

Heartland Consumers Power District

Independent Auditor's Reports and Financial Statements

December 31, 2019 and 2018

Heartland Consumers Power District

December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Heartland Consumers Power District
Madison, South Dakota

We have audited the accompanying financial statements of Heartland Consumers Power District (Heartland), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Heartland's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heartland Consumers Power District as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Heartland's basic financial statements. The schedules of transmission operation and maintenance expenses and of administrative and general expenses as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of transmission operation and maintenance expenses and of administrative and general expenses have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

BKD, LLP

Lincoln, Nebraska
April 3, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Heartland Consumers Power District's (Heartland or HCPD) financial statements provides the reader an overview of the financial activities for 2019, 2018 and 2017. Heartland's financial statements are comprised of three components: (1) Management's Discussion and Analysis, (2) financial statements, and (3) notes to the financial statements. Please read this in conjunction with the audited financial statements and footnotes contained herein.

Overview of Financial Statements

The balance sheets present information on Heartland's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Heartland is improving or deteriorating.

Heartland's overall financial position is summarized below (in thousands). This information is derived from the financial statements and records of Heartland.

	Condensed Balance Sheets As of December 31,			Fiscal Year-to-Year Percentage Change	
	2019	2018	2017	From 2018 to 2019	From 2017 to 2018
Current assets	\$ 29,699	\$ 25,332	\$ 27,285	17.2%	(7.2)%
Capital assets, net	2,386	2,509	22,155	(4.9)%	(88.7)%
Other noncurrent assets	44,270	46,648	6,633	(5.1)%	603.3%
Total assets	<u>76,355</u>	<u>74,489</u>	<u>56,073</u>	<u>2.5%</u>	<u>32.8%</u>
Deferred outflows of resources	494	679	801	(27.2)%	(15.2)%
Total assets and deferred outflows of resources	<u>\$ 76,849</u>	<u>\$ 75,168</u>	<u>\$ 56,874</u>	<u>2.2%</u>	<u>32.2%</u>
Current liabilities	\$ 7,445	\$ 7,658	\$ 4,885	(2.8)%	56.8%
Noncurrent liabilities	38,461	38,637	9,867	(0.5)%	291.6%
Total liabilities	<u>45,906</u>	<u>46,295</u>	<u>14,752</u>	<u>(0.8)%</u>	<u>213.8%</u>
Deferred inflows of resources	4,031	1,909	1,914	111.2%	(0.3)%
Net investment in capital assets	2,386	2,509	16,855	(4.9)%	(85.1)%
Restricted	174	162	-	7.4%	100.0%
Unrestricted	<u>24,352</u>	<u>24,293</u>	<u>23,353</u>	<u>0.2%</u>	<u>4.0%</u>
Total net position	<u>26,912</u>	<u>26,964</u>	<u>40,208</u>	<u>(0.2)%</u>	<u>(32.9)%</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 76,849</u>	<u>\$ 75,168</u>	<u>\$ 56,874</u>	<u>2.2%</u>	<u>32.2%</u>

Heartland's overall net position decreased in 2019 and 2018 by \$52,308 and \$13,243,937, respectively, and increased in 2017 by \$3,015,031.

Generation and transmission facilities have traditionally represented 95% of Heartland's total capital assets. The remaining 5% of capital assets includes Heartland's headquarters building, transportation equipment, and office equipment. During 2018, Heartland sold its ownership interest in Laramie River Station (LRS) to a third party, and also sold its ownership interests in TPI and TPIII to separate third parties. This disposition of ownership interests resulted in a decrease in capital assets, net of accumulated depreciation, of approximately \$20.5 million. Heartland also received approximately \$9.9 million from the third parties for the sale of its ownership interests in these generation and transmission facilities. Further information regarding capital assets can be found in Note 4.

Additionally, during 2018, Heartland issued Electric System Taxable Revenue Bonds, Series 2018, in the amount of \$32,855,000. These bonds were issued at a premium of \$2,485,000 resulting in total proceeds received by Heartland in the amount of \$35,340,000. The proceeds were used by Heartland to make a \$35 million prepayment during 2018 to terminate a transmission contract which is no longer necessary to Heartland's electric system. As Heartland qualifies as a rate-making entity under the provisions of Governmental Accounting Standards Board (GASB) Codification Section Re10, *Regulated Operations*, this prepayment was recorded as a regulatory asset (costs recoverable from future billings) and will be amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates.

Results of Operations

The statements of revenues, expenses and changes in net position present information showing how Heartland's net position changed during the most recent fiscal year.

A summary of revenues and expenses is provided in the table that follows (in thousands except power sales).

	Condensed Statements of Revenues, Expenses and Changes in Net Position			Fiscal Year-to-Year Percentage Change	
	Years Ended December 31,			From 2018	From 2017
	2019	2018	2017	to 2019	to 2018
Power sales					
Customer energy (MWh)	460,299	461,011	430,008	(0.2)%	7.2%
Customer cumulative demand (kW)	819,153	806,841	761,441	1.5%	6.0%
Revenues					
Customer revenue	\$ 38,968	\$ 38,484	\$ 36,217	1.3%	6.3%
Contracted requirements revenue	5,655	12,025	15,455	(53.0)%	(22.2)%
Surplus sales revenue	108	1,085	4,098	(90.0)%	(73.5)%
Other operating revenue	1,423	382	1,899	272.5%	(79.9)%
Transfer for rate stabilization	(2,000)	-	-	(100.0)%	—%
Total operating revenue	<u>44,154</u>	<u>51,976</u>	<u>57,669</u>	<u>(15.0)%</u>	<u>(9.9)%</u>

	Condensed Statements of Revenues, Expenses and Changes in Net Position			Fiscal Year-to-Year Percentage Change	
	Years Ended December 31,			From 2018	From 2017
	2019	2018	2017	to 2019	to 2018
Expenses					
Cost of power	\$ 30,167	\$ 33,776	\$ 34,229	(10.7)%	(1.3)%
Transmission	5,268	7,882	7,544	(33.2)%	4.5%
Production	29	3,108	7,020	(99.1)%	(55.7)%
Depreciation	148	621	1,073	(76.2)%	(42.1)%
Taxes	18	473	628	(96.2)%	(24.7)%
Administration and general	4,104	4,270	3,356	(3.9)%	27.2%
Pension	296	124	289	138.7%	(57.1)%
Amortization	2,977	203	203	1,366.5%	—%
Total operating expenses	<u>43,007</u>	<u>50,457</u>	<u>54,342</u>	<u>(14.8)%</u>	<u>(7.1)%</u>
Operating income	1,147	1,519	3,327	(24.5)%	(54.3)%
Total nonoperating revenues (expenses), net	(1,199)	338	(312)	(454.7)%	(208.3)%
Sale of interest in generating and transmission facilities	<u>-</u>	<u>(15,101)</u>	<u>-</u>	<u>100.0%</u>	<u>(100.0)%</u>
Change in net position	(52)	(13,244)	3,015		
Net position, beginning of year	<u>26,964</u>	<u>40,208</u>	<u>37,193</u>		
Net position, end of year	<u>\$ 26,912</u>	<u>\$ 26,964</u>	<u>\$ 40,208</u>		

Operating revenues include firm power sales to Heartland's wholesale rate customers, other contracted sales, short-term energy sales on the surplus market, and other revenues. Demand and energy sales for 2019 were 819 MW and 460,299 MWh, respectively. Heartland's customer peak was 73 MW in 2019. Demand and energy sales for 2018 were 807 MW and 461,011 MWh, respectively. The 2018 peak demand of Heartland's long-term wholesale customers was 77 MW. Heartland's wholesale customer demand and energy sales for 2017 were 761 MW and 430,008 MWh, respectively. Heartland's wholesale customer peak demand for 2017 was 72 MW. The increase in customer revenue in 2019 and 2018 was a result of an increase in consumption from South Dakota customers, specifically Madison.

