



Heartland Consumers Power District d/b/a Heartland Energy

Independent Auditor's Reports and Financial Statements

December 31, 2023 and 2022



**Heartland Consumers Power District
d/b/a Heartland Energy
Contents
December 31, 2023 and 2022**

Contents

Independent Auditor’s Report 1

Management’s Discussion and Analysis 4

Financial Statements

 Balance Sheets 8

 Statements of Revenues, Expenses and Changes in Net Position 9

 Statements of Cash Flows 10

 Notes to Financial Statements 12

Required Supplementary Information

 Schedule of Heartland’s Proportionate Share of the Net Pension Asset (Liability) –
 South Dakota Retirement System 29

 Schedule of Heartland’s Contributions – South Dakota Retirement System 30



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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, 2023 and 2022, 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, 2023 and 2022, 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

Board of Directors
Heartland Consumers Power District d/b/a Heartland Energy

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.

FORVIS,LLP

Lincoln, Nebraska
April 4, 2024

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 2023, 2022 and 2021. 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			Fiscal Year-to-Year Percentage Change	
	As of December 31,			From 2022	From 2021
	2023	2022	2021	to 2023	to 2022
Current assets	\$ 42,050	\$ 29,843	\$ 33,986	40.9%	(12.2)%
Capital assets, net	2,167	2,193	2,302	(1.2)%	(4.7)%
Costs recoverable from future billings	26,485	27,927	28,784	(5.2)%	(3.0)%
Other noncurrent assets	9,631	18,390	8,672	(47.6)%	112.1%
Total assets	80,333	78,353	73,744	2.5%	6.3%
Deferred outflows of resources	2,648	3,078	3,494	(14.0)%	(11.9)%
Total assets and deferred outflows of resources	\$ 82,981	\$ 81,431	\$ 77,238	1.9%	5.4%
Current liabilities	\$ 9,873	\$ 8,957	\$ 8,221	10.2%	9.0%
Noncurrent liabilities	23,031	24,306	27,405	(5.2)%	(11.3)%
Total liabilities	32,904	33,263	35,626	(1.1)%	(6.6)%
Deferred inflows of resources	16,233	16,298	13,687	(0.4)%	19.1%
Net investment in capital assets	2,167	2,193	2,302	(1.2)%	(4.7)%
Restricted	232	232	959	—%	(75.8)%
Unrestricted	31,445	29,445	24,664	6.8%	19.4%
Total net position	33,844	31,870	27,925	6.2%	14.1%
Total liabilities, deferred inflows of resources and net position	\$ 82,981	\$ 81,431	\$ 77,238	1.9%	5.4%

Heartland's overall net position increased by \$1,974,426, \$3,944,417, and \$1,886,603 in 2023, 2022, and 2021 respectively.

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 2023 and 2022 represent the scheduled amortization of these costs. Other noncurrent assets decreased significantly from 2022 to 2023, primarily as a result of certain long-term investments now being included within current assets based on their stated maturities. This also caused the majority of the increase in current assets from 2022 to 2023. Due to improved investment returns and positive cash activity, Heartland invested in more fixed income investments in 2022, causing the increase in other noncurrent assets in 2022. Reductions of future billings are included within deferred inflows of resources and are comprised primarily of Board approved transfers for rate stabilization. During 2022, Heartland realized additional revenues from the impacts of winter storms and certain market conditions, and the Board approved transferring \$3.5 million for rate stabilization related to these excess revenues.

Results of Operations

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

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

	Condensed Statements of Revenues, Expenses and Changes in Net Position			Fiscal Year-to-Year Percentage Change	
	Years Ended December 31,			From 2022	From 2021
	2023	2022	2021	to 2023	to 2022
Power sales					
Customer energy (MWh)	481,625	488,997	463,777	(1.5)%	5.4%
Customer cumulative demand (kW)	891,109	894,914	826,939	(0.4)%	8.2%
Revenues					
Customer revenue	\$ 40,872	\$ 40,873	\$ 38,189	(0.0)%	7.0%
Contracted requirements revenue	2,434	2,544	2,009	(4.3)%	26.6%
Surplus sales revenue	7,568	13,787	13,192	(45.1)%	4.5%
Pension revenue	-	57	241	(100.0)%	(76.3)%
Other operating revenue	1,673	1,243	1,507	34.6%	(17.5)%
Transfer for rate stabilization	-	(3,500)	(7,500)	(100.0)%	(53.3)%
Total operating revenue	<u>\$ 52,547</u>	<u>\$ 55,004</u>	<u>\$ 47,638</u>	<u>(4.5)%</u>	<u>15.5%</u>

