

BETTER. STRONGER. BRIGHTER.

2020 ANNUAL REPORT



2020



The year 2020 may not have been the year we all hoped for, but we still accomplished remarkable feats, proving just how resilient we can be.

**AMONG ONGOING CHALLENGES AND UNCERTAINTY,
WE EMERGED BETTER, STRONGER AND BRIGHTER.**

Amidst the heartbreaking losses we experienced in 2020, we somehow became more hopeful and helpful than ever. Our foundations in reliability and member service made all the difference when the world was stretched thin. We were reminded that technology is critical to connection, efficiency and the future. We learned how to be both independent and collaborative at the same time. We realized just how creative and resilient we could be when our lives – and livelihood – are on the line.

In other words, this past year may not have unfolded as we had planned, but it was still very successful in many ways. The coronavirus pandemic forced all of us to rethink the way we live, shop, work, conduct business and connect with one another. At Stearns Electric Association, we responded swiftly to prioritize the health and well-being of our employees, members and others around us, while minimizing the impact on daily business operations. We leveraged our expertise, adopted new technology and pulled together as a team to continue powering our members' lives.

It is a great honor for us to lead Stearns Electric during this innovative time in our Cooperative history. At the heart of resilience is the ability to work together and adapt, and we are honored to present the 2020 Annual Report as a showcase of our commitment to just that. As we move forward, we can promise you, 2020 made us better, stronger and brighter.

Robin Doege, Chief Executive Officer
Randy Rothstein, Board President



BETTER.



STRONGER.



BRIGHTER.

Key Figures



MISSION:

To safely provide competitively priced and reliable electric service, beneficial energy solutions and a positive member experience.

27,585
MEMBER
CONSUMERS



NINE
MEMBER-ELECTED
DIRECTORS

FOUNDED
1937

6.77
MEMBERS
PER MILE
OF LINE

VISION:

Stearns Electric is a critical asset to our members and our communities.



7 COOPERATIVE PRINCIPLES

1. Open and Voluntary Membership
2. Democratic Member Control
3. Members' Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation among Cooperatives
7. Concern for Community

2,000+
SQUARE MILE
SERVICE AREA

VALUES

1. Dedicated Service to our Member-Consumers
2. Adherence to Cooperative Principles
3. Respect for Others
4. Meaningful Community Involvement
5. Sound Business Ethics
6. Commitment to Employee and Public Safety
7. Accountability

4,157
MILES OF LINE
(2,605 OVERHEAD,
1,552 UNDERGROUND)



SIXTY-ONE

DEDICATED AND TALENTED EMPLOYEES

MELROSE, MN
HEADQUARTERS
ST. JOSEPH, MN
BRANCH OFFICE

Member Driven

COOPERATIVE MEMBERS REPRESENTING YOU IN 2020

Stearns Electric is a democratically-controlled business, meaning we are governed by local people who are elected by you.



GREG BLAINE
District 1



ARLYN LAWRENZ
District 2



RJ DICK NATHE
District 3



RANDY ROTHSTEIN
District 4, President



TONY AMPE
District 5, Vice President



STEVE NOTCH
District 6, Secretary/Treasurer



LONNIE IVERSON
District 7



ERIC PETERSON
District 8



JERRY FRIES
District 9

2020 MARKS THE APPROVAL OF BYLAW UPDATES

As a not-for-profit electric cooperative, Stearns Electric is governed by a series of documents, including Articles of Incorporation and Bylaws. As time passes, the energy industry changes, technology advances and member needs and expectations grow, it is important to periodically review and amend the Articles of Incorporation and the Bylaws in order to remain relevant and effective.

After a year of planning and discussion, the Stearns Electric Board of Directors asked members to approve proposed amendments to the Cooperative's Articles of Incorporation and Bylaws. Cooperative members voted 2,480 to 253 to approve the proposed amendments, which addressed and adjusted Cooperative practices related to general membership requirements, member-owned distributed energy resources, director positions and tenure, the director nomination process, Capital Credit retirement, director vacancies, arbitration and more.

Financial Report

A defining feature of your Co-op membership and a principle that guides us is your economic participation. The partnership we have with you, as member-consumers of Stearns Electric, rests on our commitment to prudently use the resources you provide.

Our 2020 total operating revenue was \$59,699,913. Our internal costs and wholesale power cost increases were minimal, helping us end the year with a solid operating margin of \$3,302,523. Equity as a percent of assets ended the year at a healthy 47.49%.

