

CHUGACH ELECTRIC ASSOCIATION, INC.
Anchorage, Alaska

FINANCE COMMITTEE MEETING
AGENDA ITEM SUMMARY

November 12, 2008

ACTION REQUIRED

AGENDA ITEM NO. X.

 Information Only
 X Motion
 Resolution
 Executive Session
 Other

TOPIC

Approve Board Policy 126 – Business Planning and Financial Management

DISCUSSION

These proposed changes to the Board Policy on Business Planning and Financial Management plus the changes in the Operating Policy 028 Check Signing Authority and Monetary Transaction Signature approval represent the following:

1. The changes represent some housekeeping issues (adding Manager of Accounting, adding wire transfers, and clean-up the delegation language)
2. We have also added control over any Line of Credit and Commercial Paper Program transactions.

You will only be voting on Board Policy 126, and the changes to the Operating Policy reflect the mechanics of the controls set forth in the Board Policy.

KPMG's Scott Miller and Charles Kozak have reviewed both policies.

MOTION

Move that the Finance Committee recommend to the Board of Directors to approve the attached update to Board Policy 126 – Business Planning and Financial Management.

CHUGACH ELECTRIC ASSOCIATION, INC.

BOARD POLICY: 126

DATE:

BUSINESS PLANNING AND FINANCIAL MANAGEMENT

I. OBJECTIVE

To outline the planning requirements and financial procedures to assure responsible management of the financial resources of the Association, including alternative investments, acquisition of funds, and utilization of the financial assets of the Association, including general and specific guidelines for effective administration and security of financial resources.

II. CONTENT

Financial Management Planning

A. Business Planning

1. The Association will conduct business in accordance with an approved Business Plan. The Business Plan will be based on an adopted mission statement, the strategic goals developed for the Association, market assessments, equity management planning, debt management planning, appropriate strategic and operational action plans, construction work plans, detailed operating and capital budgets and the results of financial projections.
2. The Business Plan will include:
 - a. The operating expense and capital budgets of the Association for that year;
 - b. A report of actual results of operations for the Association for the prior two-year period; and
 - c. Operating and financial projections for at least five years.
3. The Business Plan shall be annually updated, reviewed and approved by the Board of Directors.

4. The Association will prepare an equity management and debt management plan that achieves a minimum overall cost of capital and assures adequate availability of capital resources through an appropriate debt and equity structure.
5. The Association will prepare long-range financial forecasts that will encompass a planning period of at least twenty years. The financial forecast will include projected revenue requirements and average electric rates of wholesale and retail customers. The first five years of the financial forecast will constitute the Business Plan financial projections.
6. Within a twelve-month period following adoption, any revisions or modifications to the Business Plan shall be subject to approval by the Board of Directors.

B. Operations Planning and Budgets

1. A multiple year Capital Improvement Plan (CIP) will be prepared in conjunction with the Business Plan development for construction projects associated with installation, replacement, modification and repair of the Association's physical plant. The CIP will be updated or revised annually.
2. An operating budget will be prepared for inclusion in the Business Plan and financial projections. The operating budget will reflect the cost of implementing the programs and activities of the Association, the revenues from sales or other operating activities, non-operating income sources and operating expenses.
3. A capital budget will be prepared for inclusion in the Business Plan and financial projections.
4. Prior to the beginning of each calendar year, the Board of Directors shall review and approve the annual operating expense and capital budget to be included in the Business Plan.
5. In addition to the approvals under subparagraph 4 above, the Board shall review and approve capital projects that exceed \$1,000,000 (net to the Association) prior to any expenditure of funds for that project.
6. Planning criteria will include the precepts of integrated resource planning to insure meeting power requirements at the lowest cost consistent with sound economics, wise use of resources and effective business management.

