

Budget Policy

PEDERNALES ELECTRIC COOPERATIVE, INC.

1. Purpose:

The purpose of the Budget Policy ("Policy") is to establish the framework and process for developing, adopting, and comparing planned spend to actual spend, and amending the Pedernales Electric Cooperative, Inc. ("PEC" or "Cooperative") Budget as may be necessary, from time to time.

~~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").~~

~~2.0.1.1. 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.~~

~~3.0.~~

4.2. Scope:

This Policy applies to the Board, the CEO, and all employees of the Cooperative.

~~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 that the Board to consider an amendment to the Budget.~~

5.3. Definitions:

~~5.1.3.1. Activity Code Group – PECThe Cooperative's system of managerial account codes used in the Bbudget process and to report financial information. The listing of Activity Code Groups is provided in Appendix A.~~

~~5.2.3.2. Budget – A financial document projecting revenues, expenses, and Capital Improvement Plan ("CIP") expenditures approved annually by the Board.~~

~~5.3.3.3. Budget Amendment – A Board approved change to the Budget.~~

~~5.4.3.4. Capital Improvement Plan ("CIP") – The plan that outlines and describes planned expenditures for the construction or acquisition of assets to be placed in service.~~

~~5.5.3.5. CIP Budget – Amounts anticipated to be spent on CIPCIP projects.~~

~~3.6. CIP Budget Category – A group or category of CIPCIP projects. The listing of CIP Category Budget Category Codes is provided in Appendix B.~~

~~5.6.3.7. CIP Individual Project Budget – An individual CIPCIP project Budget that is approved by the Board in total, spanning more than one fiscal year.~~

~~3.8. CIP Vehicle Budget – An approved group of vehicle purchases within a given fiscal year.~~

~~5.7.3.9. Department – A functional group of the CooperativePEC that has measurable activities or attributes.~~

~~5.8. 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.~~

~~Vehicle Budget – An approved group of vehicle purchases within a given fiscal year.~~

~~3.10. Major CIP Category Budget Variance – An unfavorable fiscal year-end CIP Category Budget Category vVariance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable variance of~~

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\$100,000 or 5.0% of the CIP ~~Category~~ Budget ~~Category~~, whichever is **greater**.

5.9.3.11. Major CIP Individual Project Budget Variance – An unfavorable CIP Project Budget Variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable, cumulative variance of \$100,000 or 10.0% of the CIP Individual Project Budget regardless of year in which variance is incurred, whichever is greater.

5.10.3.12. Major Operating Budget 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.

5.11.3.13. Management – Consists of executive, vice president, director, manager and supervisor positions. May include other positions, depending on the context.

5.12.3.14. Minor Variance – An unfavorable fiscal year-end variance that does not rise to the level of either a Major CIP Category Budget Variance, Major CIP Individual Project Budget Variance, or a Major Operating Budget Variance.

5.13.3.15. Operating Budget – Outlines and describes forecasted revenues and planned expenses related to providing service to Members. Revenues and expenses are budgeted and tracked at the Activity Code Group level.

6.4. Policy Statement and Implementation:

6.1.4.1. Budget Preparation and Adoption:

6.1.4.1.1. On an annual basis, the Finance Department must staff works with the executive management to establish Budget parameters and then coordinates the preparation of PEC's Budget with Management in each Department across the Cooperative.

6.1.4.1.2. A draft Budget is prepared and reviewed by Management for completeness, accuracy, alignment with strategic initiatives, and consistency with PEC's goals and objectives, including cost controls.

6.1.4.1.3. After incorporating adjustments based on Management's review, a draft Budget is presented to the Board for their review and consideration.

4.1.4. PEC The Cooperative's accounting system and reports shall be kept and examined monthly by the Board in accordance with federal and/or state law, the PEC Articles of Incorporation, and the PEC Bylaws.

4.1.5. and tThe system of accounts established by the Federal Energy Regulatory Commission ("FERC") shall be used for recording actual expenditures for regulatory purposes.

4.1.6. The Budget should be maintained throughout the year at the level of spend that is authorized within each Department.

6.1.4.1.7. Each Department's Management is responsible for complying with PEC's financial policies, including the Procurement Policy and Limits, and ensuring expenditures are properly coded.