As a result of the Cooperative's sound and stable financial condition, we returned \$1.625 million in general retirement Capital Credits, which included \$500,000 from Great River Energy, to our member-consumers. That adds up to more than \$36 million returned over the years - quantifiable proof that you are a member of a successful, effective organization.



Delivering an affordable and reliable supply of electricity requires the foundation of financial strength to meet our members' needs, both today and well into the future.

Consolidated Balance Sheet

Fiscal Year Ended December 31, 2020 & 2019

ASSETS	2020	2019
Electric Plant in Service	\$139,503,864	\$134,629,922
Construction Work in Progress	1,358,532	2,370,196
Less Accumulated Provision for Depreciation	(43,006,308)	(41,390,118)
NET UTILITY PLANT	97,856,088	95,610,000
Investments in Associated Organizations	28,705,275	28,115,773
Investments in Related Companies	1,134,751	961,917
Investments in Economic Development Projects	1,756,263	1,863,763
Restricted Investments	1,100,000	600,000
Other Investments and Loans	657,037	633,912
TOTAL INVESTMENTS	33,353,326	32,175,365
Cash and Cash Equivalents	976,108	674,331
Temporary Investments	5,310,503	3,302,950
Consumer Accounts Receivable, Net	6,260,180	6,213,657
Other Accounts Receivable, Net	219,022	149,278
Materials and Supplies Inventory	2,365,178	2,409,072
Prepaid Expenses	245,082	237,059
Interest Receivable	12,315	12,508
TOTAL CURRENT ASSETS	15,388,388	12,998,855
Deferred Debits	1,146,120	1,324,360
TOTAL ASSETS	\$147,743,922	\$142,108,580
EQUITIES AND LIABILITIES	2020	2019
Patronage Capital	\$68,252,572	\$66,508,074
Other Equities	1,902,544	1,797,103
TOTAL EQUITIES	70,155,116	68,305,177
Long Term Debt (Less Current Maturities)	63,173,309	59,400,630
Accumulated Provisions for Pension and Benefits	480,479	441,554
Current Maturities of Long-Term Debt	2,685,205	2,498,782
Accounts Payable	7,141,357	7,949,241
Other Accrued Liabilities	2,196,303	2,142,191
TOTAL CURRENT LIABILITIES	12,022,865	12,590,214
Deferred Credits	1,912,153	1,371,005
TOTAL EQUITIES AND LIABILITIES	\$147,743,922	\$142,108,580

Consolidated Statement of Operations

Fiscal Year Ended December 31, 2020 & 2019

	2020	2019
TOTAL OPERATING REVENUE	59,699,913	59,468,476
Electric Energy Revenue	\$59,947,111	\$59,341,939
Other Electric Service Revenue	(247,198)	126,537
TOTAL OPERATING REVENUE	59,699,913	59,468,476
TOTAL OPERATING EXPENSES	55,391,061	55,000,390
Cost of Power	38,280,172	38,234,140
Distribution Expense - Operations	3,196,889	3,230,093
Distribution Expense - Maintenance	4,540,402	4,462,336
Consumer Account Expense	1,057,380	1,157,597
Customer Service and Informational Expense	926,264	881,650
Sales Expense	50,717	83,015
Administrative and General Expense	2,920,651	2,802,273
Depreciation Expense	4,406,474	4,120,879
Other Deductions	12,112	28,407
TOTAL OPERATING EXPENSES	55,391,061	55,000,390
Operating Margins Before Fixed Charges	4,308,852	4,468,086
Interest on Long-Term Debt	2,056,027	2,076,902
Operating Margins After Fixed Charges	2,252,825	2,391,184
G&T and Other Capital Credits	1,049,698	1,213,563
Net Operating Margins	3,302,523	3,604,747
Interest and Other Income	140,271	361,481
Income (Loss) from Equity Investments	334,584	(152,898)
TOTAL NON-OPERATING MARGINS	474,855	208,583
NET MARGINS	\$3,777,378	\$3,813,330

