Heartland Consumers Power District d/b/a Heartland Energy

Independent Auditor's Reports and Financial Statements

December 31, 2022 and 2021

Heartland Consumers Power District d/b/a Heartland Energy

December 31, 2022 and 2021

Contents

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Independent Auditor's Report

Board of Directors
Heartland Consumers Power District d/b/a Heartland Energy
Madison, South Dakota

Opinion

We have audited the financial statements of Heartland Consumers Power District d/b/a Heartland Energy (Heartland), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Heartland's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Heartland Consumers Power District d/b/a Heartland Energy as of December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of Heartland, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartland's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Heartland's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartland's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Heartland's basic financial statements. The schedules of transmission operation and maintenance expenses and of administrative and general expenses listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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 audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

FORVIS, LLP

Lincoln, Nebraska
April 6, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Heartland Consumers Power District d/b/a Heartland Energy's (Heartland) financial statements provides the reader an overview of the financial activities for 2022, 2021 and 2020. 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	
	2022	2021	2020	From 2021 to 2022	From 2020 to 2021
Current assets	$ 29,843	$ 33,986	$ 29,968	(12.2)%	13.4%
Capital assets, net	2,193	2,302	2,321	(4.7)%	(0.8)%
Costs recoverable from future billings	27,927	28,784	32,089	(3.0)%	(10.3)%
Other noncurrent assets	18,390	8,672	9,219	112.1%	(5.9)%
Total assets	78,353	73,744	73,597	6.3%	0.2%
Deferred outflows of resources	3,078	3,494	618	(11.9)%	465.4%
Total assets and deferred outflows of resources	$ 81,431	$ 77,238	$ 74,215	5.4%	4.1%
Current liabilities	$ 8,957	$ 8,221	$ 6,727	9.0%	22.2%
Noncurrent liabilities	24,306	27,405	36,112	(11.3)%	(24.1)%
Total liabilities	33,263	35,626	42,839	(6.6)%	(16.8)%
Deferred inflows of resources	16,298	13,687	5,338	19.1%	156.4%
Net investment in capital assets	2,193	2,302	2,321	(4.7)%	(0.8)%
Restricted	232	959	173	(75.8)%	454.3%
Unrestricted	29,445	24,664	23,544	19.4%	4.8%
Total net position	31,870	27,925	26,038	14.1%	7.2%
Total liabilities, deferred inflows of resources and net position	$ 81,431	$ 77,238	$ 74,215	5.4%	4.1%

Heartland's overall net position increased by $3,944,417 and $1,886,603 in 2022 and 2021, respectively, and decreased in 2020 by $873,272.

Costs recoverable from future billings are comprised of charges incurred in relation to Heartland's bond issuances, costs incurred by Heartland for initial payments on long-term capacity contracts and a prepayment of $35 million made by Heartland during 2018 to terminate a transmission contract which was no longer necessary. The decreases in this balance in 2022 and 2021 represent the scheduled amortization of these costs. Other noncurrent assets increased significantly from 2021 to 2022, primarily as a result of increased long-term investments. Due to improved investment returns and positive cash activity, Heartland invested in more fixed income investments in 2022. In June 2021, Heartland refunded existing revenue bonds with the proceeds of direct purchase bonds and using existing Heartland resources. Deferred outflows of resources increased in 2021 as a result of the deferred loss on this refunding. Additionally, noncurrent liabilities decreased in 2022 and 2021 due to this debt activity, as the refunded bonds and scheduled debt service payments exceeded the amount of new bonds issued. Reductions of future billings are included within deferred inflows of resources and are comprised primarily of Board approved transfers for rate stabilization. During 2022 and 2021, Heartland realized additional revenues from the impacts of winter storms and certain market conditions, and the Board approved transferring $3.5 million and $7.5 million for rate stabilization related to these excess revenues, respectively.

