THE POWER OF FORWARD THINKING

2013 ANNUAL REPORT

HEARTLAND
CONSUMERS POWER DISTRICT

KEY PROFESSIONAL RESOURCES

Auditors: BKD, LLP
Bond Counsel: Katten Muchin Rosenman
Trustee: First National Bank in Sioux Falls, SD
Paying Agent: Bank of New York
Power Supply: Burns & McDonnell

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A testing contractor performs an emissions test on one of two generators owned by the city of Wessington Springs, SD in October of 2013. The city conducted the test in preparation for the upgrades necessary to meet compliance with the Environmental Protection Agency's reciprocating internal combustion engine (RICE) rules. Heartland staff met with customers in 2013 who operate diesel generators to discuss RICE emissions compliance options.

ABOUT HEARTLAND

WE PROVIDE A CLEAN, RELIABLE AND EFFICIENT ENERGY PRODUCT, AND OFFER SERVICES TO HELP OUR CUSTOMERS SUCCEED

Financial Highlights

Operating Revenue

$70.6 MILLION

Energy Mix

58% COAL-FIRED

22% WIND

20% NUCLEAR

Heartland Consumers Power District is a public power utility providing electric power, energy services and community development programs to municipalities, state agencies and other organizations in South Dakota, Minnesota and Iowa.

We are empowered by the Consumers Power District Law of South Dakota to finance, own and operate anywhere, singly or jointly, any electric light and power plants, lines or systems for the generation, transmission or transformation of electric power and energy. We are authorized to sell, transmit and deliver electric power and energy at wholesale to distributors within and outside the boundaries of South Dakota.

Our focus is to supply electric energy and encourage and extend its efficient, environmentally responsible use. In order to meet the growing needs of our customers, our diverse power supply portfolio includes coal-fired, nuclear, wind and diesel peaking generation. Our mission is to be the trusted regional leader and partner of choice in the delivery of energy and service. Our vision is to aggressively meet our customers' needs for energy services by combining our proud heritage with the *Power of Forward Thinking*.

Operating Expenses
$71.7 MILLION

Customer MWh Sales
868,656

MW Peak Demand
139

Energy Production
Measured in megawatt hours (MWH)

534,581
Whelan Energy Center Unit 2

417,731
Laramie River Station

199,364
Wessington Springs Wind Energy Center

386,316
Cooper Nuclear Station

Governance

Heartland is governed by a ten-member board of directors, each member elected to represent a designated subdivision within the district. Heartland's original nine subdivisions were established in 1969 and include virtually all rural areas of the 36 counties in eastern South Dakota. The cities of Subdivision 10 later elected to be annexed into the district.

1

Mark Joffer
Vice President
Bon Homme, Douglas, Hanson, Hutchinson, McCook and Turner Counties