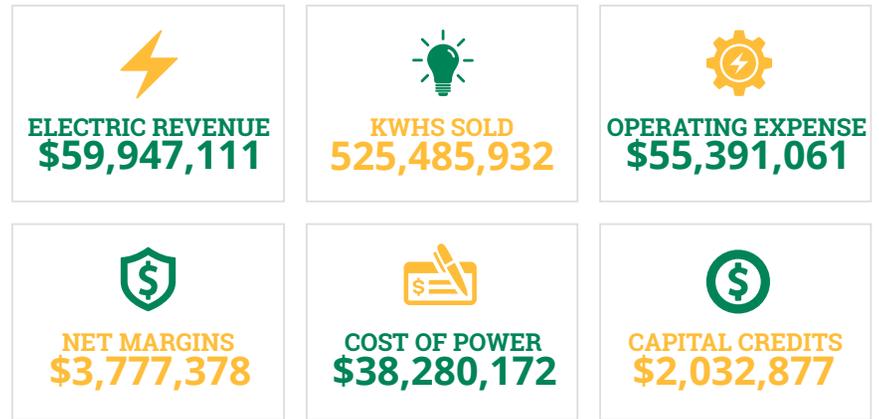
ASSETS
what we own

EQUITIES
our net worth

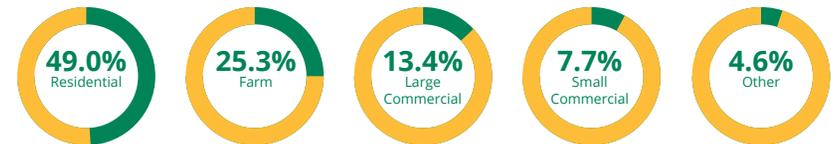
LIABILITIES
what we owe

Audit

The 2020 financial statements were audited by the accounting firm CliftonLarsonAllen, LLP.



WHAT MAKES UP THE REVENUE



WHERE YOUR DOLLAR GOES



Energy Smart

Stearns Electric's EnergyWise® Programs and Rebates provide incentives to assist members in making energy-efficient choices. With these programs, our members save money while helping the Cooperative hold down electric rates.

We experienced growth in our programs in 2020 as members took advantage of special promotions and attractive rebates to invest in effective, efficient and affordable energy solutions. The Cooperative had 25,392 systems controlled under load management, with 405 new systems installed in 2020, resulting in an additional 2,355 kW of controlled load.

You've long counted on our leadership and expertise when it comes to using energy wisely. As we blend our knowledge and experience with innovations happening in our industry, your connection to efficient, affordable energy continues to grow.



DUAL FUEL

7,042 participants and
141 new enrollees in 2020



CYCLED AC

10,228 participants and
124 new enrollees in 2020



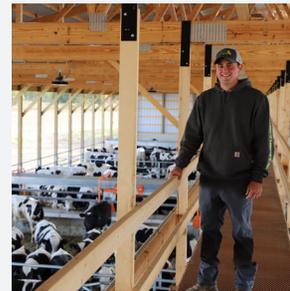
STORED WATER

5,445 participants and
61 new enrollees in 2020



RESIDENTIAL

- 816 rebates totaling \$259,400 were disbursed to members for making energy efficiency changes, which saved over 2.6 million kWh of energy.
- 102 air source heat pumps and 2 ground source heat pumps were installed on Stearns Electric's system.



COMMERCIAL AND AGRICULTURE

- 78 farm and business energy efficiency rebates were approved for a total of \$79,355.
- By making these improvements, farmers and businesses will save 2,571,788 kWh annually and \$270,037 per year on their electric bills.



RENEWABLE ENERGY

- 23.2 MWh of electricity was produced by Stearns Electric's SolarWise Community Solar Array in 2020.
- 15 member-owned wind turbines and 76 member-owned solar arrays operate on Stearns Electric's system, with a total capacity of 1,595 kW.

2020 ENERGY EFFICIENCY PROJECT EXAMPLES

A large manufacturer replaced an existing compressed air system with a VFD system reducing the energy demand by 22.23 kW.

A cattle finishing barn installed an automated feeding system capable of feeding 600 steers for three days, eliminating the need for daily use of a diesel-powered skid loader and tractor.

Serving You Better

The COVID-19 pandemic brought challenges to both our members and our employees. And while our thinking and our approach to member service had to shift, the challenges became an opportunity to serve you better.

Many employees in the Administrative and Finance Division worked remotely for several weeks, taking member phone calls from their homes. When possible, employees in the Engineering and Operations Division worked remotely or reported to work directly from their vehicles.

Although the pandemic slowed the world down, our projects continued on. Our staking engineers still conducted meetings regarding new electric service construction, but met with members and general contractors either virtually when possible, or outside. Our line crews continued to complete their normal projects, including installing new electricity services for members, and our substation techs reported to work from their pickup trucks to continue regular inspections and ensure reliability.