	Condensed Statements of Revenues, Expenses and Changes in Net Position			Fiscal Year-to-Year Percentage Change	
	Years Ended December 31,			From 2022	From 2021
	2023	2022	2021	to 2023	to 2022
Expenses					
Cost of power	\$ 40,222	\$ 40,015	\$ 34,651	0.5%	15.5%
Transmission	2,669	2,540	2,284	5.1%	11.2%
Production	15	10	11	50.0%	(9.1)%
Depreciation	127	130	134	(2.3)%	(3.0)%
Taxes	21	21	24	—%	(12.5)%
Administration and general	5,086	4,739	4,412	7.3%	7.4%
Pension	46	-	-	100.0%	—%
Amortization	3,019	2,984	3,024	1.2%	(1.3)%
Total operating expenses	51,205	50,439	44,540	1.5%	13.2%
Operating income	1,342	4,565	3,098	(70.6)%	47.4%
Total nonoperating revenues (expenses), net	632	(620)	(1,211)	201.9%	(48.8)%
Change in net position	1,974	3,945	1,887		
Net position, beginning of year	31,870	27,925	26,038		
Net position, end of year	\$ 33,844	\$ 31,870	\$ 27,925		

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 2023 were 891 MW and 481,625 MWh, respectively. Heartland's wholesale customer peak demand was 94 MW in 2023. Demand and energy sales for 2022 were 895 MW and 488,997 MWh, respectively. The 2022 peak demand of Heartland's long-term wholesale customers was 80 MW. Heartland's wholesale customer demand and energy sales for 2021 were 826 MW and 463,777 MWh, respectively. Heartland's wholesale customer peak demand for 2021 was 86 MW. The decrease in surplus sales revenue in 2023 was a result of a stronger market in 2022. The increase in customer revenue in 2022 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 revenues were higher in 2022 and 2021 as a result of the impacts of Winter Storm Elliot and pricing in 2022 and as a result of the impacts of Winter Storm Uri in 2021.

The operating expenses fluctuated in some areas. Transmission expenses in 2023 and 2022 remain consistent.

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 2023 compared to 2022 as a result of the interest rate market and increased investment balances. Interest expense decreased during 2023 as a result of decreased total notes payable and long-term debt.

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	\$ 17,228,250	\$ 8,905,154
Restricted cash and cash equivalents	257,987	269,718
Short-term investments	16,540,733	12,310,275
Accounts receivable	6,837,593	7,030,100
Notes receivable, current portion	994,624	1,066,712
Prepaid expenses and other current assets	190,750	260,850
Total current assets	<u>42,049,937</u>	<u>29,842,809</u>
Noncurrent Assets		
Notes receivable, net of allowance of \$852,898 in 2023 and \$792,252 in 2022	9,049,674	6,525,754
Long-term investments	14,248	11,302,678
Capital assets, net	2,166,667	2,192,732
Costs recoverable from future billings	26,484,533	27,926,810
Net pension asset	9,659	9,430
Other noncurrent assets	557,614	552,240
Total noncurrent assets	<u>38,282,395</u>	<u>48,509,644</u>
Deferred Outflows of Resources		
Deferred outflows for pensions	761,691	873,348
Deferred loss on debt refunding	1,886,339	2,205,157
Total deferred outflows of resources	<u>2,648,030</u>	<u>3,078,505</u>
Total assets and deferred outflows of resources	<u>\$ 82,980,362</u>	<u>\$ 81,430,958</u>