C. Financial Planning

1. Principal external capital requirements for expansion of plant and facilities will be financed with long-term debt. When appropriate, internal sources of funds may be used. Capital acquisitions will be determined consistent with the Business Plan and operating budgets.
2. Working capital requirements will be incorporated in the annual operating and capital budgets, and evaluated on the basis of the financial requirements of the corporation. Working capital or immediate access to short-term funds (such as lines of credit) sufficient to cover the financial needs of operations (45 to 60 days, on average) shall be maintained at all times.
3. An investment plan for the application of available funds not required for current construction or working capital requirements will be prepared by the Chief Executive Officer and approved by the Board of Directors.

D. Planning Committee

1. A Business Planning Committee of the Association's Chief Executive Officer, Senior Vice Presidents, Chief Financial Officer and appropriate staff will coordinate the development and approval of business plans and budgets.

E. Patronage Capital

1. All margins received by the Association shall, insofar as permitted by law and approved by the Board of Directors, be allocated to its members on a patronage basis (as may be defined by specific agreements) in accordance with Article VII of the Bylaws. Any amount so allocated shall be included as part of the capital credited to the accounts of members, as herein provided.
2. At the Board's option, early retirements of capital credits may be discounted to approximate the Association's current cost of equity capital. In making this determination, the Board will look to the most recent cost of equity capital set by the Regulatory Commission of Alaska (RCA) for Chugach's electricity ratemaking purposes. Alternatively, the Board may use the 10-year National Rural Utilities Cooperative Finance Corporation ("NRUCFC") borrowing rate plus 3% (three percent), if the resulting rate is higher than the rate set by the RCA.

3. No retirements of capital credits will be made without approval of the Board of Directors. However, the Board authorizes the Chief Executive Officer or his designee to make payments to estates of deceased members upon receipt of appropriate evidence of the member's death and that the person requesting the payment is a bona fide representative of the estate of the deceased member and provided that the financial condition of the Association will not be impaired thereby and are permitted under existing covenants between the Association and its lenders.

F. Financial Management

1. Rates and Margins

Rates for service will be established consistent with the Business Plan and resolutions of the Board of Directors. Rates will be developed considering cost of service, strategic planning objectives and integrated resource plans, and are subject to regulatory review requirements.

2. Sources of Funds

- a. Long-term funding of construction and asset acquisition may be obtained from any available and appropriate sources. Interest rates and maturities will be evaluated and selected at the time of issuance of the debt.
- b. Guarantees and credit enhancements from available source(s) may be utilized as necessary.
- c. Lines of Credit and the Commercial Paper Program can be used as necessary after overall Line of Credit or Commercial Paper terms and limits have been approved by the Board of Directors
- d. Internal funds may be used for asset acquisition under the guidelines of the equity management plan and financial forecasts.

3. Working Capital

- a. Working capital shall be provided from margins, temporary investments and current revenues. Short-term working capital may be financed on a temporary basis when prudent and necessary.
- b. Interim construction funds and preliminary project costs will be financed from general funds or short-term borrowing. Preliminary costs for projects not supported by debt issuances will be included

with working capital requirements.

- c. Short-term cash requirements may be met through the sale of commercial paper in accordance with applicable law and regulations.

4. Short-Term Investment Practices

- a. The purchase or sale of government securities, governmentally guaranteed or insured securities, and other securities or short-term bank investments, such as certificates of deposit and repurchase agreements, are authorized as appropriate.
- b. All Association investments not specifically authorized in 4.a. above shall be subject to the approval of the Board of Directors.
- c. The Board of Directors shall receive periodic reports that show the status of all long and short-term investments, including the rate of return and current market value.

5. General Accounting

- a. The accounting system utilized by the Association shall be based on Generally Accepted Accounting Principles (GAAP) and conform to the Uniform System of Accounts required and approved by regulatory bodies and lending agencies. Requirements by any other organization or agency shall be subordinated to those requirements.
- b. Internal accounting procedures and practices shall be established and maintained for adequate management of the Association's financial resources and for effective internal control, including monitoring costs and expenditures associated with major construction projects.
- c. Management shall implement an antifraud program and controls to help prevent, deter and detect fraud in accordance with Statement on Auditing Standards (SAS) 99 and shall provide an annual report from the Association's independent external financial auditors.

