

# Capitalization Policy

## PEDERNALES ELECTRIC COOPERATIVE, INC.

### CAPITALIZATION POLICY

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#### Policy #####

#### 1. Purpose:

- 1.1. This ~~policy~~Policy addresses criteria for determining whether ~~expenditures~~costs are capital in nature. Capital ~~expenditures~~costs result in one of the following:
- The creation of new ~~assets~~long lived Assets either by acquisition or construction;
  - The replacement of existing ~~assets~~Assets; or
  - The modification of existing ~~assets~~Assets that is a substantial addition or betterment resulting in extension of useful life.
- 1.2. This ~~policy~~Policy conveys Pedernales Electric Cooperative, Inc.'s ("PEC")~~policy~~or "Cooperative") guidelines regarding capitalized ~~expenditures~~costs for property, plant, and equipment. It also provides guidelines for consistent and accurate recording of ~~assets~~Assets as required for internal, external (Generally Accepted Accounting Principles ("GAAP")), ~~Federal~~federal, debt compliance, and regulatory reporting.

#### 2. Scope:

- 2.1. This ~~policy applies to all PEC employees and contract personnel.~~Policy applies to all PEC costs. In general, the ongoing activities at the Cooperative are accounted for as Operations and Maintenance expenses and expensed in the period incurred. However, if a cost adds to the productive capacity, improves the efficiency, increases the useful life of an existing Asset, or if the cost creates a new Asset, then it may be capitalized.

#### 3. Definitions:

- 3.1. ~~Assembly Unit - a group of materials, specifically arranged, that fulfills a specific function in the operation of an electric supply line.~~
- 3.1. Asset – Any resources owned by the Cooperative and which have future economic value that may be measured and expressed in dollars.
- 3.2. Continuing Property Record ("CPR") Units – A unit of property which can be readily identified and accounted for by itself. There are two types of CPR Units:
- 3.2.1. Specifically identifiable units such as land, buildings, and equipment, etc., for which one maintains a record showing location and original cost of each item.
- 3.2.2. Group units such as poles, transformers, meters, etc. that are recorded in total quantities and at a total grouped Asset value. Group Assets are referred to at an average cost per unit. Group Asset records are a

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control record and should be supplemented by subsidiary CPRs subdivided by sizes and recorded in detail from the work orders completed during the year. The total quantities, total cost and average cost per Asset should be recorded as part of the CPRs at the end of each year.

~~3.2.3.3.~~ Distribution Plant ~~–assets–~~ Assets with physical substance, including such items as land, buildings, structures, machinery, drawings, and equipment related to electric supply at distribution voltages. FERC ~~GL~~ Accounts 360-~~373-374~~.

3.4. Federal Energy Regulatory Commission (“FERC”) Account – The Cooperative’s system of accounts is based on the Code of Federal Regulations, Title 7, Chapter XVII, Rural Utilities Service, Department of Agriculture, Part 1767, Subpart B – Uniform System of Accounts, and is generally referred to as the FERC system of accounts.

~~3.3.3.5.~~ General Plant ~~–asset–~~ Assets with physical substance, including such items as land, buildings, structures, machinery, and equipment, owned and used by the utilityCooperative but not directly related to the purpose of supplying electricity. FERC ~~GL~~ Accounts 389-399.

~~3.4. Intangible Plant – assets lacking in physical substance, including such items as trademarks, patents, or copyrights. FERC GL Accounts 301-303.~~

~~3.5. Like-for-Like Replacement – the replacement of an entire Assembly Unit or a piece of equipment tracked with an asset record in the Asset Management System (example: substation breaker). Replacement of items that do not comprise an entire Assembly Unit or asset will be expensed as maintenance.~~

~~3.6.~~ Generally Accepted Accounting Principles (“GAAP –a”) – A framework of accounting standards, rules, and procedures defined by the professional accounting industry.

~~3.7.~~ Intangible Plant – Assets lacking in physical substance, including such items as trademarks, patents, or copyrights. FERC Accounts 301-303.