Heartland has other energy sales contracts, in addition to its wholesale customers. The contracted requirements revenue mitigates exposure to the surplus market for excess power and the contracts typically contain fixed pricing and quantities. Many of these contracts are unit contingent and Heartland is not required to provide replacement power. These revenues were less in 2019 and 2018 as a result of the termination of long-term power sales agreements with Basin Electric Power Cooperative. These agreements were terminated in conjunction with Heartland's sale of its ownership interest in LRS, as the energy provided under the agreements related to the output from LRS.

Surplus energy sales are the sales of energy produced by Heartland's resources in excess of the energy required by Heartland's customers and other contracts. These sales are considered short term and non-firm. The quantity of surplus energy and revenue is dependent upon multiple factors including availability of resources, customer and other contract requirements, and market and contractual pricing.

The operating expenses fluctuated in some areas. Production expenses (the cost for coal, transportation, and operations and maintenance at certain generating facilities) decreased by 99.1% and 55.7% in 2019 and 2018, respectively, as a result of Heartland selling its ownership interest in LRS during 2018. Transmission expenses decreased 33.2% in 2019, primarily as a result of Heartland's termination of a transmission contract which was no longer necessary, and amortization expenses increased in 2019 as a result of Heartland amortizing its prepayment related to the termination of this transmission contract.

Heartland purchases power to meet the total contract resource obligations to its customers. The purchased power contracts include base-load resources, renewable generation facilities, market purchases, and additional capacity purchases required to comply with the resource reserve requirements for maintaining regional reliability.

Heartland is a member of Public Power Generation Agency (PPGA), an interlocal agency created under Nebraska statute to build WEC2, a 220 megawatt coal-fired project near Hastings, Nebraska. Heartland's participation in PPGA is for 80 megawatts. PPGA financed construction of WEC2 directly, rather than obtaining funding from its members. Heartland has a contract with Hastings Utilities for an additional share of WEC2. This contract decreases annually. Heartland also has a contract with North Iowa Municipal Electric Cooperative Association (NIMECA) in which NIMECA purchases output of WEC2 for the life of the unit. NIMECA's contract includes all owners' costs and increases annually until 2019. The combination of the Hastings Utilities contract reduction and the NIMECA contract increases resulted in reduced cost of power in 2019 and 2018.

The nonoperating revenues/expenses include interest on bonds, investment income, and amortization of costs recoverable from future billings. Heartland recognized increased investment income in 2019 due to improved market conditions and higher interest rates on its cash and investments. Heartland also reported grant revenue of \$300,000 in 2019 and 2018 in relation to its involvement with the USDA's Rural Economic Development Loans and Grants (REDLG) program. Interest expense also increased during 2019 as a result of incurring a full year of interest on the Series 2018 bonds.

Heartland made principal payments of \$1,925,000 on its Electric System Taxable Revenue Bonds, Series 2018 during 2019. Heartland made principal payments of \$5,300,000 on its Electric System Second Lien Revenue Bonds, Series 2011, paying off the entire balance in 2018.

Fitch assigned an underlying rating of A- to Heartland and Moody's assigned A2.

Contact Information

This financial report is designed to provide a general overview of Heartland's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Micheal Malone, P.O. Box 248, Madison, SD 57042.

Heartland Consumers Power District

Balance Sheets

December 31, 2019 and 2018

Assets and Deferred Outflows of Resources	2019	2018
Current Assets		
Cash and cash equivalents	\$ 20,712,304	\$ 3,744,582
Restricted cash and cash equivalents	304,770	302,760
Short-term investments	2,051,056	14,733,522
Accounts receivable	5,574,753	5,757,710
Notes receivable, current portion	1,006,794	701,840
Prepaid expenses and other current assets	48,894	91,173
Total current assets	<u>29,698,571</u>	<u>25,331,587</u>
Noncurrent Assets		
Notes receivable, net of allowance of \$685,853 for 2019 and \$488,728 for 2018	8,337,634	5,997,560
Long-term investments	112,791	2,192,954
Capital assets, net	2,386,268	2,509,353
Costs recoverable from future billings	34,714,204	37,360,250
Net pension asset	10,862	2,049
Other noncurrent assets	1,095,000	1,095,000
Total noncurrent assets	<u>46,656,759</u>	<u>49,157,166</u>
Deferred Outflows of Resources		
Deferred outflows for pensions	<u>494,220</u>	<u>678,817</u>
Total assets and deferred outflows of resources	<u>\$ 76,849,550</u>	<u>\$ 75,167,570</u>

**Liabilities, Deferred Inflows of Resources
and Net Position**

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 2,354,271	\$ 2,152,564
Accounts payable	4,576,860	4,926,564
Accrued expenses	364,221	429,805
Accrued interest payable	<u>150,029</u>	<u>149,021</u>
Total current liabilities	<u>7,445,381</u>	<u>7,657,954</u>
Noncurrent Liabilities		
Long-term debt, net	38,137,871	38,342,257
Other noncurrent liabilities	<u>323,404</u>	<u>294,598</u>
Total noncurrent liabilities	<u>38,461,275</u>	<u>38,636,855</u>
Total liabilities	<u>45,906,656</u>	<u>46,294,809</u>
Deferred Inflows of Resources		
Deferred inflows for pensions	278,756	158,789
Reductions of future billings	<u>3,752,474</u>	<u>1,750,000</u>
Total deferred inflows of resources	<u>4,031,230</u>	<u>1,908,789</u>
Net Position		
Net investment in capital assets	2,386,268	2,509,353
Restricted for debt service	163,333	160,417
Restricted for pensions	10,862	2,049
Unrestricted	<u>24,351,201</u>	<u>24,292,153</u>
Total net position	<u>26,911,664</u>	<u>26,963,972</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 76,849,550</u>	<u>\$ 75,167,570</u>

