

# CHUGACH ELECTRIC ASSOCIATION, INC.

BOARD POLICY: 126

DATE: December 8, 2003

## 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**

#### 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, 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 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. Multiple year work plans 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 work plans 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 budgets that exceed \$1,000,000 (net to the Association) prior to any expenditure of funds for that project.
- 5.6. 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, ~~Executive Managers~~ 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 current Association 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 ~~will be made~~ upon ~~submission receipt of the~~ appropriate ~~paperwork~~ 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. Short term maturities may be selected within long-term commitments contingent upon prevailing interest rates at the time of draw.
- b. Long-term debt will be structured as provided for in the Trust Indenture. Guarantees and/or credit enhancements from any available source may be utilized as necessary.
- c. Leveraged lease financing may be considered as an alternative to long-term debt when appropriate and will be 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.
- e. Synthetic financial instruments may be utilized as appropriate to structure a minimum-cost capital acquisition program.

2. 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.

3. 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 3.a. above shall be subject to the approval of the Board of Directors.
- c. The Board of Directors shall receive periodic reports (but not less often than quarterly) that show the status of all long and short-term investments, including the rate of return and current market value.

4. 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.

5. 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.

6. 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. 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;
  - v. Labor/manpower data; and
  - vi. Unbundled financial data.
- 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 at least every five years.

#### 7. 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 ~~Executive Manager~~Senior Vice President, Power Delivery; the ~~Executive Manager~~Senior Vice President, Administration; the Chief Financial Officer; or the Manager of Accounting.
  - 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 (recurring and non-recurring, and as required by contract) may be made from the Association’s commercial banking accounts. Wire transfer payments may be initiated by the following:
    - i. The Chief Executive Officer
    - ii. The Chief Financial Officer; or
    - iii. Manager of 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.
8. 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.

**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