# Heartland Consumers Power District

Independent Auditor's Reports and Financial Statements

December 31, 2020 and 2019

# Heartland Consumers Power District

## December 31, 2020 and 2019

## Contents

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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, 2020 and 2019, 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, 2020 and 2019, 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 5, 2021

## 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 2020, 2019 and 2018. 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 | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | From 2019 to 2020 | From 2018 to 2019 |
| Current assets | $ 29,968 | $ 29,699 | $ 25,332 | 0.9% | 17.2% |
| Capital assets, net | 2,321 | 2,386 | 2,509 | (2.7)% | (4.9)% |
| Other noncurrent assets | 41,308 | 44,270 | 46,648 | (6.7)% | (5.1)% |
| Total assets | 73,597 | 76,355 | 74,489 | (3.6)% | 2.5% |
| Deferred outflows of resources | 618 | 494 | 679 | 25.1% | (15.2)% |
| Total assets and deferred outflows of resources | $ 74,215 | $ 76,849 | $ 75,168 | (3.4)% | 2.2% |
| Current liabilities | $ 6,727 | $ 7,445 | $ 7,658 | (9.6)% | (2.8)% |
| Noncurrent liabilities | 36,112 | 38,461 | 38,637 | (6.1)% | (0.5)% |
| Total liabilities | 42,839 | 45,906 | 46,295 | (6.7)% | (0.8)% |
| Deferred inflows of resources | 5,338 | 4,031 | 1,909 | 32.4% | 111.2% |
| Net investment in capital assets | 2,321 | 2,386 | 2,509 | (2.7)% | (4.9)% |
| Restricted | 173 | 174 | 162 | (0.6)% | 100.0% |
| Unrestricted | 23,544 | 24,352 | 24,293 | (3.3)% | 0.2% |
| Total net position | 26,038 | 26,912 | 26,964 | (3.2)% | (0.2)% |
| Total liabilities, deferred inflows of resources and net position | $ 74,215 | $ 76,849 | $ 75,168 | (3.4)% | 2.2% |

Heartland's overall net position decreased in 2020, 2019 and 2018 by $873,272, $52,308 and $13,243,937, respectively.

Generation and transmission facilities have traditionally represented 95% of Heartland's total capital assets. The remaining 5% of capital assets included Heartland's headquarters building, transportation equipment, and office equipment. Heartland sold it share of the Missouri Basin Power Project and associated facilities in 2018. This sale included the 51 megawatt coal-fired generation plant Laramie River Station and associated transmission and substation facilities.

### *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 Years Ended December 31, | | | Fiscal Year-to-Year Percentage Change | |
|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | From 2019 to 2020 | From 2018 to 2019 |
| Power sales | | | | | |
| Customer energy (MWh) | 451,120 | 460,299 | 461,011 | (2.0)% | (0.2)% |
| Customer cumulative demand (kW) | 798,808 | 819,153 | 806,841 | (2.5)% | 1.5% |
| Revenues | | | | | |
| Customer revenue | $ 37,375 | $ 38,968 | $ 38,484 | (4.1)% | 1.3% |
| Contracted requirements revenue | 6,044 | 5,655 | 12,025 | 6.9% | (53.0)% |
| Surplus sales revenue | 1,631 | 108 | 1,085 | 1,410.2% | (90.0)% |
| Other operating revenue | 1,301 | 1,423 | 382 | (8.6)% | 272.5% |
| Transfer for rate stabilization | (1,000) | (2,000) | - | (100.0)% | —% |
| Total operating revenue | 45,351 | 44,154 | 51,976 | 2.7% | (15.0)% |
| Expenses | | | | | |
| Cost of power | 32,455 | 30,167 | 33,776 | 7.6% | (10.7)% |
| Transmission | 4,702 | 5,268 | 7,882 | (10.7)% | (33.2)% |
| Production | 7 | 29 | 3,108 | (75.9)% | (99.1)% |
| Depreciation | 124 | 148 | 621 | (16.2)% | (76.2)% |
| Taxes | 29 | 18 | 473 | 61.1% | (96.2)% |
| Administration and general | 3,943 | 4,104 | 4,270 | (3.9)% | (3.9)% |
| Pension | 190 | 296 | 124 | (35.8)% | 138.7% |
| Amortization | 2,823 | 2,977 | 203 | (5.2)% | 1,366.5% |
| Total operating expenses | 44,273 | 43,007 | 50,457 | 2.9% | (14.8)% |
| Operating income | 1,078 | 1,147 | 1,519 | (6.0)% | (24.5)% |
| Total nonoperating revenues (expenses), net | (1,952) | (1,199) | 338 | 62.8% | (454.7)% |
| Sale of interest in generating and transmission facilities | - | - | (15,101) | 100.0% | (100.0)% |
| Change in net position | (874) | (52) | (13,244) | | |
| Net position, beginning of year | 26,912 | 26,964 | 40,208 | | |
| Net position, end of year | $ 26,038 | $ 26,912 | $ 26,964 | | |