Heartland Consumers Power District
Statements of Revenues, Expenses and
Changes in Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Customer requirements	\$ 38,968,012	\$ 38,483,860
Other contracted requirements	5,655,144	12,024,567
Surplus sales revenue	108,405	1,084,711
Other operating revenue	1,422,648	382,664
Transfer to rate stabilization	<u>(2,000,000)</u>	<u>-</u>
Total operating revenues	<u>44,154,209</u>	<u>51,975,802</u>
Operating Expenses		
Cost of power	30,166,554	33,775,636
Transmission	5,268,631	7,882,354
Production	29,579	3,108,356
Depreciation	147,678	620,853
Taxes	17,766	473,360
Administration and general	4,103,823	4,270,154
Pension	295,751	123,509
Amortization	<u>2,977,437</u>	<u>202,641</u>
Total operating expenses	<u>43,007,219</u>	<u>50,456,863</u>
Operating Income	<u>1,146,990</u>	<u>1,518,939</u>
Nonoperating Revenues (Expenses)		
Investment income	652,314	430,716
Interest expense	(1,571,100)	(224,510)
Amortization expense	(52,030)	(18,084)
Grant revenue	300,000	300,000
Other	<u>(528,482)</u>	<u>(149,783)</u>
Net nonoperating revenues (expenses)	<u>(1,199,298)</u>	<u>338,339</u>
Sale of Interest in Generating and Transmission Facilities	<u>-</u>	<u>(15,101,215)</u>
Change in Net Position	(52,308)	(13,243,937)
Net Position, Beginning of Year	<u>26,963,972</u>	<u>40,207,909</u>
Net Position, End of Year	<u><u>\$ 26,911,664</u></u>	<u><u>\$ 26,963,972</u></u>

Heartland Consumers Power District
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from customers	\$ 38,968,012	\$ 38,483,860
Receipts from others	7,369,154	14,974,678
Payments to suppliers	(38,112,649)	(47,801,731)
Payment for transmission contract buyout	-	(35,000,000)
Payments to employees	<u>(1,809,535)</u>	<u>(1,635,439)</u>
Net cash provided by (used in) operating activities	<u>6,414,982</u>	<u>(30,978,632)</u>
Noncapital Financing Activities		
Proceeds from issuance of promissory notes	2,354,375	1,666,737
Payments on promissory notes	(240,900)	(1,096,353)
Proceeds from issuance of revenue bonds	-	35,340,000
Payments on revenue bonds	(1,925,000)	-
Interest paid	(1,761,246)	-
Debt issuance costs	-	(520,301)
Federal grants received	300,000	300,000
Other nonoperating payments	<u>(325,926)</u>	<u>(181,875)</u>
Net cash provided by (used in) noncapital financing activities	<u>(1,598,697)</u>	<u>35,508,208</u>
Capital and Related Financing Activities		
Purchase of capital assets	(30,020)	(1,534,241)
Payments on revenue bonds and notes	-	(5,300,000)
Interest paid	-	(80,003)
Proceeds from sale of ownership interests	-	9,899,887
Payments for power projects	<u>(448,592)</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(478,612)</u>	<u>2,985,643</u>
Investing Activities		
Proceeds from sales and maturities of investment securities	17,490,856	4,726,119
Purchases of investment securities	(2,586,793)	(16,777,319)
Issuance of notes receivable	(3,557,500)	(3,645,747)
Repayments of notes receivable	715,347	1,812,343
Investment income received	<u>570,149</u>	<u>363,827</u>
Net cash provided by (used in) investing activities	<u>12,632,059</u>	<u>(13,520,777)</u>
Change in Cash and Cash Equivalents	16,969,732	(6,005,558)
Cash and Cash Equivalents, Beginning of Year	<u>4,047,342</u>	<u>10,052,900</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,017,074</u>	<u>\$ 4,047,342</u>
Composition of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 20,712,304	\$ 3,744,582
Restricted cash and cash equivalents	<u>304,770</u>	<u>302,760</u>
Total	<u>\$ 21,017,074</u>	<u>\$ 4,047,342</u>

Heartland Consumers Power District
Statements of Cash Flows - Continued
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to Net Cash		
Provided by (Used in) Operating Activities		
Operating income	\$ 1,146,990	\$ 1,518,939
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Depreciation and amortization	3,125,115	823,494
Transfer to rate stabilization	2,000,000	-
Changes in balance sheet operating items		
Accounts receivable	182,957	1,482,736
Plant operation assets	-	253,942
Prepaid expenses and other assets	50,651	(35,968,708)
Net pension asset	(8,813)	5,801
Deferred outflows for pensions	184,597	122,761
Accounts payable	(349,704)	651,228
Accrued liabilities	(36,778)	136,228
Deferred inflows for pensions	119,967	(5,053)
	\$ 6,414,982	\$ (30,978,632)
Net Cash Provided by (Used in) Operating Activities		
Supplemental Cash Flows Information		
Increase (decrease) in allowance for notes receivable	\$ 197,125	\$ (51,179)

Heartland Consumers Power District

Notes to Financial Statements

December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Heartland Consumers Power District (Heartland) is a public corporation and a political subdivision of the State of South Dakota created under the Consumers Power District Law for the purpose of supplying electric energy. Heartland is empowered by the Consumers Power District Law to finance, own, and operate, either singly or jointly with others and anywhere within or without the boundaries of Heartland or the State of South Dakota, any electric light and power plants, lines, and systems or interest therein for the generation and transmission of electric power and energy. Heartland has firm power customers in the four-state region of Minnesota, Kansas, Iowa and South Dakota.

Rates for wholesale electric service are set by the Heartland Board of Directors. Neither the South Dakota Public Utilities Commission nor any other commission has jurisdiction over Heartland with respect to Heartland's rates and charges for power sales to its customers.

Reporting Entity

In evaluating how to define the entity for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) Heartland's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on Heartland and (3) the entity's fiscal dependency on Heartland. Based upon the above criteria, Heartland has determined that it has no reportable component units.

Basis of Accounting

Heartland's activities are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Heartland's accounting records are maintained in accordance with accounting principles generally accepted in the United States of America for regulated utilities and generally follow the Uniform System of Accounts for Public Utilities and Licenses prescribed by the Federal Energy Regulatory Commission (FERC). Heartland prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Heartland's accounting policies also follow the provisions of GASB Codification Section Re10, *Regulated Operations*, which permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate making purposes.

Heartland Consumers Power District

Notes to Financial Statements

December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results may differ from those estimates.

Cash Equivalents

Heartland considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted of money market funds.

Investments and Investment Income

Investments in money market mutual funds are carried at cost, which approximates fair value. Investments in U.S. Treasury securities and U.S. agency obligations are carried at fair value. Fair value is determined based on quoted market prices or yields currently available on comparable securities of issuers with similar credit ratings.

Investment income consists of interest income and realized and unrealized gains and losses.

Accounts and Notes Receivable

Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 20 days after the issuance of the invoice. Delinquent receivables are charged off as they are deemed uncollectible. Management does not believe an allowance for doubtful accounts is necessary for accounts receivable at December 31, 2019 and 2018, as there were no delinquent accounts. Notes receivable relate to Heartland's economic development program (see Note 3) and amounts due generally follow amortization schedules contained within the related note agreements. Management has established an allowance for doubtful accounts for notes receivable of \$685,853 and \$488,728 at December 31, 2019 and 2018, respectively.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of each asset, which is normally 20 - 30 years for utility plant, 5 - 10 years for vehicles, furniture, and various office equipment and 40 years for buildings.