See Notes to Financial Statements

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2023	2022
Current Liabilities		
Current maturities of long-term debt	\$ 3,440,198	\$ 3,280,558
Accounts payable	5,903,784	5,222,736
Accrued expenses	481,563	395,974
Accrued interest payable	47,675	57,742
Total current liabilities	<u>9,873,220</u>	<u>8,957,010</u>
Noncurrent Liabilities		
Long-term debt, net	22,470,850	23,794,633
Other noncurrent liabilities	559,772	511,497
Total noncurrent liabilities	<u>23,030,622</u>	<u>24,306,130</u>
Total liabilities	<u>32,903,842</u>	<u>33,263,140</u>
Deferred Inflows of Resources		
Deferred inflows for pensions	482,682	548,406
Reductions of future billings	15,750,000	15,750,000
Total deferred inflows of resources	<u>16,232,682</u>	<u>16,298,406</u>
Net Position		
Net investment in capital assets	2,166,667	2,192,732
Restricted for debt service	222,439	222,499
Restricted for pensions	9,659	9,430
Unrestricted	31,445,073	29,444,751
Total net position	<u>33,843,838</u>	<u>31,869,412</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 82,980,362</u>	<u>\$ 81,430,958</u>

**Heartland Consumers Power District
d/b/a Heartland Energy
Statements of Revenues, Expenses and
Changes in Net Position
Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Customer requirements	\$ 40,871,531	\$ 40,872,900
Other contracted requirements	2,433,348	2,543,556
Surplus sales revenue	7,567,744	13,787,065
Pension revenue	-	57,279
Other operating revenue	1,673,177	1,243,016
Transfer to rate stabilization	-	(3,500,000)
	<u>52,545,800</u>	<u>55,003,816</u>
Operating Expenses		
Cost of power	40,221,562	40,014,821
Transmission	2,668,916	2,539,714
Production	15,403	9,626
Depreciation	127,241	130,144
Taxes	20,504	21,262
Administration and general	5,085,782	4,739,218
Pension	45,704	-
Amortization	3,018,716	2,983,845
	<u>51,203,828</u>	<u>50,438,630</u>
	<u>1,341,972</u>	<u>4,565,186</u>
Operating Income		
Nonoperating Revenues (Expenses)		
Investment income	1,474,800	801,262
Interest expense	(910,743)	(999,439)
Amortization expense	(13,065)	(13,065)
Other	81,462	(409,527)
	<u>632,454</u>	<u>(620,769)</u>
	<u>1,974,426</u>	<u>3,944,417</u>
Change in Net Position		
Net Position, Beginning of Year	<u>31,869,412</u>	<u>27,924,995</u>
Net Position, End of Year	<u>\$ 33,843,838</u>	<u>\$ 31,869,412</u>

Heartland Consumers Power District
d/b/a Heartland Energy
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Receipts from customers	\$ 40,523,021	\$ 40,321,851
Receipts from others	12,215,286	16,067,065
Payments to suppliers	(44,681,009)	(45,518,449)
Payments to employees	(2,324,549)	(2,235,783)
Net cash provided by operating activities	<u>5,732,749</u>	<u>8,634,684</u>
Cash Flows from Noncapital Financing Activities		
Proceeds from issuance of promissory notes	2,079,625	107,250
Payments on promissory notes	(573,768)	(533,540)
Payments on revenue bonds	(2,670,000)	(2,585,000)
Interest paid	(601,992)	(688,054)
Other nonoperating payments	142,108	(252,512)
Net cash used in noncapital financing activities	<u>(1,624,027)</u>	<u>(3,951,856)</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(101,176)	(20,708)
Payments for power projects	(1,782,545)	(517,394)
Net cash used in capital and related financing activities	<u>(1,883,721)</u>	<u>(538,102)</u>
Cash Flows from Investing Activities		
Purchases of investment securities	(4,996,085)	(23,673,440)
Proceeds from sales and maturities of investment securities	12,252,111	19,103
Issuance of notes receivable	(3,433,833)	(900,000)
Repayments of notes receivable	921,355	873,873
Investment income received	1,342,816	670,218
Net cash provided by (used in) investing activities	<u>6,086,364</u>	<u>(23,010,246)</u>
Change in Cash and Cash Equivalents	<u>8,311,365</u>	<u>(18,865,520)</u>
Cash and Cash Equivalents, Beginning of Year	<u>9,174,872</u>	<u>28,040,392</u>
Cash and Cash Equivalents, End of Year	<u>\$ 17,486,237</u>	<u>\$ 9,174,872</u>
Composition of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 17,228,250	\$ 8,905,154
Restricted cash and cash equivalents	257,987	269,718
Total	<u>\$ 17,486,237</u>	<u>\$ 9,174,872</u>