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 2020 were 799 MW and 451,120 MWh, respectively. Heartland's customer peak was 83 MW in 2020. Demand and energy sales for 2019 were 819 MW and 460,299 MWh, respectively. The 2019 peak demand of Heartland's long-term wholesale customers was 73 MW. Heartland's wholesale customer demand and energy sales for 2018 were 807 MW and 461,011 MWh, respectively. Heartland's wholesale customer peak demand for 2018 was 77 MW. The decrease in customer revenue in 2020 and 2019 was a result of a decrease 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. This contracted power was less in 2019 as a result of the termination of long-term power sales agreements with Basin Electric Power Cooperative in 2018.

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 75.9% and 99.1% in 2020 and 2019, respectively. Production expenses included Laramie River Station in 2018 and is no longer included in 2019 and 2020. Transmission expenses decreased 10.7% in 2020, primarily as a result of Heartland's termination of a transmission contract which was no longer necessary, and amortization expenses increased in 2020 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 reaching 20 megawatts in 2019. The combination of the Hastings Utilities contract reduction and the NIMECA contract increases resulted in reduced cost of power in 2019. The Hastings Utilities contract went through 2018 and has ended.

The nonoperating revenues/expenses include interest on bonds, investment income, and amortization of costs recoverable from future billings. Heartland recognized decreased investment income in 2020 due to declining market conditions and lower interest rates on its cash and investments. Heartland also reported grant revenue of $0 in 2020 and $300,000 in 2019 in relation to its involvement with the USDA's Rural Economic Development Loans and Grants (REDLG) program. Interest expense also increased during 2020 and 2019 as a result of incurring a full year of payments of interest on the Series 2018 bonds.

Heartland made principal payments of $1,960,000 on its Electric System Taxable Revenue Bonds, Series 2018 during 2020.

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

On March 13, 2020, a national emergency was declared in relation to the Coronavirus Disease (COVID-19) pandemic. Ensuing orders and declarations caused changes in the economic climate for many organizations. Many entities faced declines in revenues and asset values, changes in the volume of business and other factors. Throughout 2020, Heartland closely monitored customer accounts, investments and other assets and was able to report positive financial results. The District modified operating practices throughout the year for the safety and welfare of its employees, customers and the public. For the upcoming fiscal year, Heartland does not foresee a significant impact from the COVID-19 pandemic on financial results.

### *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, 2020 and 2019

| Assets and Deferred Outflows of Resources | 2020 | 2019 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 24,029,016 | $ 20,712,304 |
| Restricted cash and cash equivalents | 304,716 | 304,770 |
| Short-term investments | - | 2,051,056 |
| Accounts receivable | 4,765,032 | 5,574,753 |
| Notes receivable, current portion | 843,364 | 1,006,794 |
| Prepaid expenses and other current assets | 25,696 | 48,894 |
| Total current assets | 29,967,824 | 29,698,571 |
| **Noncurrent Assets** | | |
| Notes receivable, net of allowance of $681,741 for 2020 and $685,853 for 2019 | 8,046,325 | 8,337,634 |
| Long-term investments | 73,628 | 112,791 |
| Capital assets, net | 2,321,366 | 2,386,268 |
| Costs recoverable from future billings | 32,089,092 | 34,714,204 |
| Net pension asset | 4,169 | 10,862 |
| Other noncurrent assets | 1,095,000 | 1,095,000 |
| Total noncurrent assets | 43,629,580 | 46,656,759 |
| **Deferred Outflows of Resources** | | |
| Deferred outflows for pensions | 618,015 | 494,220 |
| Total assets and deferred outflows of resources | $ 74,215,419 | $ 76,849,550 |