~~3.7.3.8.~~ Transmission Plant ~~–assets–~~ Assets with physical substance, including such items as land, buildings, structures, machinery, drawings, easements, and equipment related to electric supply at transmission voltages. FERC ~~GL~~ Accounts 350-359.

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

~~4.~~ An expenditure that adds to the capacity, improves the efficiency, increases the useful life of an existing asset, or creates a new asset may be capitalized. On the other hand, expenditures for routine maintenance and repairs should be expensed in the period incurred. Capital expenditurescosts must meet the guidelines stated below.

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### 4.1. Transmission ~~&and~~ Distribution ~~Utility~~ Plant. Costs for the following activities are capitalized:

~~4.1.14.1.1.~~ Installation or construction of a new ~~assets~~Asset.

~~4.1.24.1.2.~~ Upgrades or modifications to existing ~~assets~~Assets that adds to the capacity, improves the efficiency, or increases the useful life.

~~4.1.34.1.3.~~ ~~Like-for-Like~~ Replacement of existing ~~assets~~Asset will be recorded as a capital installation ~~andwith a~~ corresponding retirement ~~for such Asset~~.

### 4.2. General ~~&and~~ Intangible Plant. Costs for the following activities are capitalized:

421. Single purchase of a single ~~asset~~Asset with a value of ~~\$2,500~~\$7,500 or greater ~~ANDand~~ an expected useful life ~~greater thanof~~ two years. ~~or~~ - greater.

~~□ Example: single purchase of an office copy machine with a value of \$2,500 or greater.~~

~~□ Example: costs for a patent or trademark with a value of \$2,500 or greater and will last longer than two years.~~

422. Multiple component purchases that create a single ~~asset~~Asset with a total value of ~~\$2,500~~\$7,500 or greater ~~ANDand~~ with an expected useful life ~~greater thanof~~ two years or greater.

~~□ Example: multiple purchases of computer hardware/components that make up one asset with total value of \$2,500 or greater~~

~~□ Example: multiple expenditures for a single software implementation with total value of \$2,500 or greater~~

~~423. ALL~~ Substantial addition or betterment of existing Asset to increase the value or extend the useful life where the value of the Asset is increased by \$7,500 or more.

~~□ Example: trailer with a value less than \$2,500~~

~~424. Project and Bulk purchases where total value is \$40,000 or greater AND expected useful life is greater than two years, even if individual capital items are not valued at \$2,500 or greater each.~~

~~□ Example: Project for office remodel where individual capital items do not meet the \$2,500 threshold, but total project costs are \$40,000 or greater with expected useful life over two years. Items that do not meet capital guidelines per GAAP should be expensed in the period incurred and not included in the capital project.~~

~~□ Example: PEC standardizes computer purchases where an individual computer is less than \$2,500, but the annual purchases of similar computers in aggregate meets or exceeds \$40,000.~~

All transportation equipment licensed for road use, regardless of value.

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

**5.1.** PEC's Chief Financial Officer ("CFO") has overall responsibility for this ~~policy.~~  
Policy. Under the direction of the CFO, PEC's Finance Department is responsible for enforcing this ~~policy~~Policy, establishing operational procedures, reporting mechanisms, and training to ensure work results conform to this ~~policy~~Policy. PEC employees and any contract personnel are responsible for following this ~~policy.~~Policy.

### **6. Enforcement:**

**6.1.** Violations of this Policy may result in disciplinary 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~~Policy.

### **8. References and Related Documents:**

- 8.1.** Generally Accepted Accounting Principles
- 8.2.** Rural Utilities Services Uniform System of Accounts
- 8.3.** Federal Energy Regulatory Commission Uniform System of Accounts
- 8.4.** PEC Budget Policy
- 8.5.** PEC Assembly Unit List
- 8.6.** PEC Capitalization Handbook

Policy Title:	Capitalization Policy
<del>Policy Number:</del>	
Review Frequency:	Every 2 years
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Approver:	Board of Directors
Applies to:	All <u>PEC</u> employees and contract personnel
Administrator:	Finance

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