6. Responsibility Accounting

- a. There shall be established and maintained a responsibility accounting system in all appropriate areas, including both construction projects and operating activities.
- b. The responsibility accounting system shall be designed to reflect deviations from plans and budgets. Reports shall be prepared and distributed on a timely basis.
- c. An inventory of work orders of completed construction projects will be compiled and maintained for review and approval by senior management.

7. Financial Reports and Audits

- a. A report reflecting the financial condition and results of operations of the Association shall be prepared and presented to the Board of Directors on a monthly basis or as otherwise indicated below. This financial report shall include:
 - i. Revenue and expense statements for the month, year-to-date and prior year, with comparisons to budgets;
 - ii. A balance sheet update to reflect current financial results as of each month;
 - iii. Selected financial ratios;
 - iv. Graphic illustration of operating results (upon request);
 - v. Labor/manpower data (quarterly);
 - vi. Unbundled financial data (quarterly); and
 - vii. Statement of cash flows (quarterly).
- b. The Board of Directors shall appoint an accounting firm to conduct an annual independent financial audit of the books and records of the Association. The scope of such audits shall be determined from time-to-time by the Board; however, in all instances, the audit shall meet or exceed the minimum standards prescribed by the Trust Indenture of the Association. The independent audit contract shall be solicited as determined by the Board of Directors.

8. Signing of Checks

- a. Authorized signatories for all General Fund Accounts must include two of the following:
 - i. The Chairman of the Board; the Treasurer of the Board; the Chief Executive Officer; the Senior Vice President, Administration; the Chief Financial Officer; or the Controller.
 - ii. The Chief Executive Officer may authorize the use of an automatic signature stamp for checks below \$5,000. The signature stamp will contain the facsimile signatures of two authorized signatories.
- b. Designation of authorized check signers shall only be by resolution of the Board of Directors.
- c. Payment of accounts by wire transfer and ACH (recurring and non-recurring, and as required by contract) may be made from the Association's commercial banking accounts. Wire transfer and ACH payments may be initiated by the following:
 - i. The Chief Executive Officer
 - ii. The Chief Financial Officer
 - iii. Controller
 - iv. Manager of General Accounting
- d. It shall be the responsibility of the Chief Executive Officer to establish procedures and controls to ensure prompt and orderly payment of obligations of the Association and to ensure that adequate controls and safeguards have been established to ensure the disbursements and utilization of funds only for proper corporate purposes.

9. Company Credit Cards

- a. The Chief Executive Officer may recommend the issuance of a credit card to the members of the Board of Directors and to employees and will maintain a list of individuals so authorized.

- b. Company credit cards will only be used for bona fide business purposes.

G. Computer Network Security

- 1. The Chief Executive Officer shall establish policies and procedures governing the use and access to the Association’s computer network, including its electronic communications systems, business network, SCADA, and plant controls network. A third party security audit of the Association’s computer networks shall be conducted annually.

III. RESPONSIBILITY

The Chief Executive Officer shall be accountable for the management and administration of all financial activities and programs within the limits prescribed in this policy, the Chief Executive Officer’s delegations from the Board of Directors, approved business plans, work plans and budgets, and the approved accounting system. The Chief Executive Officer may delegate specific responsibilities as deemed appropriate.

Date Approved: _____

Attested: _____

Secretary of the Board
Alex Gimarc

CHUGACH ELECTRIC ASSOCIATION, INC.

OPERATING POLICY: 028

DATE: _____

**CHECK SIGNING AUTHORITY AND MONETARY TRANSACTION
SIGNATURE APPROVAL AUTHORITY****I. OBJECTIVE**

To establish the requisite authority and controls for 1) check signing; and 2) providing monetary transaction limits and preauthorized signature authority for Association employees to:

1. Approve purchase orders;
2. Enter into and/or approve contracts;
3. Sign check requests; approve invoices, including invoices for approved contracts over \$1,000,000, including existing fuel contracts;
4. Make payments (i.e., to sign checks or approve wire transfers);
5. Draw on lines of credit
6. Approve debt service payments and
7. Issue “buy” and “sell” instructions to the commercial paper dealers and Monetary related instructions to the issuing/ paying agent for the commercial paper program.