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Compensated Absences

Employees earn vacation days at varying rates depending on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time. Expense and the related liability are recognized when earned and vacation benefits are redeemable as time off or in cash. Employees earn sick leave at the rate of approximately one day per month. Upon normal retirement, an employee can use any accumulated sick time to pay for certain qualified medical expenses. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensated absences expected to be used during the next fiscal year are classified as a current liability in accrued expenses. The remaining balance is reflected as a noncurrent liability.

Regulated Operations

Rates for Heartland's regulated operations are established and approved by the Board of Directors. Heartland applies the provisions of GASB Codification Section Re10, *Regulated Operations*, which provide for the deferral of expenses which are expected to be recovered through customer rates over some future period (costs recoverable from future billings) and reductions in earnings to cover future expenditures (reductions of future billings). Costs recoverable from future billings are primarily comprised of charges incurred in relation to Heartland's bond issuances, costs incurred by Heartland for initial payments made on long-term capacity contracts and a prepayment of \$35 million made by the District during 2018 to terminate a transmission contract which is no longer necessary. These costs are being amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates. Reductions of future billings are comprised of the unrealized net gains on investments and Board approved transfers for rate stabilization.

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension revenue and expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Heartland's contributions and net pension asset and liability are recognized on the accrual basis of accounting.

Heartland Consumers Power District

Notes to Financial Statements

December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of the net amount of the assets, liabilities and deferred inflows and outflows of resources that do not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is Heartland’s policy to use restricted resources first, then unrestricted as they are needed.

Classification of Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with Heartland’s ongoing operations. The principal operating revenues are charges to customers for services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Taxes

Heartland is exempt from federal income taxes as it is a political subdivision of the state of South Dakota. Heartland may be subject to franchise taxes in states in which it operates. Franchise tax expense was \$1,288 and \$1,667 in 2019 and 2018, respectively.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. The reclassifications had no effect on the changes in financial position.

Heartland Consumers Power District

Notes to Financial Statements

December 31, 2019 and 2018

Note 2: Deposits, Investments and Investment Return

Heartland's investing is performed in accordance with the investment policy adopted by its Board of Directors and applicable state statutes. Heartland may invest in certificates of deposit, time deposits, repurchase agreements, and various U.S. Treasury securities and U.S. agency obligations.

Deposits

State statutes require banks either to give bond or to pledge government securities to Heartland in the amount of Heartland's deposits. Heartland's cash deposits, including certificates of deposit, are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the \$250,000 FDIC limits are covered by collateral held in a Federal Reserve Bank pledge account or by an agent for Heartland and thus, no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any collateral arrangements.

Investments

At December 31, 2019 and 2018, Heartland had the following investments and maturities:

	Carrying Value	Maturities in Years			Credit Ratings (Moody's)
		Less Than 1	1-5	6-10	
December 31, 2019					
Money market mutual funds	\$ 19,898,066	\$ 19,898,066	\$ -	\$ -	Aaa-mf
U.S. Treasury securities	2,051,056	2,051,056	-	-	N/A
U.S. agency obligations	112,791	-	-	112,791	Aaa
	<u>\$ 22,061,913</u>	<u>\$ 21,949,122</u>	<u>\$ -</u>	<u>\$ 112,791</u>	
December 31, 2018					
Money market mutual funds	\$ 3,266,347	\$ 3,266,347	\$ -	\$ -	Aaa-mf
U.S. Treasury securities	16,779,037	14,755,732	2,023,305	-	N/A
U.S. agency obligations	147,438	-	-	147,438	Aaa
	<u>\$ 20,192,822</u>	<u>\$ 18,022,079</u>	<u>\$ 2,023,305</u>	<u>\$ 147,438</u>	

Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 2: Deposits, Investments and Investment Return - Continued

Disclosures About Fair Value of Assets and Liabilities - Continued

- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Heartland's investments in money market mutual funds are carried at cost and thus are not included within the fair value hierarchy. Heartland's investments in U.S. Treasury securities and U.S. agency obligations are measured at fair value on a recurring basis, and are classified within Level 2 of the fair value hierarchy at December 31, 2019 and 2018.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Heartland's investment policy provides limitations on the maturities of the various types of investments as a means of managing its exposure to fair value losses arising from interest rate fluctuations.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Heartland's investment policy establishes requirements for all investment securities to be in compliance with ratings established in bond indentures, for which substantially all investments are held.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, Heartland would not be able to recover the value of its investment securities that are in the possession of an outside party. Heartland's investments in U.S. agency obligations are held in a book entry system in an account designated as a customer account at the Federal Reserve and the custodian's internal records identify Heartland as owner.

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 2: Deposits, Investments and Investment Return - Continued

Concentration of Credit Risk

Concentration of credit risk is the risk associated with the amount of investments Heartland has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government are excluded from this requirement. Heartland's investment policy limits the amount of its investment portfolio that may be invested in any one issuer, other than U.S. government securities, to 10%. No investments at December 31, 2019 or 2018 exceeded 5%.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Carrying value		
Deposits	\$ 1,119,008	\$ 780,996
Investments	<u>22,061,913</u>	<u>20,192,822</u>
	<u>\$ 23,180,921</u>	<u>\$ 20,973,818</u>

Included in the following balance sheet captions:

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents		
Operating funds	\$ 536,078	\$ 391,122
General reserve funds	16,541,507	2,791,134
Revolving loan fund program accounts	732,931	539,872
Rate stabilization fund	<u>2,901,788</u>	<u>22,454</u>
Total	<u>20,712,304</u>	<u>3,744,582</u>
Restricted cash and cash equivalents		
Debt service funds	<u>304,770</u>	<u>302,760</u>
Short-term investments		
General reserve funds	-	12,004,367
Rate stabilization fund	<u>2,051,056</u>	<u>2,729,155</u>
	<u>2,051,056</u>	<u>14,733,522</u>
Noncurrent Assets		
Long-term investments - rate stabilization fund	<u>112,791</u>	<u>2,192,954</u>
	<u>\$ 23,180,921</u>	<u>\$ 20,973,818</u>

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 2: Deposits, Investments and Investment Return - Continued

Investment Return

Investment return for the years ended December 31, 2019 and 2018 consisted of interest income and realized gains of \$516,496 and \$333,893, respectively. Unrealized gains and losses on restricted investments are deferred and reported as reductions of future billings shown as a deferred inflow of resources in accordance with the provisions of GASB Codification Section Re10 *Regulated Operations*.