**Heartland Consumers Power District
d/b/a Heartland Energy
Statements of Cash Flows - Continued
Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 1,341,972	\$ 4,565,186
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	3,145,957	3,113,989
Transfer to rate stabilization	-	3,500,000
Changes in balance sheet operating items		
Accounts receivable	192,507	(2,057,621)
Prepaid expenses and other assets	191,697	(1,084,839)
Net pension asset	(229)	734,374
Deferred outflows for pensions	111,657	96,915
Accounts payable	681,048	385,882
Accrued expenses	133,864	269,366
Deferred inflows for pensions	(65,724)	(888,568)
Net Cash Provided by Operating Activities	<u>\$ 5,732,749</u>	<u>\$ 8,634,684</u>
Supplemental Cash Flows Information		
Increase in allowance for notes receivable	\$ 60,646	\$ 157,015
Amortization of deferred loss on debt refunding	318,818	318,818

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.

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.

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

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, 2023 and 2022, 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, 2023 and 2022, 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 \$852,898 and \$792,252 at December 31, 2023 and 2022, 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.

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.

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

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.

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 \$2,230 and \$2,080 in 2023 and 2022, 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.

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

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 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.

Investments

At December 31, 2023 and 2022, Heartland had the following investments and maturities:

	Carrying Value	Maturities in Years			Credit Ratings (Moody's)
		Less Than 1	1-5	6-10	
December 31, 2023					
Money market mutual funds	\$ 15,929,710	\$ 15,929,710	\$ -	\$ -	Aaa-mf
U.S. Treasury securities	16,540,732	16,540,732	-	-	Aaa
U.S. agency obligations	14,248	-	14,248	-	Aaa
	<u>\$ 32,484,690</u>	<u>\$ 32,470,442</u>	<u>\$ 14,248</u>	<u>\$ -</u>	
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
	<u>\$ 30,866,610</u>	<u>\$ 19,563,932</u>	<u>\$ 11,302,678</u>	<u>\$ -</u>	

Disclosures About Fair Value of Assets and Liabilities

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

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

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

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.

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, 2023 and 2022 exceeded 5%.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2023 and 2022 as follows:

	<u>2023</u>	<u>2022</u>
Carrying value		
Bank deposit accounts	\$ 1,556,528	\$ 1,921,215
Investments	<u>32,484,690</u>	<u>30,866,610</u>
	<u>\$ 34,041,218</u>	<u>\$ 32,787,825</u>

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

Included in the following balance sheet captions:

	<u>2023</u>	<u>2022</u>
Current Assets		
Cash and cash equivalents		
Operating funds	\$ 132,405	\$ 159,781
General reserve funds	13,285,082	6,735,483
Revolving loan fund program accounts	1,424,123	1,761,435
Rate stabilization fund	<u>2,386,640</u>	<u>248,455</u>
Total	<u>17,228,250</u>	<u>8,905,154</u>
Restricted cash and cash equivalents		
Debt service funds	<u>257,987</u>	<u>269,718</u>
Short-term investments		
General reserve funds	3,796,560	9,349,549
Rate stabilization fund	<u>12,744,173</u>	<u>2,960,726</u>
Total	<u>16,540,733</u>	<u>12,310,275</u>
Noncurrent Assets		
Long-term investments		
Rate stabilization fund	<u>14,248</u>	<u>11,302,678</u>
	<u>\$ 34,041,218</u>	<u>\$ 32,787,825</u>

Investment Return

Investment return for the years ended December 31, 2023 and 2022 consisted of interest income and realized gains of \$1,294,711 and \$668,878, 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*.