## Liabilities, Deferred Inflows of Resources and Net Position

| | 2020 | 2019 |
|---|---|---|
| **Current Liabilities** | | |
| Current maturities of long-term debt | $ 2,525,520 | $ 2,354,271 |
| Accounts payable | 3,451,251 | 4,576,860 |
| Accrued expenses | 603,719 | 364,221 |
| Accrued interest payable | 146,459 | 150,029 |
| Total current liabilities | 6,726,949 | 7,445,381 |
| **Noncurrent Liabilities** | | |
| Long-term debt, net | 35,734,173 | 38,137,871 |
| Other noncurrent liabilities | 378,027 | 323,404 |
| Total noncurrent liabilities | 36,112,200 | 38,461,275 |
| Total liabilities | 42,839,149 | 45,906,656 |
| **Deferred Inflows of Resources** | | |
| Deferred inflows for pensions | 585,636 | 278,756 |
| Reductions of future billings | 4,752,242 | 3,752,474 |
| Total deferred inflows of resources | 5,337,878 | 4,031,230 |
| **Net Position** | | |
| Net investment in capital assets | 2,321,366 | 2,386,268 |
| Restricted for debt service | 168,750 | 163,333 |
| Restricted for pensions | 4,169 | 10,862 |
| Unrestricted | 23,544,107 | 24,351,201 |
| Total net position | 26,038,392 | 26,911,664 |
| Total liabilities, deferred inflows of resources and net position | $ 74,215,419 | $ 76,849,550 |

# Heartland Consumers Power District

## Statements of Revenues, Expenses and Changes in Net Position

## Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **Operating Revenues** | | |
| Customer requirements | $ 37,375,095 | $ 38,968,012 |
| Other contracted requirements | 6,043,405 | 5,655,144 |
| Surplus sales revenue | 1,631,332 | 108,405 |
| Other operating revenue | 1,301,321 | 1,422,648 |
| Transfer to rate stabilization | (1,000,000) | (2,000,000) |
| Total operating revenues | 45,351,153 | 44,154,209 |
| **Operating Expenses** | | |
| Cost of power | 32,454,361 | 30,166,554 |
| Transmission | 4,701,630 | 5,268,631 |
| Production | 6,950 | 29,579 |
| Depreciation | 124,383 | 147,678 |
| Taxes | 28,646 | 17,766 |
| Administration and general | 3,943,834 | 4,103,823 |
| Pension | 189,778 | 295,751 |
| Amortization | 2,822,883 | 2,977,437 |
| Total operating expenses | 44,272,465 | 43,007,219 |
| **Operating Income** | 1,078,688 | 1,146,990 |
| **Nonoperating Revenues (Expenses)** | | |
| Investment income | 221,957 | 652,314 |
| Interest expense | (1,727,821) | (1,571,100) |
| Amortization expense | (52,030) | (52,030) |
| Grant revenue | - | 300,000 |
| Other | (394,066) | (528,482) |
| Net nonoperating revenues (expenses) | (1,951,960) | (1,199,298) |
| **Change in Net Position** | (873,272) | (52,308) |
| **Net Position, Beginning of Year** | 26,911,664 | 26,963,972 |
| **Net Position, End of Year** | $ 26,038,392 | $ 26,911,664 |

