

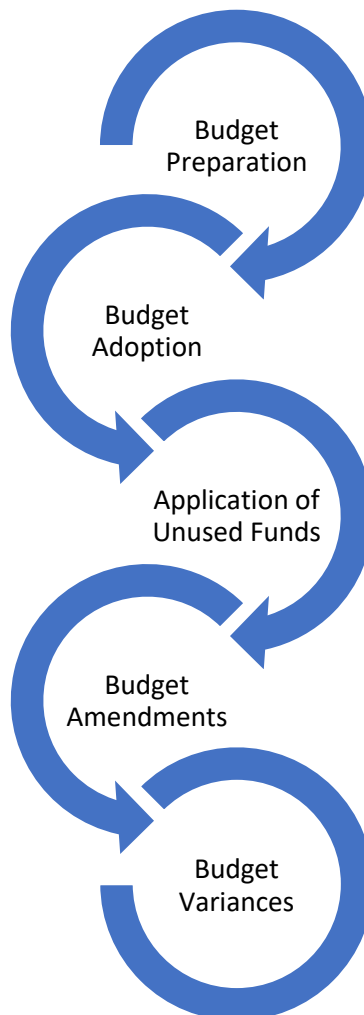


BUDGET POLICY

Effective Date: ~~March 24, 2022~~ TBD

POLICY AT A GLANCE

PEC is committed to upholding our Value of **Accountability** by establishing a robust process for Budget management.



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.

2. SCOPE

This Policy applies to the Board of Directors ("Board") and all employees of the Cooperative. The Budget establishes the maximum Board authorized funding levels for operating expenses ~~on~~and capital expenditures.

3. POLICY AND IMPLEMENTATION

3.1. Budget Preparation and Adoption

- 3.1.1. On an annual basis, the Finance Department shall work with Executive Management to establish Budget parameters and coordinate the preparation of PEC's Budget with Management in each Department across the Cooperative.
- 3.1.2. 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.
- 3.1.3. After incorporating adjustments based on Management's review, a draft Budget is presented to the Board for their review and consideration.
- 3.1.4. PEC's accounting system and reports shall be ~~kept and examined monthly by the Board~~maintained by staff in accordance with federal and/or state law, the PEC Articles of Incorporation, and the PEC Bylaws. The Board shall examine the Cooperative financial statements and reports on a monthly basis or as requested.
- 3.1.5. The system of accounts established by the Federal Energy Regulatory Commission ("FERC") shall be used for recording actual expenditures for regulatory purposes.
- 3.1.6. The Budget should be maintained throughout the year at the level of spend that is authorized within each Department.
- 3.1.7. 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.

3.2. Unused Funds

- 3.2.1. ~~Approved~~Unused Board approved amounts within a Capital Improvement Plan ("CIP") ~~Budget that is not used~~Category Type may ~~not~~ be transferred ~~from one to other Board approved CIP Category Budget to another CIP Category Budget without Board approval; however, unused approved amounts within a CIP Category Budget may be transferred among approved projects that were budgeted~~Budgets, within the same CIP Category Budget Type, with approval from Executive Management ~~over~~and notice to the ~~Department~~Board.



- 3.2.2. Approved amounts within a CIP Individual Project Budget not used within one fiscal year ~~will automatically~~ are eligible to 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.
- 3.2.3. Unused amounts within the Operating Budget may be transferred from one Activity Code Group to another Activity Code Group with approval from Executive Management ~~over the Department.~~
- 3.2.4. Amounts may not be transferred between the Operating Budget and the CIP Budget without Board approval.
- 3.2.5. Approved amounts within the CIP Budget may not be used toward the purchase of real estate without obtaining Board approval in accordance with the [Authority and Responsibilities Policy](#).
- 3.2.6. 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.

3.3. Budget Amendments

- 3.3.1. Each Department's Management is responsible for obtaining a Budget Amendment before obligating PEC to an expenditure that will create a Major CIP Category ~~BudgetType~~ Variance, Major CIP Individual Project Budget Variance, or a Major Operating Budget Variance.
- 3.3.2. The following items are budgeted, but variances do not require a Budget Amendment:
 - 3.3.2.1. Revenues;
 - 3.3.2.2. Purchased Power;
 - 3.3.2.3. Property Taxes; or
 - 3.3.2.4. Depreciation.

3.4. Variances

- 3.4.1. The Finance Department will provide ~~monthly~~ access to variance reports to each Department outlining actual spend as compared to the CIP Budget and Operating Budget.
- ~~3.4.2. The Finance Department will provide a monthly variance report, which shall include Minor Variances, to the Board outlining actual spend as compared to the CIP Budget and Operating Budgets.~~
- ~~3.4.2.3.4.3.~~ Each Department's Management is responsible for providing monthly written explanations of Minor Variances to the Finance Department.
- ~~3.4.3. Minor Variances are not required to be reported to the Board.~~
- 3.4.4. Major Operating Budget Variances, Major CIP Category Budget Variances, or Major CIP Individual Project Budget Variances are required to be reported to the Board and approved using a Budget Amendment.