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	
	2022	2021	2020	From 2021 to 2022	From 2020 to 2021
Power sales					
Customer energy (MWh)	488,997	463,777	451,120	5.4%	2.8%
Customer cumulative demand (kW)	894,914	826,939	798,808	8.2%	3.5%
Revenues					
Customer revenue	$ 40,873	$ 38,189	$ 37,375	7.0%	2.2%
Contracted requirements revenue	2,544	2,009	6,044	26.6%	(66.8)%
Surplus sales revenue	13,787	13,192	1,631	4.5%	708.8%
Pension revenue	57	241	-	(76.3)%	100.0%
Other operating revenue	1,243	1,507	1,301	(17.5)%	15.8%
Transfer for rate stabilization	(3,500)	(7,500)	(1,000)	(53.3)%	650.0%
Total operating revenue	55,004	47,638	45,351	15.5%	5.0%

	Condensed Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2022	2021	2020	Fiscal Year-to-Year Percentage Change From 2021 to 2022	From 2020 to 2021
Expenses					
Cost of power	$ 40,015	$ 34,651	$ 32,455	15.5%	6.8%
Transmission	2,540	2,284	4,702	11.2%	(51.4)%
Production	10	11	7	(12.5)%	57.1%
Depreciation	130	134	124	(2.9)%	8.1%
Taxes	21	24	29	(11.4)%	(17.2)%
Administration and general	4,739	4,412	3,943	7.4%	11.9%
Pension	-	-	190	—%	(100.0)%
Amortization	2,984	3,024	2,823	(1.3)%	7.1%
Total operating expenses	50,439	44,540	44,273	13.2%	0.6%
Operating income	4,565	3,098	1,078	47.4%	187.4%
Total nonoperating revenues (expenses), net	(620)	(1,211)	(1,952)	(48.8)%	(38.0)%
Change in net position	3,945	1,887	(874)		
Net position, beginning of year	27,925	26,038	26,912		
Net position, end of year	$ 31,870	$ 27,925	$ 26,038		

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 2022 were 895 MW and 488,997 MWh, respectively. Heartland's wholesale customer peak demand was 96 MW in 2022. Demand and energy sales for 2021 were 827 MW and 463,777 MWh, respectively. The 2021 peak demand of Heartland's long-term wholesale customers was 86 MW. Heartland's wholesale customer demand and energy sales for 2020 were 799 MW and 451,120 MWh, respectively. Heartland's wholesale customer peak demand for 2020 was 83 MW. The increase in customer revenue in 2022 and 2021 was a result of increased demand and energy sales to customers.

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.

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. Surplus sales revenue increased in 2022 as a result of the impacts of Winter Storm Elliot and pricing and increased in 2021 as a result of the impacts of Winter Storm Uri.

The operating expenses fluctuated in some areas. Transmission in 2022 and 2021 remain minimal compared to 2020 primarily as a result of Heartland's termination of a transmission contract which was no longer necessary.

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. PPGA financed construction of WEC2 directly, rather than obtaining funding from its members. Heartland's participation in PPGA is for 80 megawatts. 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 is for 20 megawatts and includes all owners' costs.

The nonoperating revenues/expenses include interest on bonds, investment income, amortization of debt issuance costs and the deferred loss on refunding, and other expense items. Heartland recognized increased investment income in 2022 compared to 2021 as a result of the rate market and increased investment balances. Interest expense decreased during 2022 as a result of the refunding related to the Series 2018 bonds in 2021.

In June 2021, Heartland refunded $20,375,000 of its Electric System Taxable Revenue Bonds, Series 2018, with proceeds from the issuance of Electric System Taxable Revenue Direct Purchase Bonds, Series 2021, in the amount of $16,830,000, and also using existing resources. The Series 2021 bonds bear interest annually at a fixed rate of 1.84%. Principal payments are due annually, beginning December 1, 2022 and having a final maturity of December 1, 2029. The refunding was completed to achieve a cash flow savings of approximately $3,105,000 and a net present value savings of approximately $1,502,000.

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

During December 2022, a polar vortex resulted in persistent and extreme cold weather that covered most of Northern United States, including the SPP region. This weather event (Winter Storm Elliot) led to an increase in energy demand. The market experienced price volatility for utilities buying or selling energy during this weather event. As a result of our resource planning and base-load resources, Heartland was able to navigate the weather event favorably, from both an operational and financial standpoint.

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 Mike Malone, P.O. Box 248, Madison, SD 57042.