# Heartland Consumers Power District

## Statements of Cash Flows

## Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **Operating Activities** | | |
| Receipts from customers | $ 37,790,621 | $ 38,968,012 |
| Receipts from others | 9,370,252 | 7,369,154 |
| Payments to suppliers | (40,249,521) | (38,112,649) |
| Payments to employees | (1,752,816) | (1,809,535) |
| Net cash provided by operating activities | 5,158,536 | 6,414,982 |
| **Noncapital Financing Activities** | | |
| Proceeds from issuance of promissory notes | 217,500 | 2,354,375 |
| Payments on promissory notes | (298,796) | (240,900) |
| Payments on revenue bonds | (1,960,000) | (1,925,000) |
| Interest paid | (1,922,544) | (1,761,246) |
| Federal grants received | - | 300,000 |
| Other nonoperating payments | (398,178) | (325,926) |
| Net cash used in noncapital financing activities | (4,362,018) | (1,598,697) |
| **Capital and Related Financing Activities** | | |
| Purchase of capital assets | (59,481) | (30,020) |
| Payments for power projects | (214,527) | (448,592) |
| Net cash used in capital and related financing activities | (274,008) | (478,612) |
| **Investing Activities** | | |
| Proceeds from sales and maturities of investment securities | 2,052,000 | 17,490,856 |
| Purchases of investment securities | - | (2,586,793) |
| Issuance of notes receivable | (430,000) | (3,557,500) |
| Repayments of notes receivable | 888,852 | 715,347 |
| Investment income received | 283,296 | 570,149 |
| Net cash provided by investing activities | 2,794,148 | 12,632,059 |
| **Change in Cash and Cash Equivalents** | 3,316,658 | 16,969,732 |
| **Cash and Cash Equivalents, Beginning of Year** | 21,017,074 | 4,047,342 |
| **Cash and Cash Equivalents, End of Year** | $ 24,333,732 | $ 21,017,074 |
| **Composition of Cash and Cash Equivalents** | | |
| Cash and cash equivalents | $ 24,029,016 | $ 20,712,304 |
| Restricted cash and cash equivalents | 304,716 | 304,770 |
| Total | $ 24,333,732 | $ 21,017,074 |

# Heartland Consumers Power District

## Statements of Cash Flows - Continued

## Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---|---|
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities** | | |
| Operating income | $ 1,078,688 | $ 1,146,990 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation and amortization | 2,947,266 | 3,125,115 |
| Transfer to rate stabilization | 1,000,000 | 2,000,000 |
| Changes in balance sheet operating items | | |
| Accounts receivable | 809,721 | 182,957 |
| Prepaid expenses and other assets | (35,428) | 50,651 |
| Net pension asset | 6,693 | (8,813) |
| Deferred outflows for pensions | (123,795) | 184,597 |
| Accounts payable | (1,125,610) | (349,704) |
| Accrued liabilities | 294,121 | (36,778) |
| Deferred inflows for pensions | 306,880 | 119,967 |
| **Net Cash Provided by Operating Activities** | $ 5,158,536 | $ 6,414,982 |
| **Supplemental Cash Flows Information** | | |
| Increase (decrease) in allowance for notes receivable | $ (4,112) | $ 197,125 |

## 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 five-state region of Minnesota, Nebraska, 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 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 Licensees 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.

## 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, 2020 and 2019, cash equivalents consisted of money market funds and short-term certificates of deposit.

### *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, 2020 and 2019, 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 $681,741 and $685,853 at December 31, 2020 and 2019, 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.

## 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 are recognized on the accrual basis of accounting.

## 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 power, transmission expenses, administrative expenses, and amortization of Heartland's regulatory asset. 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 $2,124 and $1,288 in 2020 and 2019, respectively.

## 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 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. Additionally, Heartland's certificates of deposit at December 31, 2020 are invested through the Insured Cash Sweep® (ICS) service, whereby funds are placed with other ICS Network members by Heartland's primary financial institution in increments less than $250,000.

### *Investments*

At December 31, 2020 and 2019, Heartland had the following investments and maturities:

| | | Maturities in Years | | | Credit |
|---|---|---|---|---|---|
| | Carrying Value | Less Than 1 | 1-5 | 6-10 | Ratings (Moody's) |
| **December 31, 2020** | | | | | |
| Money market mutual funds | $ 5,461,483 | $ 5,461,483 | $ - | $ - | Aaa-mf |
| U.S. agency obligations | 73,628 | - | - | 73,628 | Aaa |
| | $ 5,535,111 | $ 5,461,483 | $ - | $ 73,628 | |
| **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 |
| | $ 22,061,913 | $ 21,949,122 | $ - | $ 112,791 | |

