

# **CAPITALIZATION POLICY**

## **PEDERNALES ELECTRIC COOPERATIVE, INC.**

### **Policy #####**

#### **1. Purpose:**

This policy addresses criteria for determining whether expenditures are capital in nature. Capital expenditures result in one of the following:

- The creation of new assets
- The replacement of existing assets
- The modification of existing assets

This policy conveys Pedernales Electric Cooperative, Inc.'s ("PEC") policy regarding capitalized expenditures for property, plant, and equipment. It also provides guidelines for consistent and accurate recording of assets as required for internal, external (Generally Accepted Accounting Principles ("GAAP")), Federal, and regulatory reporting.

#### **2. Scope:**

This policy applies to all PEC employees and contract personnel.

#### **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.
- 3.2. Distribution Plant - assets with physical substance, including such items as land, buildings, structures, machinery, and equipment related to electric supply at distribution voltages. FERC GL Accounts 360-373.
- 3.3. General Plant - asset with physical substance, including such items as land, buildings, structures, machinery, and equipment, owned and used by the utility 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. GAAP - a framework of accounting standards, rules and procedures defined by the professional accounting industry.
- 3.7. Transmission Plant - assets with physical substance, including such items as land, buildings, structures, machinery, and equipment related to electric supply at transmission voltages. FERC GL Accounts 350-359.

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

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 expenditures must meet the guidelines stated below.

##### **4.1. Transmission & Distribution Plant:**

- 4.1.1 Installation or construction of new assets
- 4.1.2 Upgrades or modifications to existing assets that adds to the capacity, improves the efficiency, or increases the useful life
- 4.1.3 Like-for-Like Replacement of existing assets will be recorded as a capital installation and corresponding retirement

##### **4.2. General & Intangible Plant:**

- 4.2.1. Single purchase of a single asset with a value of \$2,500 or greater AND an expected useful life greater than two years.
  - 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.
- 4.2.2. Multiple component purchases that create a single asset with a total value of \$2,500 or greater AND with an expected useful life greater than two years.
  - 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
- 4.2.3. ALL transportation equipment licensed for road use, regardless of value
  - Example: trailer with a value less than \$2,500
- 4.2.4. 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.

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

PEC's Chief Financial Officer ("CFO") has overall responsibility for this policy. Under the direction of the CFO, PEC's Finance Department is responsible for enforcing this policy, establishing operational procedures, reporting mechanisms, and training to

ensure work results conform to this policy. PEC employees and contract personnel are responsible for following this policy.

**6. Enforcement**

Violations of this Policy may result in disciplinary action, up to and including, termination.

**7. Superseding Effect**

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

**8. References and Related Documents:**

Policy Title:	Capitalization Policy
Policy Number:	
Review Frequency:	Every 2 years
Last Reviewed:	July 18, 2016
Date Adopted:	January 1, 2015
Effective Date:	January 1, 2015
Amendment Dates:	July 21, 2014, July 18, 2016
Approver:	Board of Directors
Applies to:	All employees and contract personnel
Administrator:	Finance
Superseding Effect	This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this policy.