

FINANCIAL POLICY NO. 307

1. SUBJECT: PURCHASE OF MATERIALS AND EQUIPMENT

2. OBJECTIVE:

2.1. To ensure that the funds of Beartooth Electric Cooperative, Inc. (BEC) used for the purchasing of material and equipment are spent and accounted for in a fiscally responsible manner, that adequate material is on hand to provide quality customer service, and that delegations of authority and responsibility for carrying out the above are made.

2.2 To receive the maximum value for the dollars spent by BEC and facilitate the efficient procurement of materials, supplies, tools and equipment.

3. GENERAL: The efficient and effective procurement of material involves a series of interrelated activities. These activities include initiation of the purchase requisition, issuance of a purchase order, receipt of the items, proper accounting for each item and the payment for that item purchased. A quality purchasing program requires overall value analysis: quality of product, reliability, maintenance, supplier service, price, delivery time, billing accuracy and cost of ownership. The following general provisions apply:

3.1 INVENTORY LEVELS: BEC will maintain adequate levels of materials in stock or on consignment to allow for anticipated construction, maintenance, outage response and prudent disaster preparedness. The inventory level will be kept as low as practical and a desirable annual inventory turnover ratio will be obtained.

3.2 APPROVED MATERIALS AND SUPPLIES: Line material and equipment will normally be selected based on standards approved by the Rural Utilities Service (RUS). Materials will be standardized whenever possible to reduce inventory and increase employee familiarity.

3.3 SUPPLIERS:

3.3.1. BEC will develop long-term relationships with our suppliers that are mutually beneficial. Relationships with suppliers will be based solely on best business practices. No gratuities, favors, gifts, kickbacks or concessions will be given to or accepted by any employee, a member of the Board or the attorney. Failure to comply with this requirement will be grounds for dismissal. Nominal advertising as defined in TP 209, Code of Ethics, is not considered a gratuity.

3.3.2. Suppliers within our service area shall be given preference when quality, prices, availability, service and related factors are equivalent. Only suppliers with good reputation shall be invited to bid or provide quotations. It will be the responsibility of the General Manager with the assistance of the warehouse personnel to determine whether the supplier is reputable and has satisfactorily completed other similar sales.

4. PROCEDURE:

The General Manager shall establish the procedure for requesting, purchasing and paying for materials, supplies, equipment, tools, etc. in compliance with generally accepted accounting principles for internal control to assure the goals of this policy.

5. COMPETITIVE BIDDING OF MATERIALS AND EQUIPMENT:

- 5.1. Any individual item costing over \$20,000 shall be purchased by formal competitive bid unless such item is included in the consignment Agreement or approved by the Board. When purchasing materials and equipment by formal competitive bidding, the following procedures shall apply:

STANDARDS AND SPECIFICATIONS: Materials and equipment shall meet or exceed the minimum requirements of the applicable standards and specifications of RUS. Specifications shall be clearly stated in the invitation to bid.

- 5.2.1. **Invitations to Bid:** The General Manager or his delegate shall post bid invitations in the newspapers and/or business journals. Invitations to bid shall state the date, time and place of bid opening. The outside of all bid envelopes shall be so marked. The right to reject any or all bids shall also be stated in the invitation. The bid opening date shall be set so as to give bidders sufficient time to prepare their bids.

- 5.2.2. **Bid Openings and Evaluation:** Bid openings shall be conducted by the General Manager or his designated representative, in the presence of the bidders if they so desire. If less than three bids are received, no indication as to the award may be made without the approval of the General Manager. The price, quality and other applicable factors shall be considered in evaluating the bids. In the event management determines acceptable prices are not quoted, or if there are varying interpretations resulting from ambiguity in the specifications, all bids shall be rejected.

6. **CONSIGNED MATERIAL:** In order to minimize inventory and improve the availability of material, BEC may enter into a consignment Agreement with one or more suppliers. The supplier will agree to stock and own commonly used material items on BEC's property. When BEC needs these items for construction or maintenance, they will be transferred to BEC's inventory and purchased.

- 6.1. **TERM AND CONDITIONS:** To insure a good long-term relationship with the supplier in the consignment Agreement, the Agreement may have a term of up to three years. If the renewal of the consignment Agreement is not by competitive bid, prices will be benchmarked with other cooperatives to ensure competitive pricing. Each item will be bid with two components, the material and margin. The margin on each item will remain a constant percentage or a constant amount throughout the term of the Agreement. The

material costs will be allowed to escalate as prices from the manufacturer are changed. Actual manufacturer invoices will be used for documentation.

- 6.2. **CHANGES:** Should RUS material standards change, items can be added or deleted from the consignment Agreement. Items added will be quoted at the time of addition in material cost and margin. Items that are deleted from the consignment stock will be used completely if they cannot be returned by the supplier to the manufacturer. All materials will be of the highest quality available and should be upgraded as industry standards and improvements in technology occur.
- 6.3. **RESPONSIBILITY:** The supplier will be responsible to maintain adequate levels of material to prevent inventory depletion. BEC will communicate future needs for materials to the supplier. If the supplier does not maintain adequate levels of material then the contract will be voided.
- 6.4. **RECORDS:** A weekly inventory will be taken of the material on consignment to insure the accuracy of the records. Items purchased will follow the normal system established by the General Manager

The General Manager will ensure an annual evaluation of the supplier's margin and pricing shall be conducted.

7. **INFORMAL QUOTES:** When items are not in consignment during emergencies or when competitive bids are not required, informal quotes are permitted. When taking informal quotes, an earnest effort should be made to get at least three quotes. Sufficient time should be given to prospective suppliers to enable them to prepare their quote. Quotes are to be in writing and may be faxed or emailed. With all other things being equal, award shall be made to the lowest bidder. All bidders will be notified of the results.
8. **SUPPORT OF LOCAL BUSINESS:** It shall be the policy of BEC to purchase materials and equipment from suppliers within the service area in so much as price and availability are within reason. In the discretion of Management whenever needed materials and equipment are available within the time frame required and the price is within 5% of suppliers outside the service area of BEC, the local supplier will be given the order.
9. **EQUIPMENT:** When purchasing equipment the following shall apply:
 - 9.1. **Transportation Equipment:** Purchase of transportation equipment shall be by formal competitive bids or by informal quotes.
 - 9.2. **Tools, Communications, Work and Office Equipment:** Purchases of equipment including communications equipment, office furniture and equipment, stores equipment, shop equipment, tools and work equipment may be made by formal competitive bids or informal quotes, whichever is in the best interest of BEC. Equipment costing \$1,500.00 or less is exempt but shall be charged to the appropriate account.

10. OFFICE SUPPLIES:

Purchases of office supplies totaling \$1,500 or more shall be by informal quotes. Purchases for less than \$1,500 may be made without quotations.

11. BOARD OR EMPLOYEE LOANS AND/OR PURCHASES OF MATERIAL, EQUIPMENT

11.1. BEC will not make any loans to any employee or trustee.

11.2. All purchases by employees or Trustees will be for cash and will be due and payable 15 days after receipt of billing for such items. If an individual does not honor this Agreement, purchasing privileges will be terminated.

12. RESPONSIBILITY:

The General Manager and staff shall ensure that the provisions of this policy are followed.

Adopted: 11/25/2014

Attest: /s/ David Peterson

Revised: 2/28/2017

Board President

Reference: LV BP305, BEC Bylaws Article X

Review Date: February 2019

Attest: /s/ Julie Lindgren

Secretary/Treasurer