

# Budget Policy

## PEDERNALES ELECTRIC COOPERATIVE, INC.

### 1. Purpose:

1.1. The Budget for Pedernales Electric Cooperative, Inc. ("PEC" or "Cooperative") is a financial document projecting revenues, expenses, and Capital Improvement Plan expenditures. It is also a tool that is used to help monitor and assure financial integrity for the Cooperative. The Budget serves as an operational guideline and helps to link financial planning with day-to-day operations. The Budget is approved annually by the Board of Directors ("Board"). This Budget Policy ("Policy") establishes the framework and process for developing, adopting, comparing planned to actual spend, and amending the Budget as may be necessary, from time to time.

### 2. Scope:

2.1. The Budget establishes the maximum Board authorized funding levels for operating expenses and capital expenditures. On occasion, PEC management may determine that it is necessary, in the pursuit of Cooperative goals and objectives, to request the Board to consider an amendment to the Budget.

### 3. Definitions:

- 3.1. Activity Code Group – The Cooperative's system of managerial account codes used in the budget process and to report financial information. The listing of Activity Code Groups is provided in **Appendix A**.
- 3.2. Budget – A financial document projecting revenues, expenses, and Capital Improvement Plan expenditures approved annually by the Board.
- 3.3. Budget Amendment – A Board approved change to the Budget.
- 3.4. Capital Improvement Plan ("CIP") – The plan that outlines and describes planned expenditures for the construction or acquisition of assets to be placed in service.
- 3.5. CIP Budget – Amounts anticipated to be spent on CIP projects.
- 3.6. CIP Budget Category – A group or category of CIP projects. The listing of CIP Budget Category Codes is provided in **Appendix B**.
- 3.7. Department – A functional group of the Cooperative that has measurable activities or attributes.
- 3.8. IT Framework - The CIP Budget Category assigned to costs for hardware, software, & electronics (except tools for Operations) for the purpose of acquiring and maintaining technology assets for the efficiency of the Cooperative. Examples include life cycle management of computers, fiber cabling for infrastructure, and telephone technology.
- 3.9. Major CIP Variance – An unfavorable fiscal year-end CIP Budget Category variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable variance of \$100,000 or 5.0% of the CIP Budget Category, whichever is **greater**.
- 3.10. Major Operating Variance – An unfavorable fiscal year-end Operating Budget expense variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable variance at the Activity Code Group level of \$100,000 or 5.0%, whichever is **greater**.
- 3.11. Management – Consists of executive, vice president, director, manager and supervisor positions. May include other positions, depending on the context.
- 3.12. Minor Variance – An unfavorable fiscal year-end variance that does not rise to the level of either a Major CIP Variance or a Major Operating Variance.
- 3.13. Operating Budget – Outlines and describes forecasted revenues and planned expenses related to providing service to Member. Revenues and expenses are budgeted and tracked at the Activity Code Group level.

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### **4. Policy Statement and Implementation:**

#### **4.1. Budget Preparation and Adoption.**

- 4.1.1. On an annual basis, Finance Department staff works with the executive management to establish Budget parameters and then coordinates the preparation of PEC's Budget with Management in each Department.
- 4.1.2. A draft Budget is prepared and reviewed by Management for completeness, accuracy, alignment with strategic initiatives, and consistency with PEC goals and objectives, including cost controls.
- 4.1.3. After incorporating adjustments based on Management's review, a draft Budget is presented to the Board for review and consideration.
- 4.1.4. The Cooperative's accounting system and reports shall be kept and examined monthly by the Board in accordance with the Bylaws, and the system of accounts established by the Federal Energy Regulatory Commission shall be used for recording actual expenditures for regulatory purposes.