### *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

## 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.

### *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.

## 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, 2020 or 2019 exceeded 5%.

### *Summary of Carrying Values*

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2020 and 2019 as follows:

| | 2020 | 2019 |
|---|---|---|
| Carrying value | | |
| Bank deposit accounts | $ 1,470,227 | $ 1,119,008 |
| Certificates of deposit | 17,402,022 | - |
| Investments | 5,535,111 | 22,061,913 |
| | $ 24,407,360 | $ 23,180,921 |

Included in the following balance sheet captions:

| | 2020 | 2019 |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | | |
| Operating funds | $ 161,776 | $ 536,078 |
| General reserve funds | 15,527,719 | 16,541,507 |
| Revolving loan fund program accounts | 1,308,451 | 732,931 |
| Rate stabilization fund | 5,026,228 | 2,901,788 |
| Bond redemption fund | 2,004,842 | - |
| Total | 24,029,016 | 20,712,304 |
| Restricted cash and cash equivalents | | |
| Debt service funds | 304,716 | 304,770 |
| Short-term investments | | |
| Rate stabilization fund | - | 2,051,056 |
| Noncurrent Assets | | |
| Long-term investments - rate stabilization fund | 73,628 | 112,791 |
| | $ 24,407,360 | $ 23,180,921 |

## Note 2: Deposits, Investments and Investment Return - Continued

### *Investment Return*

Investment return for the years ended December 31, 2020 and 2019 consisted of interest income and realized gains of $107,195 and $516,496, 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

| | 2020 | | | | |
|---|---|---|---|---|---|
| **Type of Notes** | **January 1,** | **Additions** | **Reductions** | **December 31,** | **Due Within One Year** |
| 4.0% note in connection with Heartland's economic development program, payable in monthly installments, orignal maturity of December 2016 | $ 120,719 | $ - | $ - | $ 120,719 | $ 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 December 2030 | 4,815,234 | 430,000 | 498,533 | 4,746,701 | 405,482 |
| 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 | 5,094,328 | - | 390,319 | 4,704,010 | 437,882 |
| Allowance for notes receivable | (685,853) | - | 4,112 | (681,741) | (120,719) |
| Total notes receivable, net | $ 9,344,428 | $ 430,000 | $ 892,964 | $ 8,889,689 | $ 843,364 |

## Note 3: Notes Receivable - Continued

| Type of Notes | 2019 January 1, | Additions | Reductions | December 31, | Due Within One Year |
|---|---|---|---|---|---|
| 4.0% note in connection with Heartland's economic development program, payable in monthly installments, original maturity of December 2016 | $ 121,108 | $ - | $ 389 | $ 120,719 | $ 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) | (120,719) |
| Total notes receivable, net | $ 6,699,400 | $ 3,360,375 | $ 715,347 | $ 9,344,428 | $ 1,006,794 |

Interest income on these notes totaled $114,762 and $135,818 for 2020 and 2019, 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, 2020 and 2019 consisted of the following:

| | 2020 | 2019 |
|---|---|---|
| Depreciable assets | | |
| Heartland headquarters building | $ 2,837,333 | $ 2,837,333 |
| General plant | 947,741 | 888,260 |
| Total depreciable assets | 3,785,074 | 3,725,593 |
| Nondepreciable assets | | |
| Land | 80,402 | 80,402 |
| Total nondepreciable assets | 80,402 | 80,402 |
| | $ 3,865,476 | $ 3,805,995 |

## Note 4: Capital Assets - Continued

Capital assets activity for 2020 and 2019 was:

| 2020 | Beginning Balance | Additions | Retirements | Ending Balance |
|---|---|---|---|---|
| Heartland headquarters building | $ 2,837,333 | $ - | $ - | $ 2,837,333 |
| General plant | 888,260 | 59,481 | - | 947,741 |
| Land | 80,402 | - | - | 80,402 |
| Total capital assets | 3,805,995 | 59,481 | - | 3,865,476 |
| Less accumulated depreciation | (1,419,727) | (124,383) | - | (1,544,110) |
| Capital assets, net | $ 2,386,268 | $ (64,902) | $ - | $ 2,321,366 |
| **2019** | | | | |
| 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 | $ 2,509,353 | $ (117,658) | $ (5,427) | $ 2,386,268 |

## 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, 2020 and 2019. 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, 2020 and 2019. The letter of credit expires March 22, 2022 and can be renewed for an additional one-year term.