- 3.4.5. The Chief Executive Officer (“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 shall be reported to the Board by the ~~Chief Executive Officer~~ CEO as soon as practicable, but no later than the next Board meeting after the action is taken.

4. DEFINITIONS

- 4.1. **Activity Code Group** – PEC’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.
- 4.2. **Budget** – A financial document projecting revenues, expenses, and CIP expenditures approved annually by the Board.
- 4.3. **Budget Amendment** – A Board approved change to the Budget.
- 4.4. **Capital Improvement Plan (“CIP”)** – The plan that outlines and describes planned expenditures for the construction or acquisition of assets to be placed in service.
- 4.5. **CIP Budget** – Amounts anticipated to be spent on CIP projects. Includes both CIP Category Budget and CIP Project Budget.
- 4.6. **CIP Category Budget** – ~~A group or~~ The budget for a category or group of CIP projects. ~~The listing, which fall within the list~~ of CIP Category Budget Codes is provided in Appendix B.
- 4.7. **CIP Category Type**– The CIP Category Types are Distribution, Substation, Transmission and General Plant. Each CIP Category Type is made up of groups of CIP Category Budgets.
- 4.7.4.8. **CIP Individual Project Budget** – An individual CIP project Budget that is approved by the Board in total, spanning more than one fiscal year.
- 4.8.4.9. **CIP Vehicle Budget** – An approved group of vehicle purchases within a given fiscal year.
- 4.9.4.10. **Department** – A functional group of PEC that has measurable activities or attributes.
- 4.10.4.11. **Executive Management** – An employee that is an Officer or Vice-President of PEC assigned with the management responsibility over a PEC business unit or department.
- 4.11.4.12. **Major CIP Category Budget Variance** – An unfavorable fiscal year-end CIP Category Budget Variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable variance of ~~\$100~~250,000 or ~~3~~10.0% of the CIP Category Budget, whichever is greater.
- 4.12.4.13. **Major CIP Individual Project Budget Variance** – An unfavorable CIP Individual Project Budget Variance that exceeds the Board allowance without a Budget Amendment. The Board allowance is established as an unfavorable, cumulative variance of ~~\$100~~250,000 or ~~5~~10.0% of the CIP Individual Project Budget regardless of year in which variance is incurred, whichever is greater.
- 4.13.4.14. **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~~250,000 or ~~3~~10.0%, whichever is greater.

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

4.15.4.16. 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.

4.16.4.17. 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.

5. POLICY ENFORCEMENT

The ~~Chief Executive Officer~~CEO, through the Administrator, shall enforce this Policy. Management shall ensure adherence with this Policy. Violations of this Policy may result in disciplinary action up to, and including, termination.

6. REFERENCES AND RELATED DOCUMENTS

[Articles of Incorporation](#)

[Bylaws](#)

[Procurement Policy](#)

[Authority and Responsibilities Policy](#)

[161.059 Texas Utilities Code](#)

Date adopted:	Budget Policy
Last reviewed:	March 2, 2022 <u>TBD</u>
Review frequency:	Every five years
Amendment dates:	March 21, 2016; April 9, 2018; June 23, 2018; December 13, 2019; November 20, 2020; March 24, 2022; <u>TBD</u>
Effective date:	March 24, 2022 <u>TBD</u>
Approver:	Board of Directors
Applies to:	Board of Directors and all PEC employees
Administrator:	Controller <u>Vice President, Finance</u>
Superseding effect:	This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.



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)



Appendix B

CIP Category Budget Categories Codes:

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
- 1000 — Line and Station — Changes
- 1100 — Other Transmission Lines

General Plant

- 2000 — Facilities
- 3000 — IT Framework
- 4000 — Tools & Equipment
- 5000 — Vehicles



<u>CIP Category Type</u>	<u>CIP Category</u>	<u>Category Description</u>
<u>Distribution</u>	<u>100</u>	<u>Distribution Line Extensions</u>
	<u>200</u>	<u>Distribution Lines New</u>
	<u>300</u>	<u>Distribution Lines Change</u>
	<u>600</u>	<u>Distribution Misc Equipment</u>
	<u>700</u>	<u>Distribution Other Items</u>
<u>Substation</u>	<u>400</u>	<u>Substations New</u>
	<u>500</u>	<u>Substations Change</u>
<u>Transmission</u>	<u>800</u>	<u>Transmission Lines New</u>
	<u>1000</u>	<u>Transmission Lines Change</u>
<u>General Plant</u>	<u>2000</u>	<u>Facilities</u>
	<u>3000</u>	<u>Information Technology</u>
	<u>4000</u>	<u>Tools & Small Equipment</u>
	<u>5000</u>	<u>Vehicles & Power Operated Equipment</u>