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

Note 3. Notes Receivable

Type of Notes	2023				Due Within One Year
	January 1,	Additions	Reductions	December 31,	
4.0% note in connection with Heartland's economic development program, payable in monthly installments, original maturity of December 2016.	\$ 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 June 2040	4,488,304	1,468,833	428,576	5,528,561	482,675
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 December 2043	3,775,695	1,965,000	492,779	5,247,916	511,949
Allowance for notes receivable	(792,252)	(60,646)	-	(852,898)	-
Total notes receivable, net	<u>\$ 7,592,466</u>	<u>\$ 3,373,187</u>	<u>\$ 921,355</u>	<u>\$ 10,044,298</u>	<u>\$ 994,624</u>

Type of Notes	2022				Due Within One Year
	January 1,	Additions	Reductions	December 31,	
4.0% note in connection with Heartland's economic development program, payable in monthly installments, original maturity of December 2016	\$ 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)	-
Total notes receivable, net	<u>\$ 7,723,354</u>	<u>\$ 742,985</u>	<u>\$ 873,873</u>	<u>\$ 7,592,466</u>	<u>\$ 1,066,712</u>

Interest income on these notes totaled \$180,089 and \$132,384 for 2023 and 2022, respectively, and is included within investment income on the statements of revenues, expenses and changes in net position.

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

Note 4. Capital Assets

Capital assets activity for 2023 and 2022 was:

2023	Beginning Balance	Additions	Retirements	Ending Balance
Heartland headquarters building	\$ 2,858,041	\$ 101,176	\$ -	\$ 2,959,217
General plant	1,008,219	-	-	1,008,219
Land	80,402	-	-	80,402
Total capital assets	3,946,662	101,176	-	4,047,838
Less accumulated depreciation	(1,753,930)	(127,241)	-	(1,881,171)
Capital assets, net	<u>\$ 2,192,732</u>	<u>\$ (26,065)</u>	<u>\$ -</u>	<u>\$ 2,166,667</u>
2022				
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	<u>\$ 2,302,168</u>	<u>\$ (109,436)</u>	<u>\$ -</u>	<u>\$ 2,192,732</u>

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, 2023 and 2022. 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, 2023 and 2022. The letter of credit expires March 21, 2025.

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

Note 6. Long-term Liabilities

Long-term liabilities at December 31, 2023 consisted of the following:

Type of Debt	2023				Due Within One Year
	January 1,	Additions	Reductions	December 31,	
3.1-6.137% Revenue Bonds, Series 2018, with interest and principal payments due annually beginning December 2019 through December 2031	\$ 4,475,000	\$ -	\$ 2,170,000	\$ 2,305,000	\$ 2,305,000
1.84% Revenue Bonds, Series 2021, with interest and principal payments due annually beginning December 2021 through December 2029	16,340,000	-	500,000	15,840,000	510,000
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036	412,684	-	27,711	384,973	27,988
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 with a final payment due June 25, 2040	512,473	-	26,713	485,760	26,980
1.0% Intermediary Relending Program Promissory Note, due annually on November 10, with a final payment due November 10, 2046	901,673	-	33,433	868,240	33,744
1.0% Intermediary Relending Program Promissory Note, due annually on October 11, beginning in October 2021, with a final payment due October 11, 2047	934,775	-	33,102	901,673	33,409
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	820,375	179,625	34,698	965,302	32,880
1.0% Intermediary Relending Program Promissory Note, due annually on September 20, with a final payment due September 20, 2053	-	700,000	-	700,000	-
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$3,299 through April 2031	333,078	-	39,588	293,490	42,887
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$10,417, through March 2028	666,656	-	125,004	541,652	135,421
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$3,202, through March 2028	204,925	-	38,424	166,501	41,626
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$5,500, through July 2028	401,500	-	60,500	341,000	71,500
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$10,417, through June 2029	802,077	-	114,587	687,490	135,421
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$3,334, through August 2029	269,975	-	40,008	229,967	43,342
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of \$12,500, beginning December 2025 through November 2033	-	1,200,000	-	1,200,000	-
Total bonds and notes payable	27,075,191	2,079,625	3,243,768	25,911,048	3,440,198
Compensated absences	625,107	189,856	113,610	701,353	141,581
Total long-term liabilities	\$ 27,700,298	\$ 2,269,481	\$ 3,357,378	\$ 26,612,401	\$ 3,581,779