## Note 6: Long-term Liabilities

Long-term liabilities at December 31, 2020 consisted of the following:

| | 2020 | | | | |
|---|---|---|---|---|---|
| **Type of Debt** | **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 | $ 30,930,000 | $ - | $ 1,960,000 | $ 28,970,000 | $ 2,025,000 |
| 1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036 | 494,182 | - | 26,896 | 467,286 | 27,165 |
| 1.0% Intermediary Relending Program Promissory Note, due annually on June 25 with a final payment due June 25, 2040 | 591,037 | - | 25,928 | 565,109 | 26,187 |
| 1.0% Intermediary Relending Program Promissory Note, due annually on November 10, with a final payment due November 10, 2046 | 1,000,000 | - | 32,450 | 967,550 | 32,775 |
| 1.0% Intermediary Relending Program Promissory Note, due annually on October 11, beginning in October 2021, with a final payment due October 11, 2047 | 1,000,000 | - | - | 1,000,000 | 32,450 |
| 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 | 217,500 | - | 713,125 | - |
| 0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,299 through April 30, 2031 | 448,544 | - | 39,588 | 408,956 | 39,588 |
| 0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $10,417, through September 21, 2027 | 968,749 | - | 62,502 | 906,247 | 125,004 |
| 0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,202, through March 23, 2028 | 316,995 | - | 38,424 | 278,571 | 38,424 |
| 0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $5,500, through July 24, 2028 | 566,500 | - | 33,000 | 533,500 | 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 | 72,919 |
| 0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,334, through August 30, 2029 | 386,664 | - | 40,008 | 346,656 | 40,008 |
| | 38,198,296 | 217,500 | 2,258,796 | 36,157,000 | 2,525,520 |
| Revenue bonds issuance premium | 2,293,846 | - | 191,153 | 2,102,693 | - |
| Total bonds and notes payable | 40,492,142 | 217,500 | 2,449,949 | 38,259,693 | 2,525,520 |
| Compensated absences | 420,282 | 204,842 | 130,755 | 494,369 | 116,342 |
| Total long-term liabilities | $ 40,912,424 | $ 422,342 | $ 2,580,704 | $ 38,754,062 | $ 2,641,862 |

## Note 6: Long-term Liabilities - Continued

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

| | 2019 | | | | |
|---|---|---|---|---|---|
| **Type of Debt** | **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 on October 11, 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, 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, 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, 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, through August 30, 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 |

## Note 6: Long-term Liabilities - Continued

Debt service requirements at December 31, 2020 are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 2,525,520 | $ 1,661,588 | $ 4,187,108 |
| 2022 | 2,638,372 | 1,588,514 | 4,226,886 |
| 2023 | 2,757,433 | 1,518,187 | 4,275,620 |
| 2024 | 2,893,893 | 1,388,513 | 4,282,406 |
| 2025 | 3,020,612 | 1,251,770 | 4,272,382 |
| 2026-2030 | 16,478,905 | 3,928,435 | 20,407,340 |
| 2031-2035 | 4,198,945 | 319,080 | 4,518,025 |
| 2036-2040 | 748,167 | 66,434 | 814,601 |
| 2041-2045 | 603,935 | 32,653 | 636,588 |
| 2046-2050 | 291,218 | 5,705 | 296,923 |
| | $ 36,157,000 | $ 11,760,879 | $ 47,917,879 |

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 was 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, 2020 and 2019.

## 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.

## 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.

*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 $130,219 and $126,003 during 2020 and 2019, respectively, and were in accordance with statutory rates. The employees' contributions during 2020 and 2019 were $112,341 and $102,189, respectively, and were in accordance with statutory rates.

## Note 9: Retirement Plans - Continued

### *Defined Benefit Plan - Continued*

*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 1$^{st}$, 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, 2020 and 2019, Heartland reported an asset of $4,169 and $10,862, respectively, for its proportionate share of the collective net pension asset for the Plan. The net pension asset was measured as of June 30, 2020 and 2019, 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, 2020 and 2019, Heartland's proportion was 0.096% and 0.10%, respectively.