6.2.4.2. Unused Funds:

6.2.4.2.1. Approved amounts within a Capital Improvement Project ("CIP") Category Budget that is not used may not be transferred from one CIP Category Budget Category to another CIP Category Budget Category without Board approval; h. However, unused approved amounts within a CIP Category Budget may be transferred among approved projects that were budgeted within the same CIP Category Budget Category with approval from the executive officer-manager over the Department.

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4.2.2. Approved amounts within a CIP Individual Project Budget not used within one fiscal year will automatically roll into the next fiscal year until the CIP project is completed. Amounts within a CIP Individual Project Budget may not be transferred to another CIP Individual Project Budget or CIP Category Budget without Board approval.

~~6.2.2.~~4.2.3. Unused amounts within the Operating Budget may be transferred from one Activity Code Group to another Activity Code Group with approval from the executive ~~officer~~ manager over the Department.

4.2.4. Amounts may not be transferred between the Operating Budget and the CIP Budget without Board approval.

~~6.2.3. Approved amounts within the 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.~~

4.2.5. Approved amounts within the 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.

~~6.2.4.~~4.2.6. Approved amounts within the CIP Vehicle Budgets that are not used within one fiscal year, for individual vehicles that are ordered but not yet received, will automatically roll into the next fiscal year.

6.3.4.3. Budget Amendments:

~~4.3.1. Budget amendments for Major CIP Category Budget Variance, Major CIP Category Budget Variance, Major CIP Individual Project Budget Variance, or a Major Operating Budget Variance.~~

~~6.3.1.~~Amendment:

4.3.2. The following items are budgeted, but variances do not require a Budget Amendment:

- Revenues; are budgeted, but revenue variances will not require a Budget Amendment.
- Purchased Power;
- and Property Taxes; or are budgeted, but variances will not require a Budget Amendment.
- Depreciation; or are budgeted, but variances will not require a Budget Amendment.

~~6.4.0. Items budgeted but not requiring a Budget Amendment are: Revenues, Purchased Power, Property Taxes, and Depreciation.~~

6.5.4.4. Variances:

4.4.1. The Finance Department will provide monthly variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating Budget.

4.4.2. 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.

~~6.5.1.~~4.4.3. Reporting a Minor Variance is not required to be reported to the Board.

4.4.4. Reporting a Major Operating Budget Variance, or Major CIP Category Budget Variance, or Major CIP Individual CIP Project Budget Variance are required to be reported to the Board.

4.4.5. The Chief Executive Officer 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

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Chief Executive Officer.

~~4.1.~~

~~Procedure Responsibilities:~~

~~The Budget should be maintained throughout the year at the level of spend that is authorized within each Department.~~

~~Each Department's Management is responsible for complying with financial policies and ensuring expenditures are properly coded.~~

~~The Finance Department staff will provide monthly variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating Budget.~~

~~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.~~

~~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.~~

~~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.~~

~~7.5. Enforcement:~~

~~7.1.5.1. The Chief Executive Officer 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.~~

~~Superseding Effect:~~

~~2.0. This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.~~

~~8.6. References and Related Documents:~~

~~1.1. [PEC Articles of Incorporation](#)~~

~~2.1.1.2. [PEC Bylaws](#)~~

~~2.2.1.3. [Authority and Responsibilities Policy](#)~~

~~2.3. [Bylaws, Article III](#)~~

~~1.4. [Procurement Policy and Limits](#)~~

~~1.5. [161.059 Texas Utilities Code](#)~~

Policy Title:	Budget Policy
Review Frequency:	Every 5 Years
Last Reviewed:	November 20, 2020 January 11, March 2022

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PEDERNALES ELECTRIC COOPERATIVE, INC.

Date Adopted:	March 21, 2016
Effective Date:	November 20, 2020 <u>March 18, 2022</u>
Amendment Dates:	March 21, 2016; April 9, 2018; June 23, 2018; December 13, 2019; November 20, 2020; <u>March 18, 2022</u>
Approver:	Board of Directors
Applies to:	All PEC Employees and Board of Directors
Administrator:	Finance —Controller
Superseding Effect	This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this policy.

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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 and Substation

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

2000FAC	Facilities
3000ITD	IT Framework
VEH	Vehicles
4000TEQ	Tools & Equipment
5000VEH	Vehicles