Note 3: Notes Receivable

Type of Notes	2019				Due Within One Year
	January 1,	Additions	Reductions	December 31,	
4.0% note in connection with Heartland's economic development program, payable in monthly installments through December 2020	\$ 121,108	\$ -	\$ 389	\$ 120,719	\$ -
0.0% to 5.0% notes in connection with the Intermediary Relending Program Promissory Note (see Note 13), due in monthly installments through March 2030	3,541,832	1,732,500	459,098	4,815,234	611,893
0.0% to 4.0% notes in connection with the Rural Economic Development Loan Agreement and Rural Economic Development Grant Agreement (see Note 13), due in monthly installments through November 2029	3,525,188	1,825,000	255,860	5,094,328	394,901
Allowance for notes receivable	(488,728)	197,125	-	(685,853)	-
Total notes receivable, net	<u>\$ 6,699,400</u>	<u>\$ 3,754,625</u>	<u>\$ 715,347</u>	<u>\$ 9,344,428</u>	<u>\$ 1,006,794</u>

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 3: Notes Receivable - Continued

Type of Notes	2018				Due Within One Year
	January 1,	Additions	Reductions	December 31,	
4.0% note in connection with Heartland's economic development program, payable in monthly installments through December 2019	\$ 132,872	\$ -	\$ 11,764	\$ 121,108	\$ 121,108
2.0% to 5.0% notes in connection with the Intermediary Relending Program Promissory Note (see Note 13), due in monthly installments through December 2028	2,180,372	1,786,867	425,407	3,541,832	379,466
0.0% to 3.0% notes in connection with the Rural Economic Development Loan Agreement and Rural Economic Development Grant Agreement (see Note 13), due in monthly installments through November 2028	3,041,480	1,858,880	1,375,172	3,525,188	201,266
Allowance for notes receivable	(539,907)	81,688	132,867	(488,728)	-
Total notes receivable, net	<u>\$ 4,814,817</u>	<u>\$ 3,727,435</u>	<u>\$ 1,945,210</u>	<u>\$ 6,699,400</u>	<u>\$ 701,840</u>

Interest income on these notes totaled \$135,818 and \$96,823 for 2019 and 2018, respectively, and is included within investment income on the statements of revenues, expenses and changes in net position.

Note 4: Capital Assets

Capital assets at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Depreciable assets		
Heartland headquarters building	\$ 2,837,333	\$ 2,837,333
General plant	888,260	883,290
Total depreciable assets	<u>3,725,593</u>	<u>3,720,623</u>
Nondepreciable assets		
Land	80,402	80,402
Total nondepreciable assets	<u>80,402</u>	<u>80,402</u>
	<u>\$ 3,805,995</u>	<u>\$ 3,801,025</u>

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 4: Capital Assets - Continued

Capital assets activity for 2019 and 2018 was:

	2019				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Heartland headquarters building	\$ 2,837,333	\$ -	\$ -	\$ -	\$ 2,837,333
General plant	883,290	30,020	(25,050)	-	888,260
Land	80,402	-	-	-	80,402
Total capital assets	3,801,025	30,020	(25,050)	-	3,805,995
Less accumulated depreciation	(1,291,672)	(147,678)	19,623	-	(1,419,727)
Capital assets, net	<u>\$ 2,509,353</u>	<u>\$ (117,658)</u>	<u>\$ (5,427)</u>	<u>\$ -</u>	<u>\$ 2,386,268</u>
	2018				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Missouri Basin Power Project	\$ 56,663,387	\$ 174,100	\$ (56,837,487)	\$ -	\$ -
Transmission Project I (TP I)	1,085,293	-	(1,085,293)	-	-
Groton substation (TP III)	415,292	-	(415,292)	-	-
Heartland headquarters building	2,837,333	-	-	-	2,837,333
General plant	821,526	91,090	(29,326)	-	883,290
Land	80,402	-	-	-	80,402
Construction in progress	3,035,525	1,269,051	(4,304,576)	-	-
Total capital assets	64,938,758	1,534,241	(62,671,974)	-	3,801,025
Less accumulated depreciation	(42,783,774)	(620,853)	42,112,955	-	(1,291,672)
Capital assets, net	<u>\$ 22,154,984</u>	<u>\$ 913,388</u>	<u>\$ (20,559,019)</u>	<u>\$ -</u>	<u>\$ 2,509,353</u>

Heartland was a 3% co-owner of the Missouri Basin Power Project, which includes Laramie River Station (LRS), a three-unit, 1,650 MW, coal-fired power supply station in eastern Wyoming, and a related transmission system. Effective June 30, 2018, Heartland sold its ownership interest in Laramie River Station to a third-party, which included its capacity and energy entitlement and related transmission and substation facilities. The net proceeds from the sale, in the amount of \$7,400,000, were received by Heartland in September 2018. Heartland also received payment of \$2,000,000 from Basin Electric Power Cooperative to buy out the power sales agreements described in Note 7, which related to output from Laramie River Station.

Heartland Consumers Power District

Notes to Financial Statements

December 31, 2019 and 2018

Note 4: Capital Assets - Continued

Heartland was also a 24% of 75% (total of 18%) owner of TP I, which consists of approximately eight miles of 115 kv transmission line and associated switching equipment. TP III consists of a 345/115 kv substation located near Groton, South Dakota; a 115 kv tie line between the Groton substation and the substation owned by Western Area Power Administration (WAPA); and a 115 kv circuit breaker in addition to the WAPA Groton substation for the termination of the tie line. Heartland owned a 3.9% share in TP III. Effective June 30, 2018, Heartland sold its ownership interest in TPI and TPIII to separate third parties, which resulted in net proceeds of approximately \$500,000.

Note 5: Credit Facilities

Line of Credit

In March 2015, Heartland entered into a revolving credit agreement with a financial institution that provides for borrowings up to \$25,000,000. The maximum amount available under this agreement was decreased to \$10,000,000 during 2018. The agreement was amended and renewed on February 27, 2018, with an expiration date of March 22, 2022. Borrowings under the credit agreement bear interest at varying rates, and cannot exceed a maximum rate, as defined in the agreement. The agreement also provides for standby letters of credit, not to exceed \$5,000,000 in the aggregate. The amount available under Heartland's revolving credit agreement is reduced by the amount of any issued standby letters of credit. Heartland had no outstanding borrowings on this line at December 31, 2019 and 2018. This revolving credit agreement is secured as described in Note 6.

Letter of Credit

As financial security for Heartland's performance under certain financial transmission rights and transmission congestion rights in regional transmission organizations in which Heartland participates, Heartland has obtained a standby letter of credit for \$1.5 million at December 31, 2019 and 2018. The letter of credit expires March 22, 2022 and can be renewed for an additional one-year term.