For the years ended December 31, 2020 and 2019, Heartland recognized pension expense of $189,778 and $295,751, respectively. At December 31, 2020 and 2019, Heartland reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | $ 15,949 | $ 3,266 | $ 42,608 | $ 4,916 |
| Net difference between projected and actual earnings on pension plan investments | 387,500 | - | - | 62,574 |
| Changes of assumptions | 134,291 | 541,603 | 375,146 | 153,792 |
| Change in Heartland's proportionate share | - | 40,767 | - | 57,474 |
| Heartland contributions subsequent to the measurement date | 80,275 | - | 76,466 | - |
| Total | $ 618,015 | $ 585,636 | $ 494,220 | $ 278,756 |

## 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*

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, | |
|---|---|
| 2021 | $ (64,831) |
| 2022 | (53,814) |
| 2023 | (1,490) |
| 2024 | 72,239 |
| | $ (47,896) |

**Actuarial assumptions** – The total pension liability in the June 30, 2020 and 2019 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 |
| Future COLAs | 1.41% |

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2020 and 2019 valuations were based on the results of an actuarial experience study, which covered the five-year period ending June 30, 2016.

## 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*

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, 2020 and 2019, are summarized in the following table:

| Asset Class | Target Allocation | 2020 Long-Term Expected Real Rate of Return | 2019 Long-Term Expected Real Rate of Return |
|---|---|---|---|
| Global Equity | 58.0% | 5.1% | 4.7% |
| Fixed Income | 30.0% | 1.5% | 1.7% |
| Real Estate | 10.0% | 6.2% | 4.3% |
| Cash | 2.0% | 1.0% | 0.9% |
| Total | 100.0% | | |

**Discount rate** – The discount rate used to measure the total pension liability in 2020 and 2019 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.

## 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*

**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, 2020 | $ 1,617,346 | $ (4,169) | $ (1,330,537) |
| December 31, 2019 | $ 1,802,883 | $ (10,862) | $ (1,488,737) |

*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, 2020 and 2019 were $72,431 and $69,354, respectively. No forfeitures were used to reduce Heartland's contributions during 2020 and 2019. The contributions made by Heartland employees for the years ended December 31, 2020 and 2019 were $99,486 and $90,793, respectively.

## Note 10: Significant Estimates and Concentrations

### *Major Customers*

Sales to two customers were approximately 37% and 38%, respectively, of total operating revenues for the years ended December 31, 2020 and 2019, respectively. Approximately 40% and 33% of total accounts receivable were owed from three customers at December 31, 2020 and 2019, 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:

| | 2020 | 2019 |
|---|---|---|
| Employees (unaudited) | 12 | 12 |
| Total salaries | $ 1,826,903 | $ 1,779,121 |
| Maintenance expense | $ 200,479 | $ 190,503 |
| Total kilowatt hours sold (unaudited) | 860,252,600 | 828,463,365 |

## 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 2020 and 2019 financial information for the revolving loan fund is presented below:

## Note 13: Segment Information - Continued

### Condensed Balance Sheet

| | 2020 | 2019 |
|---|---|---|
| Current assets | $ 2,160,015 | $ 1,748,388 |
| Other assets | 8,046,326 | 8,337,637 |
| Total assets | $ 10,206,341 | $ 10,086,025 |
| Liabilities | | |
| Current liabilities | $ 512,395 | $ 402,863 |
| Noncurrent liabilities | 6,686,481 | 6,874,025 |
| Total liabilities | 7,198,876 | 7,276,888 |
| Net Position | 3,007,465 | 2,809,137 |
| Total liabilities and net position | $ 10,206,341 | $ 10,086,025 |

### Condensed Statement of Revenues, Expenses and Changes in Net Position

| | 2020 | 2019 |
|---|---|---|
| Nonoperating revenues (expenses) | | |
| Investment income | $ 114,762 | $ 135,446 |
| Interest expense | (36,044) | (30,638) |
| Bad debt recovery (expense) | 4,112 | (76,403) |
| Other | (10,335) | 534,398 |
| Capital contributions | 125,833 | 283,750 |
| Increase in Net Position | 198,328 | 846,553 |
| Net Position, Beginning of Year | 2,809,137 | 1,962,584 |
| Net Position, End of Year | $ 3,007,465 | $ 2,809,137 |