Heartland Consumers Power District
d/b/a Heartland Energy
Balance Sheets
December 31, 2022 and 2021

Assets and Deferred Outflows of Resources	2022	2021
Current Assets		
Cash and cash equivalents	$ 8,905,154	$ 27,770,588
Restricted cash and cash equivalents	269,718	269,804
Short-term investments	12,310,275	-
Accounts receivable	7,030,100	4,972,479
Notes receivable, current portion, net of allowance of $120,719 in 2022 and 2021	1,066,712	935,056
Prepaid expenses and other current assets	260,850	37,789
Total current assets	29,842,809	33,985,716
Noncurrent Assets		
Notes receivable, net of allowance of $671,533 in 2022 and $514,518 for 2021	6,525,754	6,788,298
Long-term investments	11,302,678	45,750
Capital assets, net	2,192,732	2,302,168
Costs recoverable from future billings	27,926,810	28,783,610
Net pension asset	9,430	743,804
Other noncurrent assets	552,240	1,095,000
Total noncurrent assets	48,509,644	39,758,630
Deferred Outflows of Resources		
Deferred outflows for pensions	873,348	970,263
Deferred loss on debt refunding	2,205,157	2,523,975
Total deferred outflows of resources	3,078,505	3,494,238
Total assets and deferred outflows of resources	$ 81,430,958	$ 77,238,584

Liabilities, Deferred Inflows of Resources and Net Position

	2022	2021
Current Liabilities		
Current maturities of long-term debt	$ 3,280,558	$ 3,138,791
Accounts payable	5,222,736	4,836,854
Accrued expenses	395,974	180,255
Accrued interest payable	57,742	65,175
Total current liabilities	8,957,010	8,221,075
Noncurrent Liabilities		
Long-term debt, net	23,794,633	26,947,690
Other noncurrent liabilities	511,497	457,850
Total noncurrent liabilities	24,306,130	27,405,540
Total liabilities	33,263,140	35,626,615
Deferred Inflows of Resources		
Deferred inflows for pensions	548,406	1,436,974
Reductions of future billings	15,750,000	12,250,000
Total deferred inflows of resources	16,298,406	13,686,974
Net Position		
Net investment in capital assets	2,192,732	2,302,168
Restricted for debt service	222,499	215,462
Restricted for pensions	9,430	743,804
Unrestricted	29,444,751	24,663,561
Total net position	31,869,412	27,924,995
Total liabilities, deferred inflows of resources and net position	$ 81,430,958	$ 77,238,584

Heartland Consumers Power District
d/b/a Heartland Energy
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Customer requirements	$ 40,872,900	$ 38,189,278
Other contracted requirements	2,543,556	2,009,586
Surplus sales revenue	13,787,065	13,191,873
Pension revenue	57,279	240,545
Other operating revenue	1,243,016	1,506,609
Transfer to rate stabilization	(3,500,000)	(7,500,000)
Total operating revenues	55,003,816	47,637,891
Operating Expenses		
Cost of power	40,014,821	34,651,239
Transmission	2,539,714	2,283,959
Production	9,626	11,105
Depreciation	130,144	134,322
Taxes	21,262	24,402
Administration and general	4,739,218	4,411,647
Amortization	2,983,845	3,023,590
Total operating expenses	50,438,630	44,540,264
Operating Income	4,565,186	3,097,627
Nonoperating Revenues (Expenses)		
Investment income	801,262	208,889
Interest expense	(999,439)	(1,237,601)
Amortization expense	(13,065)	(29,300)
Other	(409,527)	(153,012)
Net nonoperating revenues (expenses)	(620,769)	(1,211,024)
Change in Net Position	3,944,417	1,886,603
Net Position, Beginning of Year	27,924,995	26,038,392
Net Position, End of Year	$ 31,869,412	$ 27,924,995