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Long-term Liabilities

Long-term liabilities at December 31, 2019 consisted of the following:

Type of Debt	2019				
	January 1,	Additions	Reductions	December 31,	Due Within One Year
3.1-6.137% Revenue Bonds, Series 2018, with interest and principal payments due annually beginning December 1, 2019 through December 2031	\$ 32,855,000	\$ -	\$ 1,925,000	\$ 30,930,000	\$ 1,960,000
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036	520,812	-	26,630	494,182	26,896
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 with a final payment due June 25, 2040	616,708	-	25,671	591,037	25,928
1.0% Intermediary Relending Program Promissory Note, due annually on November 10, beginning in 2020, with a final payment due November 10, 2046	1,000,000	-	-	1,000,000	32,423
1.0% Intermediary Relending Program Promissory Note, due annually, beginning in October 2021, with a final payment due October 11, 2047	541,250	458,750	-	1,000,000	-
1.0% Intermediary Relending Program Promissory Note, total amount to be drawn \$1,000,000, principal payments due annually, beginning in June 2023, final payment due in June 2049	-	495,625	-	495,625	-
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$3,299 through April 30, 2031	488,132	-	39,588	448,544	39,588
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$10,417, beginning in October 2019, through September 21, 2027	1,000,000	-	31,251	968,749	125,004
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$3,202, beginning in April 2018, through March 23, 2028	355,419	-	38,424	316,995	38,424
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$5,500, beginning in August 2018, through July 24, 2028	632,500	-	66,000	566,500	66,000
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$10,417 beginning in July 2021, through June 5, 2029	-	1,000,000	-	1,000,000	-
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$3,334 beginning in October 2019, through September 19, 2029	-	400,000	13,336	386,664	40,008
	38,009,821	2,354,375	2,165,900	38,198,296	2,354,271
Revenue bonds issuance premium	2,485,000	-	191,154	2,293,846	-
Total bonds and notes payable	40,494,821	2,354,375	2,357,054	40,492,142	2,354,271
Compensated absences	389,868	197,204	166,790	420,282	96,878
Total long-term liabilities	\$ 40,884,689	\$ 2,551,579	\$ 2,523,844	\$ 40,912,424	\$ 2,451,149

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Long-term Liabilities - Continued

Long-term liabilities at December 31, 2018 consisted of the following:

Type of Debt	2018				
	January 1,	Additions	Reductions	December 31,	Due Within One Year
3.1-6.137% Revenue Bonds, Series 2018, with interest and principal payments due annually beginning December 1, 2019 through December 2031	\$ -	\$ 32,855,000	\$ -	\$ 32,855,000	\$ 1,925,000
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036	547,178	-	26,366	520,812	26,630
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 with a final payment due June 25, 2040	642,125	-	25,417	616,708	25,671
1.0% Intermediary Relending Program Promissory Note, due annually on November 10, beginning in 2020, with a final payment due November 10, 2046	918,750	81,250	-	1,000,000	-
1.0% Intermediary Relending Program Promissory Note, due annually on October 11 with a final payment due October 11, 2047	-	541,250	-	541,250	-
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$6,852 through July 31, 2019; paid in full in 2018	137,024	-	137,024	-	-
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$3,299 through April 30, 2031	531,018	-	42,886	488,132	39,588
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$8,333 through December 31, 2025, paid in full in 2018	808,342	-	808,342	-	-
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$10,417, beginning in October 2019, through September 21, 2027	1,000,000	-	-	1,000,000	31,251
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$3,202, beginning in April 2018, through March 23, 2028	-	384,237	28,818	355,419	38,424
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$5,500, beginning in August 2018, through July 24, 2028	-	660,000	27,500	632,500	66,000
	4,584,437	34,521,737	1,096,353	38,009,821	2,152,564
Revenue bonds issuance premium	-	2,485,000	-	2,485,000	-
Total bonds and notes payable	4,584,437	37,006,737	1,096,353	40,494,821	2,152,564
Compensated absences	347,950	155,056	113,138	389,868	95,270
Total long-term liabilities	\$ 4,932,387	\$ 37,161,793	\$ 1,209,491	\$ 40,884,689	\$ 2,247,834

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Long-term Liabilities - Continued

Debt service requirements at December 31, 2019 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 2,354,271	\$ 1,728,155	\$ 4,082,426
2021	2,515,096	1,661,589	4,176,685
2022	2,648,783	1,588,515	4,237,298
2023	2,762,473	1,515,807	4,278,280
2024	2,893,940	1,388,489	4,282,429
2025-2029	16,135,652	4,742,996	20,878,648
2030-2034	7,581,867	737,911	8,319,778
2035-2039	675,715	59,955	735,670
2040-2044	422,052	22,787	444,839
2045-2049	208,447	3,806	212,253
	<u>\$ 38,198,296</u>	<u>\$ 13,450,010</u>	<u>\$ 51,648,306</u>

During 2018, Heartland issued Electric System Taxable Revenue Bonds, Series 2018, in the amount of \$32,855,000 to provide funds to terminate a transmission contract which is no longer necessary in connection with the operation of the District's electric system. The Series 2018 bonds and the revolving credit agreement described in Note 5 are secured equally and ratably by a pledge of (a) the proceeds of the sale of the Series 2018 bonds, pending application thereof, (b) the revenues of Heartland's electric system, after application to operating expenses in accordance with the bond resolution, and (c) all funds and accounts established under the bond resolution, including income, if any, from investments thereof.

Heartland has executed credit agreements with three financial institutions, totaling \$4,184,237, in relation to the six Rural Economic Development Promissory Notes disclosed above. The credit agreements allow Heartland to retain drawing capacity at least equal to the issued and outstanding amount of the Rural Economic Development Promissory Notes. There were no amounts outstanding under these credit agreements at December 31, 2019 and 2018.

Note 7: Power Sales Agreements

Heartland is a party to electric power sales agreements with municipalities in South Dakota, Minnesota, Kansas, Nebraska and Iowa, whereby Heartland has undertaken to provide primary power to and to supplement existing power sources of the parties. Rates are established annually by the Board of Directors. The majority of these agreements expire in 2040. Heartland also has power sales agreements with the State of South Dakota to provide service to various state institutions.

Heartland Consumers Power District

Notes to Financial Statements

December 31, 2019 and 2018

Note 7: Power Sales Agreements - Continued

Heartland previously entered into power sales agreements with Basin Electric Power Cooperative (Basin) whereby Heartland was contracted to sell and deliver approximately 50 MW of power to Basin through May 31, 2021. The agreements provided for a fixed energy rate throughout the term of the contracts. In relation to Heartland selling its ownership interest in LRS (see Note 4), Basin made a payment of \$2,000,000 to terminate the power sales agreements.

Note 8: Commitments

Public Power Generation Agency (PPGA)

Heartland has entered into an agreement with other utilities, creating an interlocal, PPGA. In connection with PPGA, Heartland has also entered into a long-term participation power agreement whereby Heartland has agreed to share in the energy output of the Whelan Energy Center Unit 2, a 220 MW coal-fired power plant, which became commercially operational in May 2011. Heartland's commitment is for 36.36%, or 80 MW, of the output of the project, which extends to the later of the life of the project or January 2041, which represents the date of final maturity on the bonds issued by PPGA for the project.