### Condensed Statement of Cash Flows

| | 2020 | 2019 |
|---|---|---|
| Net cash provided by (used in) | | |
| Noncapital financing activities | $ (125,774) | $ 2,619,149 |
| Investing activities | 701,293 | (2,426,090) |
| Increase in Cash | 575,519 | 193,059 |
| Cash, Beginning of Year | 732,931 | 539,872 |
| Cash, End of Year | $ 1,308,450 | $ 732,931 |

## Note 14: Subsequent Events

During February 2021, a polar vortex resulted in persistent and extreme cold weather that covered most of the United States, including the SPP region. This weather event led to an increase in energy demand while generating facilities faced fuel-supply issues and equipment failures that stressed the bulk electric system. As a result, SPP declared an Energy Emergency Alert Level 3, signaling that operating reserves were below the required minimum, and member utilities were asked to implement controlled service interruptions. The market experienced extreme price volatility for utilities buying or selling energy during this weather event. Heartland is currently evaluating the effects of this situation and the ultimate impact on the financial statements cannot reasonably be estimated at this time.

# 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, 2020

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|
| Heartland's proportion of the net pension asset (liability) | 0.096% | 0.10% | 0.088% | 0.086% | 0.088% | 0.087% | 0.097% |
| Heartland's proportionate share of the net pension assets (liability) | $ 4,169 | $ 10,862 | $ 2,049 | $ 7,850 | $ (296,707) | $ 370,005 | $ 697,294 |
| Heartland's covered payroll | $ 1,830,061 | $ 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 | 0.23% | 0.59% | 0.13% | 0.54% | -21.28% | 26.61% | 49.66% |
| Plan fiduciary net position as a percentage of the total pension liability | 100.04% | 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, 2020

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|
| Statutorily required contribution | $ 130,219 | $ 126,003 | $ 124,500 | $ 107,920 | $ 103,771 | $ 99,453 | $ 97,153 |
| Contributions in relation to the statutorily required contribution | (130,219) | (126,003) | (124,500) | (107,920) | (103,771) | (99,453) | (97,153) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Heartland's covered payroll | $ 1,826,903 | $ 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 | 7.13% | 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, 2020

| | 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 | 4,701,630 |
| 566 – Miscellaneous Transmission Expenses | - |
| 567 – Rents | - |
| **Total Operation Expense** | 4,701,630 |
| **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** | $ 4,701,630 |

# Heartland Consumers Power District

## Schedule of Administrative and General Expenses

## FERC Uniform System of Accounts Classification

## Year Ended December 31, 2020

| | 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 | $ 286,292 |
| 908 – Customer Assistance Expenses | 359,153 |
| 909 – Informational and Instructional Expenses | - |
| 910 – Miscellaneous Customer Service and Informational Expenses | - |
| **Total Customer Service and Informational Expenses** | $ 645,445 |
| **Sales Expenses** | |
| 911 – Supervision | $ - |
| 912 – Demonstrating and Selling Expenses | 12,598 |
| 913 – Advertising Expenses | - |
| 916 – Miscellaneous Sales Expenses | - |
| **Sales Expenses** | $ 12,598 |
| **Administrative and General Expenses** | |
| 920 – Administrative and General Salaries | $ 1,560,075 |
| 921 – Office Supplies and Expenses | 140,107 |
| 922 – Administrative Expenses Transferred Credit | - |
| 923 – Outside Services Employed | 251,531 |
| 924 – Property Insurance | 5,960 |
| 925 – Injuries and Damages | 14,099 |
| 926 – Employee Pension and Benefits | 568,100 |
| 927 – Franchise Requirements | - |
| 928 – Regulatory Commission Expenses | - |
| 929 – Duplicate Charges Credit | - |
| 930.1 – General Advertising Expenses | 37,782 |
| 930.2 – Miscellaneous General Expenses | 398,925 |
| 931 – Rents | - |
| 935 – Maintenance of General Plant | 193,529 |
| **Administrative and General Expenses** | $ 3,170,108 |