Our line workers staggered work shifts, limiting the amount of interaction among employees. Safely delivering reliable electricity to our members is always a top priority, which would have been impossible if all of our line crews were out with the virus.

Providing a positive member experience is also top priority. For members facing hardship during the pandemic, our billing department worked hard to serve our members with understanding and care. Late fees were waived in April, May and June, Cold Weather Rule protection was extended through May and payment arrangements were extended with increased flexibility.

While our offices were closed to the public, an increased focus was placed on digital communication. Enhanced templates for billing email notifications were launched, updates to the SmartHub password change process were made, and upgrades for efficiency were implemented to the secure phone payment system.

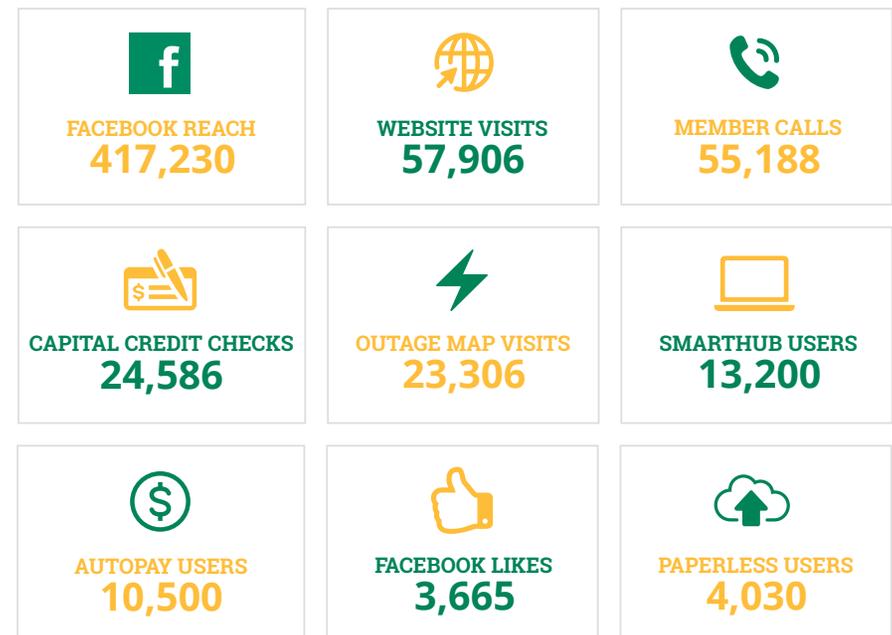
Every year, we track our overall member satisfaction with a member satisfaction survey through the National Rural Electric Cooperative Association (NRECA). In 2020, 95.3% of members surveyed rated their overall Cooperative experience as either satisfied or very satisfied, while 92.4% stated that Stearns Electric meets or exceeds their expectations.

Despite the pandemic, we enjoyed the challenge 2020 brought to serve you, our members, better.

IT Department Rose to the Challenge of Working Remotely

While 2020 will be remembered for many things, notably among them is the shift to a virtual office. The Stearns Electric IT department had to significantly reprioritize their department goals to help employees adapt to a new working environment in compliance with health and safety protocols.

With great success, the IT team deployed existing and new technology, including a VPN network, multi-factor authentication, phone systems and video conferencing solutions, across the entire organization to make remote work possible while keeping member information secure.



Making the Distribution System Stronger

DELIVERING QUALITY ELECTRIC SERVICE TO OUR MEMBERS CAN ONLY BE DONE WITH SIGNIFICANT INVESTMENT, PROPER PLANNING AND SYSTEM MAINTENANCE.

Our 2020 construction work plan represented a \$5.4 million commitment to reliable electric service. This investment was used to upgrade, enhance and repair our distribution system in a variety of ways - all of which strengthen our ability to serve you, and provide reliable, affordable electricity.

As an essential service, we did everything we could in 2020 to keep our line personnel safe while at work so we could respond to members' needs and keep the lights on. A few of those precautions included staggered start times, working from home and driving in separate vehicles. Safety trainings were either completed outside or virtually.

A 2020 goal to implement an all-digital work management system for administering construction jobs from beginning to end came at an opportune time. The ability to enable a digital workflow, create schedules and assign tasks across the entire organization electronically went live just in time to support a remote workforce during the pandemic. The technology and process upgrades provided a higher level of collaboration, awareness and information sharing among our member service, engineering and operations departments, resulting in an overall increase in work efficiency.