Note 9: Retirement Plans

Defined Benefit Plan

Plan Description

Heartland contributes to the South Dakota Retirement System (the Plan), which is a cost-sharing, multiple-employer, public employee retirement system, providing retirement, disability and survivors benefits. The Plan is a defined benefit plan covering all full-time employees of Heartland. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. In accordance with the provisions of GASB Statement No. 68, Heartland accounts for and reports its participation in the Plan, based on its calculated proportionate share of contributions to the Plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the South Dakota Retirement System, P.O. Box 1098, Pierre, SD 57501-1098.

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 9: Retirement Plans - Continued

Defined Benefit Plan - Continued

Contributions

Covered employees are required by state statute to contribute a percentage of their salary (6%) to the Plan, and Heartland is required to match the employee contribution. The contribution requirements of plan members and Heartland are established and may be amended by the Plan's board of trustees. Contributions made to the Plan by Heartland were \$126,003 and \$124,500 during 2019 and 2018, respectively, and were in accordance with statutory rates. The employees' contributions during 2019 and 2018 were \$102,189 and \$99,778, respectively, and were in accordance with statutory rates.

Benefits

The Plan provides retirement, disability, and survivor benefits based on an employer's membership class within the Plan. Heartland is a Class A member in the Plan. Class A members who retire after age 65 with three years of service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A members, where the sum of age and credited service is greater than or equal to 85. The annual increase in benefits payable is indexed to the consumer price index annually on July 1st, with further adjustments based on the funded status of the Plan. The right to receive benefits vests after three years of credited service.

Pension Assets and Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2019 and 2018, Heartland reported an asset of \$10,862 and \$2,049, respectively, for its proportionate share of the collective net pension asset for the Plan. The net pension asset was measured as of June 30, 2019 and 2018, and the total pension liability used to calculate these amounts was determined by an actuarial valuation as of those dates. Heartland's proportionate share of the net pension asset was based on Heartland's share of contributions to the Plan relative to all employer contributions to the Plan for the measurement period. At December 31, 2019 and 2018, Heartland's proportion was 0.10% and 0.088%, respectively.

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 9: Retirement Plans - Continued

Defined Benefit Plan - Continued

Pension Assets and Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

For the years ended December 31, 2019 and 2018, Heartland recognized pension expense of \$295,751 and pension revenue of \$123,509, respectively. At December 31, 2019 and 2018, Heartland reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2019		December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,608	\$ 4,916	\$ 77,437	\$ -
Net difference between projected and actual earnings on pension plan investments	-	62,574	-	154,842
Changes of assumptions	375,146	153,792	520,157	-
Change in Heartland's proportionate share	-	57,474	-	3,947
Heartland contributions subsequent to the measurement date	<u>76,466</u>	<u>-</u>	<u>81,223</u>	<u>-</u>
Total	<u>\$ 494,220</u>	<u>\$ 278,756</u>	<u>\$ 678,817</u>	<u>\$ 158,789</u>

The deferred outflows of resources related to pensions resulting from Heartland contributions subsequent to the measurement date will be recognized as a reduction of pension expense in the fiscal year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	
2020	\$ 220,775
2021	(53,512)
2022	(41,749)
2023	<u>13,484</u>
	<u>\$ 138,998</u>

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 9: Retirement Plans - Continued

Defined Benefit Plan - Continued

Pension Assets and Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

Actuarial assumptions – The total pension liability in the June 30, 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	6.50% at entry to 3.0% after 25 years of service
Discount rate	6.50%, net of pension plan investment expense

Mortality rates for the June 30, 2019 and June 30, 2018 actuarial valuation were both based on the RP-2014 Mortality Table, projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study, which covered the five-year period ending June 30, 2016. The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study, which covered the five-year period ending June 30, 2011.

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of December 31, 2019 and 2018, are summarized in the following table:

Asset Class	Target Allocation	2019 Long-Term Expected Real Rate of Return	2018 Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.7%	4.8%
Fixed Income	30.0%	1.7%	1.8%
Real Estate	10.0%	4.3%	4.6%
Cash	2.0%	0.9%	0.7%
Total	<u>100.0%</u>		

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 9: Retirement Plans - Continued

Defined Benefit Plan - Continued

Pension Assets and Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

Discount rate – The discount rate used to measure the total pension liability in 2019 and 2018 was 6.50%, for both years. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate, and that contributions from employers will be made at contractually required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Heartland’s proportionate share of the net pension (asset) liability to changes in the discount rate – The following presents Heartland’s proportionate share of the net pension (asset) liability calculated using the discount rate of 6.50%, as well as what Heartland’s proportionate share of the net pension (asset) liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate.

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Heartland's proportionate share of the net pension (asset) liability			
December 31, 2019	\$ 1,802,883	\$ (10,862)	\$ (1,488,737)
December 31, 2018	1,547,426	(2,049)	(1,262,462)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued South Dakota Retirement System financial report.

Defined Contribution Plan

In addition to the above retirement plan, Heartland has a savings plan with the National Rural Electric Cooperative Association, which is a defined contribution plan. Employees are eligible to participate in this plan after one month of service. The National Rural Electric Cooperative Association board of directors has the authority to establish and amend provisions to the plan. Heartland matches up to 4% of participating employees’ salaries; employees must contribute a minimum of 1% of their salaries. The contributions made by, and related expense of, Heartland for the years ended December 31, 2019 and 2018 were \$69,354 and \$69,605, respectively. No forfeitures were used to reduce Heartland’s contributions during 2019 and 2018. The contributions made by Heartland employees for the years ended December 31, 2019 and 2018 were \$90,793 and \$101,930, respectively.

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 10: Significant Estimates and Concentrations

Major Customers

Sales to two customers were approximately 38% and 32%, respectively, of total operating revenues for the years ended December 31, 2019 and 2018, respectively. Approximately 33% and 47% of total accounts receivable were owed from three customers at December 31, 2019 and 2018, respectively.

Note 11: Risk Management

Heartland is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and others; and natural disasters. Heartland carries commercially available insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

Note 12: Statutory Reporting Requirement

Section 3 of Chapter 49-38 of the South Dakota Codified Laws requires that certain information be set forth in the annual reports of consumer power districts. Additional information, as required, is as shown below:

	<u>2019</u>	<u>2018</u>
Employees (unaudited)	12	12
Total salaries	\$ 1,779,121	\$ 1,729,063
Maintenance expense	190,503	252,711
Total kilowatt hours sold (unaudited)	828,463,365	1,056,396,491

Heartland Consumers Power District
Notes to Financial Statements
December 31, 2019 and 2018

Note 13: Segment Information

In accordance with the provisions of the Intermediary Relending Program Loan Agreements, Rural Economic Development Loan Agreement and Rural Economic Development Grant Agreement, Heartland is required to create and maintain a revolving loan fund. Heartland administers this revolving loan fund as a division within its Heartland operations. Condensed 2019 and 2018 financial information for the revolving loan fund is presented below:

Condensed Balance Sheet

	<u>2019</u>	<u>2018</u>
Current assets	\$ 1,748,388	\$ 1,126,523
Other assets	<u>8,337,637</u>	<u>5,997,560</u>
Total assets	<u>\$ 10,086,025</u>	<u>\$ 7,124,083</u>
Liabilities		
Current liabilities	\$ 402,863	\$ 234,242
Noncurrent liabilities	<u>6,874,025</u>	<u>4,927,257</u>
Total liabilities	7,276,888	5,161,499
Net Position	<u>2,809,137</u>	<u>1,962,584</u>
Total liabilities and net position	<u>\$ 10,086,025</u>	<u>\$ 7,124,083</u>

Heartland Consumers Power District

Notes to Financial Statements

December 31, 2019 and 2018

Note 13: Segment Information - Continued

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2019</u>	<u>2018</u>
Nonoperating revenues (expenses)		
Investment income	\$ 135,446	\$ 93,307
Interest expense	(30,638)	(24,502)
Bad debt expense	(76,403)	(81,688)
Other	534,398	289,456
Capital contributions	<u>283,750</u>	<u>270,500</u>
Increase in Net Position	846,553	547,073
Net Position, Beginning of Year	<u>1,962,584</u>	<u>1,415,511</u>
Net Position, End of Year	<u><u>\$ 2,809,137</u></u>	<u><u>\$ 1,962,584</u></u>

Condensed Statement of Cash Flows

Net cash provided by (used in)		
Noncapital financing activities	\$ 2,619,149	\$ 837,502
Investing activities	<u>(2,426,090)</u>	<u>(1,486,846)</u>
Increase (Decrease) in Cash	193,059	(649,344)
Cash, Beginning of Year	<u>539,872</u>	<u>1,189,216</u>
Cash, End of Year	<u><u>\$ 732,931</u></u>	<u><u>\$ 539,872</u></u>

Required Supplementary Information

Heartland Consumers Power District
Schedule of Heartland's Proportionate Share of the Net Pension Asset (Liability)
South Dakota Retirement System
December 31, 2019

	2019	2018	2017	2016	2015	2014
Heartland's proportion of the net pension asset (liability)	0.10%	0.088%	0.086%	0.088%	0.087%	0.097%
Heartland's proportionate share of the net pension assets (liability)	\$ 10,862	\$ 2,049	\$ 7,850	\$ (296,707)	\$ 370,005	\$ 697,294
Heartland's covered payroll	\$ 1,851,811	\$ 1,552,936	\$ 1,458,085	\$ 1,394,520	\$ 1,390,734	\$ 1,404,232
Heartland's proportionate share of the net pension asset (liability) as a percentage of its covered payroll	0.59%	0.13%	0.54%	-21.28%	26.61%	49.66%
Plan fiduciary net position as a percentage of the total pension liability	100.09%	100.02%	100.08%	96.89%	104.10%	107.29%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Heartland will present information for only those years for which information is available. Information presented in this schedule has been determined as of Heartland's measurement date (June 30) of the collective net pension asset (liability) in accordance with GASB 68.

Heartland Consumers Power District
Schedule of Heartland's Contributions
South Dakota Retirement System
December 31, 2019

	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 126,003	\$ 124,500	\$ 107,920	\$ 103,771	\$ 99,453	\$ 97,153
Contributions in relation to the statutorily required contribution	<u>(126,003)</u>	<u>(124,500)</u>	<u>(107,920)</u>	<u>(103,771)</u>	<u>(99,453)</u>	<u>(97,153)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Heartland's covered payroll	\$ 1,779,121	\$ 1,729,063	\$ 1,506,831	\$ 1,422,500	\$ 1,377,344	\$ 1,414,132
Contributions as a percentage of covered payroll	7.08%	7.20%	7.16%	7.29%	7.22%	6.87%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Heartland will present information for only those years for which information is available. Information presented in this schedule has been determined as of Heartland's most recent fiscal year-end (December 31) in accordance with GASB 68.

Other Information

Heartland Consumers Power District
Schedule of Transmission Operation and Maintenance Expenses
FERC Uniform System of Accounts Classification
Year Ended December 31, 2019

	Amount
Operation	
560 – Operation Supervision and Engineering	\$ -
561 – Load Dispatching	-
561.1 – Load Dispatch – Reliability	-
561.2 – Load Dispatch – Monitor and Operate Transmission System	-
561.3 – Load Dispatch – Transmission Service and Scheduling	-
561.4 – Scheduling, System Control and Dispatch Services	-
561.5 – Reliability, Planning and Standards Development	-
561.6 – Transmission Service Studies	-
561.7 – Generation Interconnection Studies	-
561.8 – Reliability, Planning and Standards Development Service	-
562 – Station Expenses	-
563 – Overhead Lines Expenses	-
564 – Underground Lines Expenses	-
565 – Transmission of Electricity by Others	5,268,631
566 – Miscellaneous Transmission Expenses	-
567 – Rents	-
	5,268,631
Total Operation Expense	5,268,631
Maintenance	
568 – Maintenance Supervision and Engineering	-
569 – Maintenance of Structures	-
569.1 – Maintenance of Computer Hardware	-
569.2 – Maintenance of Computer Software	-
569.3 – Maintenance of Communication Equipment	-
569.4 – Maintenance of Miscellaneous Regional Transmission Plant	-
570 – Maintenance of Station Equipment	-
571 – Maintenance of Overhead Lines	-
572 – Maintenance of Underground Lines	-
573 – Maintenance of Miscellaneous Transmission Plant	-
	-
Total Maintenance Expense	-
Total Transmission O&M Expense	\$ 5,268,631

Heartland Consumers Power District
Schedule of Administrative and General Expenses
FERC Uniform System of Accounts Classification
Year Ended December 31, 2019

	Amount
Customer Accounts Expenses	
901 – Supervision	\$ -
902 – Meter Reading Expenses	-
903 – Customer Records and Collection Expenses	-
904 – Uncollectible Accounts	-
905 – Miscellaneous Customer Accounts Expenses	-
	-
Total Customer Accounts Expense	\$ -
Customer Service and Informational Expenses	
907 – Supervision	\$ 320,008
908 – Customer Assistance Expenses	379,611
909 – Informational and Instructional Expenses	-
910 – Miscellaneous Customer Service and Informational Expenses	-
	-
Total Customer Service and Informational Expenses	\$ 699,619
Sales Expenses	
911 – Supervision	\$ -
912 – Demonstrating and Selling Expenses	-
913 – Advertising Expenses	-
916 – Miscellaneous Sales Expenses	-
	-
Sales Expenses	\$ -
Administrative and General Expenses	
920 – Administrative and General Salaries	\$ 1,460,720
921 – Office Supplies and Expenses	188,131
922 – Administrative Expenses Transferred Credit	-
923 – Outside Services Employed	279,952
924 – Property Insurance	7,878
925 – Injuries and Damages	14,431
926 – Employee Pension and Benefits	596,525
927 – Franchise Requirements	-
928 – Regulatory Commission Expenses	407
929 – Duplicate Charges Credit	-
930.1 – General Advertising Expenses	41,009
930.2 – Miscellaneous General Expenses	533,985
931 – Rents	-
935 – Maintenance of General Plant	160,924
	160,924
Administrative and General Expenses	\$ 3,283,962