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

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

Type of Debt	2022				Due Within One Year
	January 1,	Additions	Reductions	December 31,	
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, 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, 2023 and 2022**

Debt service requirements at December 31, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 3,440,198	\$ 469,818	\$ 3,910,016
2025	3,563,045	326,581	3,889,626
2026	3,747,110	270,552	4,017,662
2027	3,831,406	213,681	4,045,087
2028	3,765,543	155,452	3,920,995
2029-2033	5,042,831	226,308	5,269,139
2034-2038	931,802	117,142	1,048,944
2039-2043	774,175	71,053	845,228
2044-2048	631,738	31,034	662,772
2049-2053	183,200	6,613	189,813
	<u>\$ 25,911,048</u>	<u>\$ 1,888,234</u>	<u>\$ 27,799,282</u>

During 2018, Heartland issued Electric System Taxable Revenue Bonds, Series 2018, in the amount of \$32,855,000 to provide funds to terminate a transmission contract which 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, 2023, \$20,375,000 of the refunded Series 2018 bonds remain outstanding.

Heartland has executed credit agreements with three financial institutions, totaling \$3,552,205, in relation to the seven 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, 2023 and 2022.

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 \$151,995 and \$149,321 during 2023 and 2022, respectively, and were in accordance with statutory rates. The employees' contributions during 2023 and 2022 were \$131,206 and \$125,470, respectively, and were in accordance with statutory rates.

Benefits

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

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

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

At December 31, 2023 and 2022, Heartland reported an asset of \$9,659 and \$9,430, respectively, for its proportionate share of the collective net pension asset for the Plan. The net pension asset was measured as of June 30, 2023 and 2022, 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, 2023 and 2022, Heartland's proportion was 0.0989% and 0.0998%, respectively.

For the years ended December 31, 2023 and 2022, Heartland recognized pension expense of \$45,704 and pension revenue of \$57,279, respectively. At December 31, 2023 and 2022, Heartland reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>December 31, 2023</u>		<u>December 31, 2022</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 273,768	\$ -	\$ 179,492	\$ 612
Net difference between projected and actual earnings on pension plan investments	64,301	-	-	22,597
Changes of assumptions	330,202	482,682	599,289	525,197
Heartland contributions subsequent to the measurement date	93,420	-	94,567	-
Total	<u>\$ 761,691</u>	<u>\$ 482,682</u>	<u>\$ 873,348</u>	<u>\$ 548,406</u>

The deferred outflows of resources related to pensions resulting from Heartland contributions subsequent to the measurement date will be recognized as a reduction of pension expense in the fiscal year ending December 31, 2024. 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,	
2024	\$ 131,529
2025	(146,457)
2026	186,933
2027	13,584
	<u>\$ 185,589</u>

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

Actuarial assumptions – The total pension liability in the June 30, 2023 and 2022 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	
2023	2.50%
2022	2.50%
Salary increases	
2023	7.66% at entry to 3.15% after 25 years of service
2022	7.66% at entry to 3.15% after 25 years of service
Discount rate	6.50%, net of pension plan investment expense
Future COLAs	
2023	1.91%
2022	2.10%

Mortality rates for active and retired participants and beneficiaries for the June 30, 2023 and 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.

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study, which covered the six-year period ending June 30, 2022. The actuarial assumptions used in the June 30, 2022 valuation was based on the results of an actuarial experience study, which covered the five-year period ending June 30, 2021.

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, 2023 and 2022, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
December 31, 2023		
Public Equity	56.3%	3.8%
Investment Grade Debt	22.8%	1.7%
High Yield Debt	7.0%	2.7%
Real Estate	12.0%	3.5%
Cash	1.9%	0.8%
Total	<u>100.0%</u>	
December 31, 2022		
Global Equity	58.0%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	2.0%	0.4%
Total	<u>100.0%</u>	

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

Discount rate – The discount rate used to measure the total pension liability in 2023 and 2022 was 6.50%, for both years. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate, and that contributions from employers will be made at contractually required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Heartland's proportionate share of the net pension (asset) liability			
December 31, 2023	\$ 1,979,603	\$ (9,659)	\$ (1,636,495)
December 31, 2022	\$ 1,957,881	\$ (9,430)	\$ (1,617,242)

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, 2023 and 2022 were \$85,970 and \$82,558, respectively. No forfeitures were used to reduce Heartland’s contributions during 2023 and 2022. The contributions made by Heartland employees for the years ended December 31, 2023 and 2022 were \$154,675 and \$142,321, respectively.

