal Auditing, Code of Conduct, Ethics and Compliance Program, and the *International Standards for Professional Practice of Internal Auditing*;
- (j) on a regular basis, meet separately with the chief audit executive to discuss any matters that the committee or internal audit believes should be discussed privately;
- (k) review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit;
- (l) review the performance of the external auditors;
- (m) on a regular basis, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately;
- (n) regularly report to the Board of Directors about Committee activities, issues and related recommendations;
- (o) institute and oversee special investigations as needed;
- (p) to review the expenses of the Board, the financial compensation package of PEC executive level 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
- (r) to perform any and all such other duties as may be assigned to the committee by the Board from time-to-time.

Committee Meeting

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

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 Committee by Board approval of this charter, 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 external auditors, consistent with and pursuant to terms of such engagements as approved by Board resolution.

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.

Charter Title:	Charter of the Audit Committee
Review Frequency:	Annually
Last Reviewed:	June 17, 2017
Date Adopted:	September 21, 2009
Effective Date:	September 21, 2009
Amendment Dates:	July 6, 2012, August 15, 2016, June 17, 2017
Approver:	Board of Directors
Applies to:	Board of Directors Audit Committee
Administrator:	Board of Directors and General Counsel
Superseding Effect	This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this policy.