Heartland Consumers Power District
d/b/a Heartland Energy
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Receipts from customers	$ 40,321,851	$ 38,466,100
Receipts from others	16,067,065	16,223,799
Payments to suppliers	(45,518,449)	(37,900,444)
Payments to employees	(2,235,783)	(2,041,723)
Net cash provided by operating activities	8,634,684	14,747,732
Cash Flows from Noncapital Financing Activities		
Proceeds from issuance of promissory notes	107,250	-
Payments on promissory notes	(533,540)	(500,519)
Payments on revenue bonds	(2,585,000)	(2,025,000)
Net transfer to bond refunding agent	-	(7,994,490)
Interest paid	(688,054)	(1,212,556)
Other nonoperating payments	(252,512)	(182,812)
Net cash used in noncapital financing activities	(3,951,856)	(11,915,377)
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(20,708)	(131,828)
Payments for power projects	(517,394)	(444,215)
Net cash used in capital and related financing activities	(538,102)	(576,043)
Cash Flows from Investing Activities		
Purchases of investment securities	(23,673,440)	-
Proceeds from sales and maturities of investment securities	19,103	23,775
Issuance of notes receivable	(900,000)	(97,500)
Repayments of notes receivable	873,873	1,310,339
Investment income received	670,218	213,734
Net cash provided by (used in) investing activities	(23,010,246)	1,450,348
Change in Cash and Cash Equivalents	(18,865,520)	3,706,660
Cash and Cash Equivalents, Beginning of Year	28,040,392	24,333,732
Cash and Cash Equivalents, End of Year	$ 9,174,872	$ 28,040,392
Composition of Cash and Cash Equivalents		
Cash and cash equivalents	$ 8,905,154	$ 27,770,588
Restricted cash and cash equivalents	269,718	269,804
Total	$ 9,174,872	$ 28,040,392

Heartland Consumers Power District
d/b/a Heartland Energy
Statements of Cash Flows - Continued
Years Ended December 31, 2022 and 2021

	2022	2021
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 4,565,186	$ 3,097,627
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	3,113,989	3,157,912
Transfer to rate stabilization	3,500,000	7,500,000
Changes in balance sheet operating items		
Accounts receivable	(2,057,621)	(207,447)
Prepaid expenses and other assets	(1,084,839)	398,223
Net pension asset	734,374	(739,635)
Deferred outflows for pensions	96,915	(352,248)
Accounts payable	385,882	1,385,603
Accrued expenses	269,366	(343,641)
Deferred inflows for pensions	(888,568)	851,338
Net Cash Provided by Operating Activities	$ 8,634,684	$ 14,747,732
Supplemental Cash Flows Information		
Decrease in allowance for notes receivable	$ 157,015	$ 46,504
Amortization of deferred loss on debt refunding	318,818	185,977
Amortization of revenue bonds issuance premium	-	79,647

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

Nature of Operations

Heartland Consumers Power District d/b/a Heartland Energy (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, Nebraska, 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, 2022 and 2021, 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. agency obligations and U.S. Treasuries 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, 2022 and 2021, 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 $792,252 and $635,237 at December 31, 2022 and 2021, 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 Heartland 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 $2,080 and $2,130 in 2022 and 2021, 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, 2022 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, 2022 and 2021, Heartland had the following investments and maturities:

	Carrying Value	Maturities in Years: Less Than 1	1-5	6-10	Credit Ratings (Moody's)
December 31, 2022					
Money market mutual funds	$ 7,253,657	$ 7,253,657	$ -	$ -	Aaa-mf
U.S. Treasury securities	23,586,943	12,310,275	11,276,668	-	Aaa
U.S. agency obligations	26,010	-	26,010	-	Aaa
	$ 30,866,610	$ 19,563,932	$ 11,302,678	$ -	
December 31, 2021					
Money market mutual funds	$ 10,287,271	$ 10,287,271	$ -	$ -	Aaa-mf
U.S. agency obligations	45,750	-	-	45,750	Aaa
	$ 10,333,021	$ 10,287,271	$ -	$ 45,750	

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, 2022 or 2021 exceeded 5%.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2022 and 2021 as follows:

	2022	2021
Carrying value		
Bank deposit accounts	$ 1,921,215	$ 2,317,403
Certificates of deposit	-	15,435,718
Investments	30,866,610	10,333,021
	$ 32,787,825	$ 28,086,142

Included in the following balance sheet captions:

	2022	2021
Current Assets		
Cash and cash equivalents		
Operating funds	$ 159,781	$ 185,925
General reserve funds	6,735,483	20,388,605
Revolving loan fund program accounts	1,761,435	2,131,478
Rate stabilization fund	248,455	5,064,580
Total	8,905,154	27,770,588
Restricted cash and cash equivalents		
Debt service funds	269,718	269,804
Short-term investments		
General reserve funds	9,349,549	-
Rate stabilization fund	2,960,726	-
Total	12,310,275	-
Noncurrent Assets		
Long-term investments - rate stabilization fund	11,302,678	45,750
	$ 32,787,825	$ 28,086,142

Note 2: Deposits, Investments and Investment Return - Continued

Investment Return

Investment return for the years ended December 31, 2022 and 2021 consisted of interest income and realized gains of $668,878 and $56,857, 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

	2022				
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, original 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 January 2040	3,971,744	900,000	383,440	4,488,304	575,797
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	4,266,128	-	490,433	3,775,695	490,915
Allowance for notes receivable	(635,237)	(157,015)	-	(792,252)	(120,719)
Total notes receivable, net	$ 7,723,354	$ 742,985	$ 873,873	$ 7,592,466	$ 1,066,712

Note 3: Notes Receivable - Continued

	2021				
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, original 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 January 2031	4,746,701	97,500	872,457	3,971,744	444,622
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	4,704,010	-	437,882	4,266,128	490,434
Allowance for notes receivable	(681,741)	-	(46,504)	(635,237)	(120,719)
Total notes receivable, net	$ 8,889,689	$ 97,500	$ 1,263,835	$ 7,723,354	$ 935,056

Interest income on these notes totaled $132,384 and $152,032 for 2022 and 2021, respectively, and is included within investment income on the statements of revenues, expenses and changes in net position.

Note 4: Capital Assets

Capital assets activity for 2022 and 2021 was:

2022	Beginning Balance	Additions	Retirements	Ending Balance
Heartland headquarters building	$ 2,837,333	$ 20,708	$ -	$ 2,858,041
General plant	1,008,219	-	-	1,008,219
Land	80,402	-	-	80,402
Total capital assets	3,925,954	20,708	-	3,946,662
Less accumulated depreciation	(1,623,786)	(130,144)	-	(1,753,930)
Capital assets, net	$ 2,302,168	$ (109,436)	$ -	$ 2,192,732
2021				
Heartland headquarters building	$ 2,837,333	$ -	$ -	$ 2,837,333
General plant	947,741	131,828	(71,350)	1,008,219
Land	80,402	-	-	80,402
Total capital assets	3,865,476	131,828	(71,350)	3,925,954
Less accumulated depreciation	(1,544,110)	(134,322)	54,646	(1,623,786)
Capital assets, net	$ 2,321,366	$ (2,494)	(16,704)	$ 2,302,168

Note 5: Credit Facilities

Line of Credit

Heartland entered into a revolving credit agreement with a financial institution that provides for borrowings up to $10,000,000. The agreement was amended and renewed on March 1, 2022, with an expiration date of March 21, 2025. Borrowings under the credit agreement bear interest at varying rates, and cannot exceed a maximum rate, which is based on the applicable index at the time of funding and is 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, 2022 and 2021. 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, 2022 and 2021. The letter of credit expires October 2, 2023.

Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2022 and 2021

Note 6: Long-term Liabilities

Long-term liabilities at December 31, 2022 consisted of the following:

	2022				
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 2019 through December 2031	$ 6,570,000	$ -	$ 2,095,000	$ 4,475,000	$ 2,170,000
1.84% Revenue Bonds, Series 2021, with interest and principal payments due annually beginning December 2021 through December 2029	16,830,000	-	490,000	16,340,000	500,000
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036	440,121	-	27,437	412,684	27,711
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 with a final payment due June 25, 2040	538,922	-	26,449	512,473	26,713
1.0% Intermediary Relending Program Promissory Note, due annually on November 10, with a final payment due November 10, 2046	934,775	-	33,102	901,673	33,433
1.0% Intermediary Relending Program Promissory Note, due annually on October 11, beginning in October 2021, with a final payment due October 11, 2047	967,550	-	32,775	934,775	33,102
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	713,125	107,250	-	820,375	35,319
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,299 through April 2031	369,368	-	36,290	333,078	42,887
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $10,417, through March 2028	781,243	-	114,587	666,656	135,421
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,202, through March 2028	240,147	-	35,222	204,925	41,626
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $5,500, through July 2028	467,500	-	66,000	401,500	66,000
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $10,417, beginning in July 2021, through June 2029	927,081	-	125,004	802,077	125,004
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,334, through August 2029	306,649	-	36,674	269,975	43,342
Total bonds and notes payable	30,086,481	107,250	3,118,540	27,075,191	3,280,558
Compensated absences	568,645	219,835	163,373	625,107	113,610
Total long-term liabilities	$ 30,655,126	$ 327,085	$ 3,281,913	$ 27,700,298	$ 3,394,168

Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2022 and 2021

Note 6: Long-term Liabilities - Continued

Long-term liabilities at December 31, 2021 consisted of the following:

Type of Debt	January 1,	Additions	Reductions	December 31,	One Year
3.1-6.137% Revenue Bonds, Series 2018, with interest and principal payments due annually beginning December 2019 through December 2031	$ 28,970,000	$ -	$ 22,400,000	$ 6,570,000	$ 2,095,000
1.84% Revenue Bonds, Series 2021, with interest and principal payments due annually beginning December 2021 through December 2029	-	16,830,000	-	16,830,000	490,000
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036	467,286	-	27,165	440,121	27,437
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 with a final payment due June 25, 2040	565,109	-	26,187	538,922	26,449
1.0% Intermediary Relending Program Promissory Note, due annually on November 10, with a final payment due November 10, 2046	967,550	-	32,775	934,775	33,102
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	-	32,450	967,550	32,775
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	713,125	-	-	713,125	-
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,299 through April 2031	408,956	-	39,588	369,368	39,588
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $10,417, through March 2028	906,247	-	125,004	781,243	125,004
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,202, through March 2028	278,571	-	38,424	240,147	38,424
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $5,500, through July 2028	533,500	-	66,000	467,500	66,000
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $10,417, beginning in July 2021, through June 2029	1,000,000	-	72,919	927,081	125,004
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,334, through August 2029	346,656	-	40,007	306,649	40,008
	36,157,000	16,830,000	22,900,519	30,086,481	3,138,791
Revenue bonds issuance premium	2,102,693	-	2,102,693	-	-
Total bonds and notes payable	38,259,693	16,830,000	25,003,212	30,086,481	3,138,791
Compensated absences	494,369	229,093	154,817	568,645	110,795
Total long-term liabilities	$ 38,754,062	$ 17,059,093	$ 25,158,029	$ 30,655,126	$ 3,249,586

Note 6: Long-term Liabilities - Continued

Debt service requirements at December 31, 2022 are as follows:

	Principal	Interest	Total
2023	$ 3,280,558	$ 604,212	$ 3,884,770
2024	3,403,921	462,732	3,866,653
2025	3,550,544	316,606	3,867,150
2026	3,597,110	260,576	3,857,686
2027	3,658,690	203,704	3,862,394
2028-2032	7,610,284	307,219	7,917,503
2033-2037	831,117	90,777	921,894
2038-2042	668,772	52,129	720,901
2043-2047	474,195	17,769	491,964
	$ 27,075,191	$ 2,315,724	$ 29,390,915

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 Heartland'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.

In June 2021, Heartland refunded $20,375,000 of its Electric System Taxable Revenue Bonds, Series 2018, with proceeds from the issuance of Electric System Taxable Revenue Direct Purchase Bonds, Series 2021, in the amount of $16,830,000, and also using existing resources. The Series 2021 bonds bear interest annually at a fixed rate of 1.84%. Principal payments are due annually, beginning December 1, 2022 and having a final maturity of December 1, 2029. The refunding was completed to achieve a cash flow savings of approximately $3,105,000 and a net present value savings of approximately $1,502,000. At December 31, 2022, $20,375,000 of the refunded Series 2018 bonds remain outstanding.

Heartland has executed credit agreements with two financial institutions, totaling $2,859,152, 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, 2022 and 2021.