#### **4.2. Unused Funds.**

- 4.2.1. Approved CIP Budget that is not used may not be transferred from one CIP Budget Category to another CIP Budget Category without Board approval. However, unused approved CIP Budget may be transferred among approved projects that were budgeted within the same CIP Budget Category with approval from the executive manager over the Department.
- 4.2.2. Unused Operating Budget may be transferred from one Activity Code Group to another Activity Code Group with approval from the executive manager over the Department.
- 4.2.3. Amounts may not be transferred between the Operating Budget and the CIP Budget without Board approval.
- 4.2.4. Approved CIP Budget may not be used toward the purchase of real estate without obtaining Board approval for the purchase of real estate pursuant to the Authority and Responsibilities Policy.

#### **4.3. Budget Amendments.**

- 4.3.1. Budget amendments may be required for Major Operating Variances or Major CIP Variances.
- 4.3.2. Revenues are budgeted, but revenue variances will not require a Budget Amendment.
- 4.3.3. Purchased power and property taxes are budgeted, but variances will not require a Budget Amendment.
- 4.3.4. Line extensions are budgeted as part of CIP, but because the construction cost of lines to serve Members are directly related to variable Member growth and set by PEC's Tariff and Business Rules, variances will not require a Budget Amendment.

#### **4.4. Variances.**

- 4.4.1. Reporting a Minor Variance to the Board is not required.
- 4.4.2. Reporting a Major Operating Variance or Major CIP Variance to the Board is required.

### **5. Procedure Responsibilities:**

- 5.1. The Budget should be maintained throughout the year at the level of spend that is authorized within each Department.
- 5.2. Each Department's Management is responsible for complying with financial policies and

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ensuring expenditures are properly coded.

- 5.3. The Finance Department staff will provide monthly variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating Budget.
- 5.4. Each Department's Management is responsible for providing monthly written explanations of Minor Variances to the Finance Department. This applies to both the CIP Budget and Operating Budget.
- 5.5. Each Department's Management is responsible for obtaining a Budget Amendment before obligating PEC to an expenditure that will create a Major CIP Variance or a Major Operating Variance.
- 5.6. The CEO has the authority, pursuant to the Authority and Responsibilities Policy, to authorize emergency and other time critical and essential business expenditures that create a Major Variance and/or are not in the Budget. Authorizations of this nature will be reported to the Board by the CEO.

**6. Enforcement:**

- 6.1. The CEO shall enforce this Policy. Management shall ensure adherence with this Policy. Violations of this Policy may result in disciplinary or corrective action, up to and including, termination.

**7. Superseding Effect:**

- 7.1. This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.

**8. References and Related Documents:**

- 8.1. Authority and Responsibilities Policy
- 8.2. Bylaws, Article III
- 8.3. Procurement Policy

Policy Title:	Budget Policy
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Approver:	Board of Directors
Applies to:	All PEC Employees and Board of Directors
Administrator:	Finance - Controller
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## **PEDERNALES ELECTRIC COOPERATIVE, INC.**

### **Appendix A - Activity Code Groups:**

500 - 615	Operating Revenue
900 - 901	Purchased Power
1001 - 1110	Payroll and Benefits
1201 - 1308	Staff Expenses
1309	Member Events
2001 - 2055	Goods & Materials
3001 - 3380	Outside Services
4501	Outside Services
4001 - 4020	Directors' Expenses
4101 - 4104	Utilities
4207 - 4210	Transportation
4301 - 4599	Misc/Other Expenses
5101 - 5104	Taxes
9001 - 9009	Other Income (Expense)
4514	Other Income (Expense)

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### Appendix B - CIP Budget Categories:

#### **Distribution**

100	Lines – New (i.e., Extensions)
200	Tie-Lines
300	Conversion and Line Changes
400	Substations, Switching Stations, Metering Points, etc. - New
500	Substations, Switching Stations, Metering Points, etc. - Changes
600	Miscellaneous Distribution Equipment
700	Other Distribution Items

#### **Transmission**

800	Lines - New
900	Substations, Switching Stations – New
TRL (1000)	Line and Station - Changes
TRM (1100)	Other Transmission Lines

#### **General Plant**

FAC	Facilities
ITD	IT Framework
VEH	Vehicles
TEQ	Tools & Equipment