Construction and Maintenance Highlights

- 8,743 poles were inspected and tested for strength and durability, of which 152 (1.74%) were identified for replacement.
- 1,425 miles of line were patrolled for hazards and safety concerns. These inspections identified 740 items in need of maintenance, of which 714 were repaired in 2020.
- 4,400 feet of conductor cover, 1,248 bushing covers and 400 pole wraps were installed on our system in 2020 to reduce the number of outages caused by birds and small animals.
- 586 projects were designed, staked and constructed.
- 11.7 miles of overhead single-phase, 2.7 miles of overhead three-phase, 18 miles of underground single-phase and 20.6 miles of underground three-phase power line were added or replaced.
- 330 new electric services were installed and 123 member alterations of service were completed.

Providing safe, reliable electricity is our core responsibility and top priority.





Substation Improvements

The equipment on our system is your link to safe, reliable electricity. In 2020, many upgrades and improvements were made to our substations to improve reliability and allow for future growth including:

- Upgraded 9 substation regulator panels to improve remote monitoring and control, allowing faster corrections and providing satisfactory voltage levels to our members.
- Upgraded 22 substation recloser control panels providing enhanced monitoring, control and protection scheme capabilities to minimize outage times for members.
- Upgraded 9 substation reclosers adding greater fault clearing and current carrying capabilities for circuits with heavier load.
- Dissolved gas and oil analysis was completed on 33 substation transformers and 60 substation regulators to identify and evaluate internal conditions that could potentially lead to failures and cause major outages.
- Rebuilt the Fairhaven substation for safer operation and expanded growth.
- Installed new transformers and increased capacity at the St. Augusta and Little Sauk substations.



Vegetation Management

Clearing Right-of-Way (ROW) is critical to keeping our members' lights on. An aggressive four-year vegetation management program wrapped up in 2020. Before our ROW project began, nearly 25% of the Cooperative's power outages were caused by trees. Since then, we have seen a decrease in tree-related outages for Stearns Electric members of 62.4%.

857

ROW MILES CLEARED

22,716

PROBLEM TREES ADDRESSED

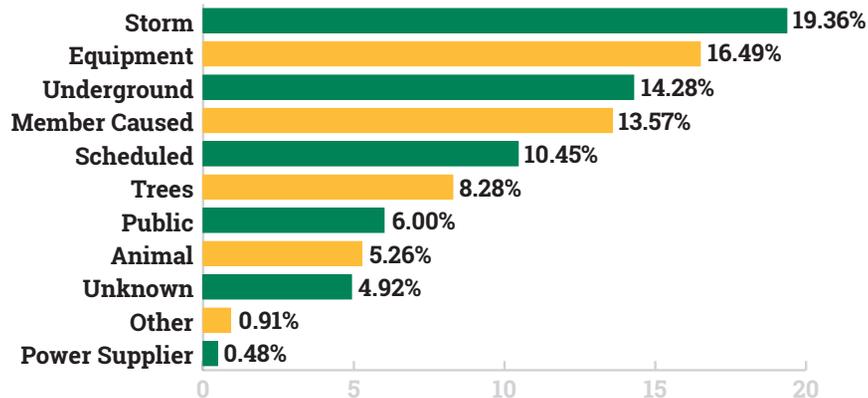
322

TREE CLEARING MEMBER REQUESTS

444

PARCELS SPRAYED AND MOWED

2020 Power Outages



For members who experienced a power outage in 2020, the average length of their outage was 2.05 hours. Overall, members had power 99.98% of the time.

Wholesale Power

Stearns Electric purchases 91.2% of its wholesale power from Great River Energy and the remaining 8.8% is purchased from the Western Area Power Administration, a federal hydro-power resource.



In 2020, 64.1% of every dollar collected by Stearns Electric was used to purchase wholesale power.

GREAT RIVER ENERGY'S GENERATION PORTFOLIO

54%
COAL

25%
RENEWABLE

19%
MARKET

1%
NATURAL GAS

1%
HYDRO



2020 Highlight

Great River Energy announced plans to phase out remaining coal resources, add significant renewable energy and explore critical grid-scale battery technology over the next few years. These changes will reduce wholesale electric rates and cut direct carbon dioxide emissions by 95%.



Making Our Community Brighter

WORK HERE. LIVE HERE. SERVE HERE.

