Holy Cross Energy
Corporate Policies

Financial Planning and Management
Policy Number: 5.2
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1. OBJECTIVE

1.1 To define financial rules and guidelines that express the expectations of the Board of Directors' ("Board") of Holy Cross Electric Association, Inc., a/k/a Holy Cross Energy ("Holy Cross") regarding Holy Cross's financial planning and management that ensures a sound financial position for Holy Cross and provides for the security of its financial resources.

1.2 Holy Cross is organized under the laws of the State of Colorado and will at all times be operated on a cooperative not-for-profit basis for the mutual benefit of its members and patrons. In addition to these legal requirements, Holy Cross is guided in its operations by regulations and operational practices prescribed by various regulatory bodies and/or lender(s). Beyond these legal, regulatory, and lending requirements, Holy Cross has an obligation to its members and patrons to ensure the financial integrity of the Association so it can continue to serve it members.

2. POLICY

2.1 Financial Reports. To maintain a sound financial position and provide for the most effective management and security of the financial resources of Holy Cross, the President and Chief Executive Officer ("CEO") or their designee shall create and update the following financial reports and documents (hereinafter "Reports") with frequencies not more than the timeframes in the table below. From time to time the Board may request from the CEO other financial reports not included below that may be necessary to meet the intent of this Policy.

Report	Frequency
Long Term Financial Plan	Annual
Operating Budget	Annual
Capital Budget	Annual
Audit	Annual
Cost of Service	As needed, but at least every 3 years

2.1.1 Long-Term Financial Plan. The CEO or their designee shall be responsible for developing a Long-Term Financial Plan that contains projections and metrics for a period not less than 10 years. This Plan will help guide Board decisions on revenue sufficiency, rates, capital investments, capital structure and other large financial decisions. The Plan will help guide the development of the annual Operating and Capital Budgets. The Plan shall be updated annually to include the outcomes of the most recent calendar year and the current year's approved budget.

2.1.2 Operating Budget. Based on the planning documents and the financial goals identified in this Policy, the CEO or their designee shall prepare an annual Operating Budget that includes expenditures for Power Supply, Labor, Non-Labor Expenses, Depreciation, Interest payments and Margin as deemed necessary to maintain the desired level of service to members. The Operating Budget shall be prepared annually for the Board's approval prior to the start of each calendar year.

2.1.3 Capital Budget. Based on the planning documents and the financial goals identified in this Policy, the CEO or their designee shall prepare an annual Capital Budget that includes expenditures for Generation, Transmission, Distribution, General Plant, and Special Projects as deemed necessary to maintain the desired level of service to members. The Capital Budget shall be prepared annually for the Board's approval prior to the start of each calendar year.

2.1.4 Audit. An annual audit of the Association's finances shall be conducted by the Board Audit Committee in accordance with Article V, Section 8 of the Holy Cross Bylaws.

2.1.5 Cost of Service Study. At least once every three years, the CEO or their designee shall commission an update of Holy Cross's Cost of Service model, either by Holy Cross staff or by an outside consultant, and report to the Board on any changes thereto, including recommendations for changes to Holy Cross's electric rates.

2.2 Electric Rate Comparison. At least once each year, the CEO or their designee shall provide a report to the Board that compares Holy Cross's electric rates to those of other Colorado utilities based on data collected by the Colorado Association of Municipal Utilities (CAMU) or other resources. Holy Cross shall strive to have the lowest rates in all rate classes among Colorado-based electric cooperatives.

2.3 Equity Ratio. To maintain an optimal cost of capital, meet lender requirements, and to receive lender discounts, Holy Cross shall strive to achieve an equity ratio of 40% or greater, as defined by total equity divided by total assets.

2.4 Debt Service Coverage. To minimize the risks associated with insolvency, Holy Cross shall strive to achieve a Debt Service Coverage ratio of 1.35 or greater, as defined by total operating income divided by the sum of annual debt and interest payments.

2.5 Operating Margin. To ensure sufficient revenue to maintain equity and pay capital credits to members, Holy Cross shall include in its annual Operating Budget a margin that represents a Rate of Return on Net Rate Base that equals 5.25% plus or minus 0.25%, as defined in Holy Cross's Electric Service Tariffs, Rules and Regulations.

2.6 Minimum Cash Balance. To provide sufficient cash for maintaining Holy Cross's operations, Holy Cross shall maintain a minimum cash balance target of 20 days of budgeted annual Operation and Maintenance Expense (Line 12 of Form7), measured on a rolling twelve-month average.

2.7 Capital Credits. Subject to the provisions of the Holy Cross Articles of Incorporation, Bylaws, and Corporate Policy 5.1, "Capital Credits", the Board shall, at its sole discretion, allocate and retire capital credits in a manner and amount it may determine from time to time consistent with cooperative operating principles and Federal and State law.

2.8 Short Term Debt. Holy Cross shall maintain one or more lines of credit for short-term operating purposes with an aggregate amount not to exceed $40,000,000.

2.9 Long Term Debt. The aggregate amount of all loans drawn or available to be drawn by Holy Cross shall not exceed the $275,000,000 maximum debt limit established by the Board and contained in Holy Cross's mortgage documents.

2.10 Lender Relationships. To ensure competitive long-term financing rates, Holy Cross shall evaluate lender relationships and compare rates as needed, but at least every 5 years, or when there is a loan repricing event or new loan needed that exceeds 20% of Holy Cross's total long-term debt balance.

2.10 Investments. To maintain sufficient liquidity and ensure payment of current liabilities as they become due, Holy Cross may choose to utilize one of the following investment opportunities for its general funds:

- FDIC or NCUA insured accounts, taking into consideration the limits associated with these types of insured accounts.

- CFC Daily Liquidity Fund - a flexible investment account that allows cooperatives to invest and earn a return on short-term cash surpluses.

- CFC Commercial Paper - provides a short-term investment option for surpluses that yield competitive returns.

- CFC Select Notes - flexible, short-term investment products that allow cooperatives to earn a return on short-term cash surpluses. The senior unsecured debt securities provide the advantage of a higher rate of return than other CFC short-term investment products due to a longer minimum investment time and a higher minimum trade amount.

- CFC Medium-Term Notes (MTNs) - unsecured debt securities with terms generally ranging from 10 to 24 months. MTNs provide an opportunity for cooperatives to earn a more attractive interest rate on general funds that are available for a longer-term investment than the CFC Daily Liquidity Fund or CFC Commercial Paper.

- CFC Member Capital Securities (MCS) - allow members to invest in CFC, strengthen CFC's capital base, and support CFC's ability to provide funding in the future.

2.11 Revenue Deferral. In the event that Holy Cross has an annual operating margin surplus beyond that needed to satisfy the provisions of Section 2.5 of this Policy, then the Board may choose to defer such excess revenue to future years to reduce or eliminate the need for future rate increases or help cover the cost of unanticipated events. Such deferred revenue shall be recognized up to but no more than 5 years after the initial date of deferral.

2.12 Resolution of Conflicts. If more than one of the financial goals described in Sections 2.2 through 2.9 of this Policy conflict with one another to such a degree that the Long-Term Financial Plan cannot reasonably achieve all of them at the same time, then the CEO shall communicate such conflict(s) to the Board for it to resolve.

3. RESPONSIBILITY

3.1 The Board will be responsible for the administration of and compliance with this Policy.

3.2 The President and CEO shall ensure this Policy is adhered to by Holy Cross employees.