Note 10. Significant Estimates and Concentrations

Major Customers

Sales to two customers were approximately 35% and 32%, respectively, of total operating revenues for the years ended December 31, 2023 and 2022, respectively. Approximately 38% of total accounts receivable were owed from two customers at December 31, 2023 and 2022.

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

Note 11. Risk Management

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

Note 12. Statutory Reporting Requirement

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

	<u>2023</u>	<u>2022</u>
Employees (unaudited)	13	12
Total kilowatt hours sold (unaudited)	870,796,729	1,005,132,612
Total salaries	\$ 2,294,007	\$ 2,164,488
Maintenance expense	205,521	182,884

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 2023 and 2022 financial information for the revolving loan fund is presented below:

Condensed Balance Sheets

	<u>2023</u>	<u>2022</u>
Current assets	\$ 2,443,750	\$ 2,834,230
Other assets	9,049,671	6,525,757
Total assets	<u>\$ 11,493,421</u>	<u>\$ 9,359,987</u>
Liabilities		
Current liabilities	\$ 637,325	\$ 600,830
Noncurrent liabilities	7,140,848	5,669,886
Total liabilities	7,778,173	6,270,716
Net Position	<u>3,715,248</u>	<u>3,089,271</u>
Total liabilities and net position	<u>\$ 11,493,421</u>	<u>\$ 9,359,987</u>

**Heartland Consumers Power District
d/b/a Heartland Energy
Notes to Financial Statements
December 31, 2023 and 2022**

**Condensed Statements of Revenues,
Expenses and Changes in Net Position**

	<u>2023</u>	<u>2022</u>
Nonoperating revenues (expenses)		
Investment income	\$ 180,090	\$ 132,384
Interest expense	(36,971)	(35,635)
Bad debt expense	(60,646)	(157,015)
Other	543,504	(9,918)
	<u>625,977</u>	<u>(70,184)</u>
Change in Net Position	625,977	(70,184)
Net Position, Beginning of Year	<u>3,089,271</u>	<u>3,159,455</u>
Net Position, End of Year	<u>\$ 3,715,248</u>	<u>\$ 3,089,271</u>

Condensed Statements of Cash Flows

Net cash provided by (used in)		
Noncapital financing activities	\$ 2,011,702	\$ (476,044)
Investing activities	(2,349,015)	106,002
	<u>(337,313)</u>	<u>(370,042)</u>
Change in Cash	(337,313)	(370,042)
Cash, Beginning of Year	<u>1,761,436</u>	<u>2,131,478</u>
Cash, End of Year	<u>\$ 1,424,123</u>	<u>\$ 1,761,436</u>

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, 2023**

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Heartland's proportion of the net pension asset (liability)	0.099%	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)	\$ 9,659	\$ 9,430	\$ 743,804	\$ 4,169	\$ 10,862	\$ 2,049	\$ 7,850	\$ (296,707)	\$ 370,005	\$ 697,294
Heartland's covered payroll	\$ 2,063,002	\$ 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	0.47%	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%	100.10%	105.52%	100.04%	100.09%	100.02%	100.08%	96.89%	104.10%	107.29%

Note: 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, 2023**

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 151,995	\$ 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	<u>(151,995)</u>	<u>(149,321)</u>	<u>(140,160)</u>	<u>(130,219)</u>	<u>(126,003)</u>	<u>(124,500)</u>	<u>(107,920)</u>	<u>(103,771)</u>	<u>(99,453)</u>	<u>(97,153)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Heartland's covered payroll	\$ 2,294,007	\$ 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	6.63%	6.90%	7.04%	7.13%	7.08%	7.20%	7.16%	7.29%	7.22%	6.87%

Note: Information presented in this schedule has been determined as of Heartland's most recent fiscal year-end (December 31) in accordance with GASB 68.