Note 7: Power Sales Agreements

Heartland is a party to electric power sales agreements with municipalities in South Dakota, Minnesota, 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 $149,321 and $140,160 during 2022 and 2021, respectively, and were in accordance with statutory rates. The employees' contributions during 2022 and 2021 were $125,470 and $118,295, 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 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 Revenue and Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2022 and 2021, Heartland reported an asset of $9,430 and $743,804, respectively, for its proportionate share of the collective net pension asset for the Plan. The net pension asset was measured as of June 30, 2022 and 2021, 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, 2022 and 2021, Heartland's proportion was 0.099% and 0.097%, respectively.

For the years ended December 31, 2022 and 2021, Heartland recognized pension revenue of $57,279 and $240,545, respectively. At December 31, 2022 and 2021, Heartland reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2022		December 31, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 179,492	$ 612	$ 26,705	$ 1,950
Net difference between projected and actual earnings on pension plan investments	-	22,597	-	1,062,538
Changes of assumptions	599,289	525,197	855,367	372,486
Change in Heartland's proportionate share	-	-	-	-
Heartland contributions subsequent to the measurement date	94,567	-	88,191	-
Total	$ 873,348	$ 548,406	$ 970,263	$ 1,436,974

Note 9: Retirement Plans - Continued

Defined Benefit Plan - Continued

Pension Assets and Liabilities, Pension Revenue and 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, 2023. 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,	
2023	$ 61,957
2024	130,947
2025	(149,341)
2026	186,812
	$ 230,375

Actuarial assumptions – The total pension liability in the June 30, 2022 and 2021 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	
2022	2.50%
2021	2.25%
Salary increases	
2022	7.66% at entry to 3.15% after 25 years of service
2021	6.50% at entry to 3.0% after 25 years of service
Discount rate	6.50%, net of pension plan investment expense
Future COLAs	
2022	2.10%
2021	2.25%

Mortality rates for active and retired participants and beneficiaries for the June 30, 2022 actuarial valuation were based on Pub-2010 amount-weighted Mortality Tables, projected generationally with improvement scale MP-2020. Mortality rates for disabled members were based on the PubG-2010 Disabled Member Mortality Table. Mortality rates for active and retired participants and beneficiaries for the June 30, 2021 actuarial valuation 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.

Note 9: Retirement Plans - Continued

Defined Benefit Plan - Continued

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

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study, which covered the five-year period ending June 30, 2021. The actuarial assumptions used in the June 30, 2021 valuation was based on the results of an actuarial experience study, which covered the five-year period ending June 30, 2016.

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 geometric real rates of return for each major asset class as of December 31, 2022 and 2021, are summarized in the following table:

Asset Class	Target Allocation	2022 Long-Term Expected Real Rate of Return	2021 Long-Term Expected Real Rate of Return
Global Equity	58.0%	3.7%	4.3%
Fixed Income	30.0%	1.1%	1.6%
Real Estate	10.0%	2.6%	4.6%
Cash	2.0%	0.4%	0.9%
Total	100.0%		

Discount rate – The discount rate used to measure the total pension liability in 2022 and 2021 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 Revenue and 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, 2022	$ 1,957,881	$ (9,430)	$ (1,617,242)
December 31, 2021	$ 1,204,403	$ (743,804)	$ (2,325,294)

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, 2022 and 2021 were $82,558 and $77,941, respectively. No forfeitures were used to reduce Heartland's contributions during 2022 and 2021. The contributions made by Heartland employees for the years ended December 31, 2022 and 2021 were $142,321 and $123,453, respectively.

Note 10: Significant Estimates and Concentrations

Major Customers

Sales to two customers were approximately 32% and 35%, respectively, of total operating revenues for the years ended December 31, 2022 and 2021, respectively. Approximately 38% of total accounts receivable were owed from two customers at December 31, 2022. Approximately 32% of total accounts receivable were owed from two customers at December 31, 2021.