II. SCOPE

This Policy applies to all employees 1) who are authorized by Board resolution, and have signed bank cards as approved by the Board, to sign checks for payment of goods and services provided to or performed for the Association or payment of other Association items; 2) with preauthorized monetary transaction spending limits and associated signature authority. Individual authority levels are shown on the Signature Authority Spreadsheet maintained in the Purchasing and Accounting departments. This preauthorized monetary spending limit and associated signature authority **does not** authorize or allow those employees to sign Association checks.

III. CONTENT

- A. Monetary Transaction Spending Limits and Signature Approval Authority. All Association purchases, contracts, (including work orders), invoicing and other spending must be performed or reviewed and approved, as applicable, by an employee with the appropriate monetary transaction signature authority and within that employee’s job duties. If the employee seeking to

make or approve a purchase, invoice or contract lacks sufficient monetary transaction signature authority and it is not within that employee's job duties, the employee must send the item to the appropriate individual with such authority. The senior executive for each division as appropriate will determine the monetary transaction signature authority of employees.

In the event an employee is "Acting" within a position entitled to a higher signature authority level, the higher signature authority level will only be delegated when Administrative Services receives a memorandum of support for this action. Upon receiving the memorandum, Administrative Services will update the authority level within PeopleSoft for the "Acting" employee, referencing the specified period of time. Without this delegation, transactions in excess of the existing signature authority level will be forwarded to the next higher level of management for approval.

- B. Check Signing Authority. The only individuals authorized to sign checks on behalf of the Association are those individuals who have been approved to do so by Resolution of the Board and who have signature cards on file with the Association's bank. Check signing authority cannot be delegated. "Check signing" means the signing of checks as well as the approval and performance of check runs (payable and payroll). All Association checks in the amount of \$2500 or greater require two manual signatures from approved check signers. Checks under \$2500 will be electronically signed by two authorized check signers.
- C. Wire Transfers, ACH Transfers, and Transfers Between Association Bank Accounts. Board Policy 126 establishes the authority to conduct electronic banking activity. The positions referenced in Board Policy 126 facilitate payment of previously authorized transactions. Other than ACH Pass-thru transactions (payroll, live-notes, and pre-notes), all electronic banking activity requires approval from two authorized individuals. For each event, one individual signs to initiate electronic set up of the transaction and the second authorized individual approves the set up and transaction by electronically approving the release of funds.
- D. Authorized check signers cannot approve their own compensation except for the issuance of their regular payroll checks or Cash in Lieu of Leave checks.
- E. All Chief Executive Officer (CEO) compensation except the issuance of regular payroll checks or Cash in Lieu of Leave checks requires the approval of the Board prior to being initiated or paid, together with written directions accompanying any applicable motion or resolution to management by the Board.

- F. Checks shall be randomly reviewed quarterly by a third party to confirm that proper procedures are being followed as contained in this Policy.
- G. The authority to draw on available Lines of Credit (LOC) resides with the Chief Executive Officer, the Chief Financial Officer, and the Controller. The LOC draw requires two signatures of the aforementioned individuals. Electronic concurrence of a second authorizing individual may be substituted for a signature if there is a time constraint to execute the instruction or due to the unavailability of the second authorizer.
- H. The authority to initiate a Commercial Paper Program (CPP) transaction resides with the Chief Executive Officer, the Chief Financial Officer, the Controller, and the Sr. VP Administration. Initiating any CPP transaction requires two signatures of the aforementioned individuals. Additionally, for all transactions, the CEO must report the date and amount to the Board.

IV. RESPONSIBILITIES

The Chief Executive Officer or the Board, as applicable, shall be responsible for the administration of this Policy. The CEO and/or Board, as applicable, shall also be responsible for making delegations of authority to other employees for the effective application of the specific provisions as well as the intent of this Policy.

V. EFFECTIVE DATE

This Operating Policy is effective upon approval by the Chief Executive Officer.

VI. APPROVAL SIGNATURE

Date Approved: _____

Bradley W. Evans
Chief Executive Officer