Our employees don't just work here. They live here and care about this community as your neighbors and friends. It's the cooperative way. 'Concern for Community' is one of the seven cooperative principles and something we take very seriously at Stearns Electric Association. Giving back to the communities we serve and that support us is important not only to the Co-op, but also to our employees.

In 2020, we showcased six of our employees in our Work Here. Live Here. Serve Here. Campaign, highlighting the ways in which they selflessly serve our communities.



COMMITMENT TO COMMUNITY

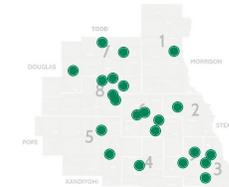
Whether it means providing financial and community resources or simply saving time and money for our members, we do our best to continually make our community a great place to be and a great place to do business.

50%
of employees
volunteer their
OWN time
in our
community

700 BOXES
OF DONUTS FOR
APPRECIATION

300+ LBS
CHEESE AND BUTTER
TO MEMBERS

Volunteer activities have an **IMPACT** throughout our service territory.



1,741 ⚡
4TH GRADE STUDENTS
LEARNED ELECTRIC SAFETY

**ORU GIVING
IN 2020**
\$147,650
192 RECIPIENTS

RAISED BY EMPLOYEES
FOR CHARITY
\$6,459

My Co-op Cares

While many of our in-person community involvement activities were canceled in 2020 due to the pandemic, our commitment to the community did not waiver. Throughout the year, employees made fleece tie blankets for local community members as a gift of comfort and connection. In addition, employees created May Day baskets which were delivered to the St. Cloud VA mental health patient unit.

Our annual employee charity fundraising event was held virtually. Employees raised a record-breaking \$4,859, and with the \$1,000 Board match, donated \$5,859 to the Alzheimer's Association of Minnesota. By the end of the year, with proper safety precautions, the Cooperative was finally able to send eight employees to volunteer with the Catholic Charities/Marine Toys for Tots program, handing out toys for children in need throughout Central Minnesota.

Member Appreciation



Dedicated to keeping the public safe while remaining committed to our members, Stearns Electric held its first ever Member Appreciation Donut Dash drive-through event. It was a huge success – thank you to all who attended!



Nearly 700 vehicles drove through three lanes at the Freeport Community Center on Saturday, August 15. Members received a six-pack of donuts from one of five local bakeries – Albany Home Bakery, Belgrade Bakery, Cold Spring Bakery, Little Falls Bakery and Deli, and Melrose Bakery – milk from Stony Creek Dairy, and school supplies.

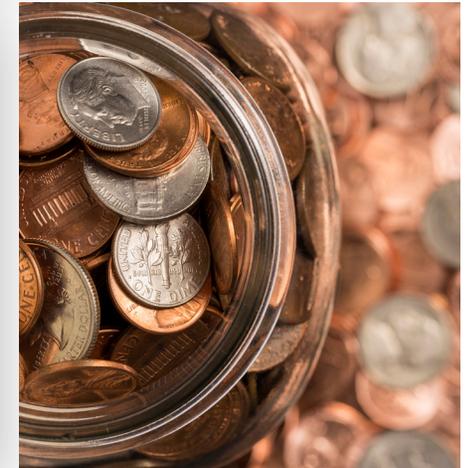
COMMUNITY AWARD

Terebinth Refuge was named Stearns Electric's Touchstone Energy® Community Award winner for offering a safe home that brings hope, healing services and freedom to sexually exploited and trafficked women (age 18+) throughout Minnesota.



OPERATION ROUND UP

Since the program's inception in 1993, Operation Round Up® has awarded over \$2.5 million total. In 2020, 192 community organizations shared \$147,650 in Operation Round Up® funds. This program is made possible by over 75% of members that round up their electric bill.



ENERGY EDUCATION

In January and February, 1,741 4th grade students in 35 schools were able to participate in energy efficiency and safety demonstrations provided at no cost by the Co-op. In 2020, our line workers helped deliver these important presentations.





Stearns Electric Association
900 Kraft Drive SE, PO Box 40
Melrose, MN 56352
(800) 962-0655
www.stearnselectric.org

**PERIODICALS
POSTAGE PAID**

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YOU ARE INVITED

TO OUR 84TH DRIVE-IN ANNUAL MEETING

THURSDAY, MAY 6, 2021

STEARNS COUNTY FAIRGROUNDS | SAUK CENTRE, MN
7 - 8 P.M. (GATES OPEN AT 6 P.M.)

Bring this annual report for registration.