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:

	2022	2021
Employees (unaudited)	12	12
Total kilowatt hours sold (unaudited)	1,005,132,612	988,241,126
Total salaries	$ 2,164,488	$ 1,990,372
Maintenance expense	182,884	166,879

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 2022 and 2021 financial information for the revolving loan fund is presented below:

Note 13: Segment Information - Continued

Condensed Balance Sheet

	2022	2021
Current assets	$ 2,834,230	$ 3,072,241
Other assets	6,525,757	6,788,298
Total assets	$ 9,359,987	$ 9,860,539
Liabilities		
Current liabilities	$ 600,830	$ 568,393
Noncurrent liabilities	5,669,886	6,132,691
Total liabilities	6,270,716	6,701,084
Net Position	3,089,271	3,159,455
Total liabilities and net position	$ 9,359,987	$ 9,860,539

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2022	2021
Nonoperating revenues (expenses)		
Investment income	$ 132,384	$ 152,032
Interest expense	(35,635)	(36,821)
Bad debt recovery (expense)	(157,015)	46,504
Other	(9,918)	(9,725)
Change in Net Position	(70,184)	151,990
Net Position, Beginning of Year	3,159,455	3,007,465
Net Position, End of Year	$ 3,089,271	$ 3,159,455

Condensed Statement of Cash Flows

	2022	2021
Net cash provided by (used in)		
Noncapital financing activities	$ (476,044)	$ (542,835)
Investing activities	106,002	1,365,863
Change in Cash	(370,042)	823,028
Cash, Beginning of Year	2,131,478	1,308,450
Cash, End of Year	$ 1,761,436	$ 2,131,478

Required Supplementary Information

Heartland Consumers Power District
d/b/a Heartland Energy

Schedule of Heartland's Proportionate Share of the Net Pension Asset (Liability)
South Dakota Retirement System
December 31, 2022

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Heartland's proportion of the net pension asset (liability)	0.099%	0.097%	0.096%	0.10%	0.088%	0.086%	0.088%	0.087%	0.097%
Heartland's proportionate share of the net pension asset (liability)	$ 9,430	$ 743,804	$ 4,169	$ 10,862	$ 2,049	$ 7,850	$ (296,707)	$ 370,005	$ 697,294
Heartland's covered payroll	$ 1,984,305	$ 1,994,372	$ 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	0.48%	37.30%	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	100.10%	105.52%	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
d/b/a Heartland Energy
Schedule of Heartland's Contributions
South Dakota Retirement System
December 31, 2022

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	$ 149,321	$ 140,160	$ 130,219	$ 126,003	$ 124,500	$ 107,920	$ 103,771	$ 99,453	$ 97,153
Contributions in relation to the statutorily required contribution	(149,321)	(140,160)	(130,219)	(126,003)	(124,500)	(107,920)	(103,771)	(99,453)	(97,153)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Heartland's covered payroll	$ 2,164,488	$ 1,990,372	$ 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	6.90%	7.04%	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.

Supplementary Information

Heartland Consumers Power District
d/b/a Heartland Energy
Schedule of Transmission Operation and Maintenance Expenses
FERC Uniform System of Accounts Classification
Year Ended December 31, 2022

	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	2,539,714
566 – Miscellaneous Transmission Expenses	-
567 – Rents	-
Total Operation Expense	2,539,714
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	$ 2,539,714

Heartland Consumers Power District
d/b/a Heartland Energy
Schedule of Administrative and General Expenses
FERC Uniform System of Accounts Classification
Year Ended December 31, 2022

		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	$	318,849
908 – Customer Assistance Expenses		400,922
909 – Informational and Instructional Expenses		-
910 – Miscellaneous Customer Service and Informational Expenses		-
Total Customer Service and Informational Expenses	$	719,771
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	$	1,848,453
921 – Office Supplies and Expenses		178,922
922 – Administrative Expenses Transferred Credit		-
923 – Outside Services Employed		256,587
924 – Property Insurance		10,005
925 – Injuries and Damages		32,018
926 – Employee Pension and Benefits		625,928
927 – Franchise Requirements		-
928 – Regulatory Commission Expenses		1,293
929 – Duplicate Charges Credit		-
930.1 – General Advertising Expenses		24,395
930.2 – Miscellaneous General Expenses		730,018
931 – Rents		-
935 – Maintenance of General Plant		173,258
Administrative and General Expenses	$	3,880,877