2

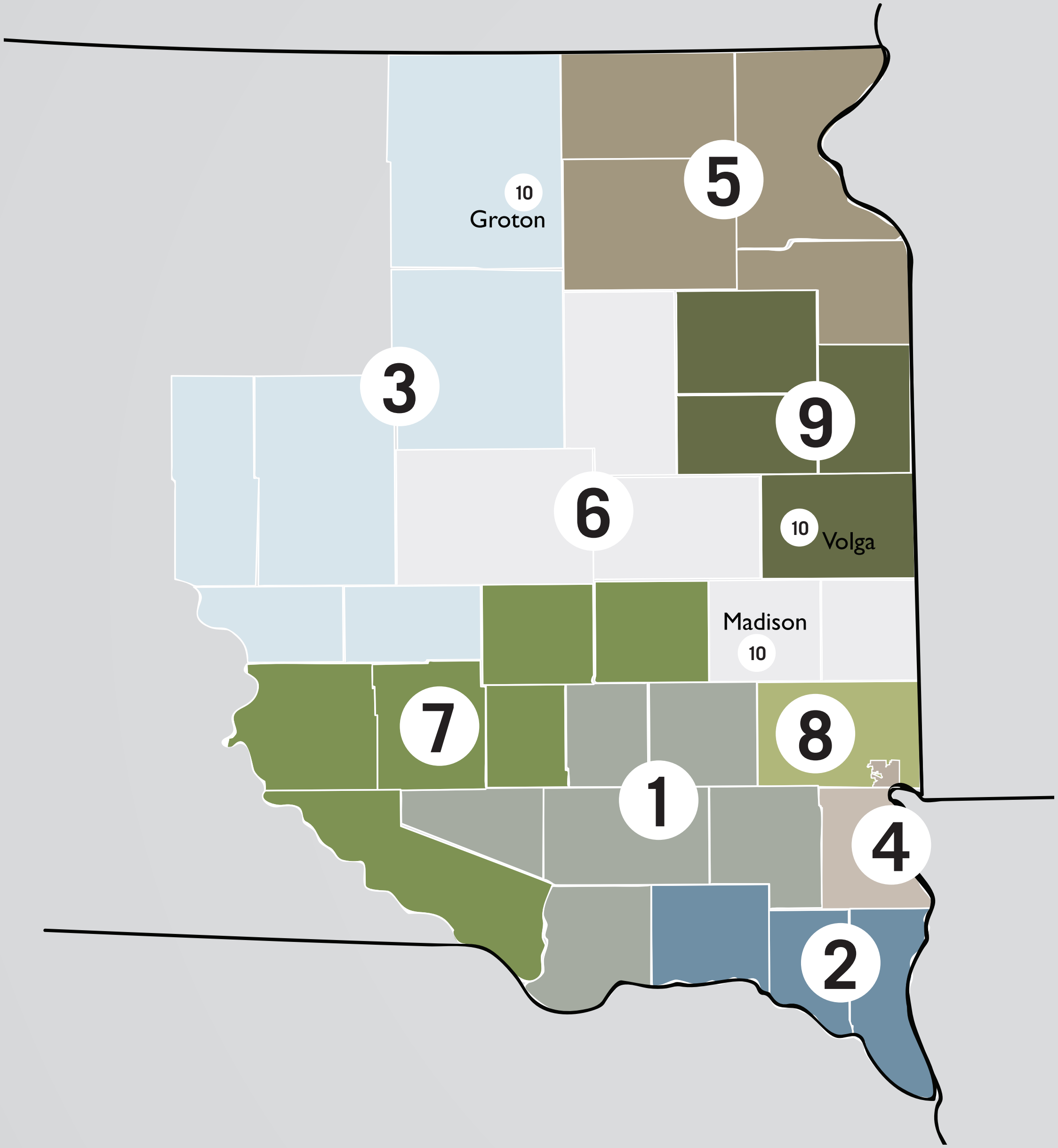
Dan O'Connor
Clay, Union and Yankton Counties

3

Larry Nielson
Brown, Buffalo, Hand, Hyde, Jerauld and Spink Counties

4

Kay Anderson
Secretary
Lincoln County and Split Rock Township of Minnehaha County



5

Ed Lamers
Day, Grant, Marshall and Roberts Counties

6

Jeff Heinemeyer
Beadle, Clark, Kingsbury, Lake and Moody Counties

7

Merlin VanWalleghen
President
Aurora, Brule, Charles Mix, Davison, Miner and Sanborn Counties

8

Lisa Rave
Minnehaha County, excluding Split Rock Township

9

Roger Fritz
Assistant Secretary/ Treasurer
Brookings, Codington, Deuel and Hamlin Counties

10

Dave Westbrock
Treasurer
Cities of Groton, Madison and Volga, SD

MICHEEL & O'CONNOR RETIRE AFTER 25 YEARS

Long-time directors Jerry Micheel and Dan O'Connor retired in 2013. Both directors had served on the Heartland board since 1989.

Jerry Micheel, who most recently served as secretary, retired January 1. He represented subdivision 6, which consists of the rural areas of Beadle, Clark, Kingsbury, Lake and Moody Counties in South Dakota.

Dan O'Connor retired December 31. He represented subdivision 2, which consists of Clay, Union and Yankton Counties in South Dakota. He served as vice president of the board from 1995-1997 and president from 1997-2013.

"I have seen many changes at Heartland over the last 25 years. When one retires after that many years, it's not the business you will miss, but the people."

-Dan O'Connor

At right: Jerry Micheel, top and Dan O'Connor

HEARTLAND WELCOMES NEW DIRECTOR

In March, the board of directors appointed Jeff Heinemeyer to represent subdivision 6, filling the seat vacated by Jerry Micheel. Heinemeyer served as the city of Madison, SD's finance officer for 28 years before retiring in 2012.

"Jeff will be a knowledgeable and active participant–his appointment strengthens an already strong board of directors."

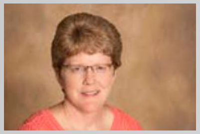
-Mike McDowell, former general manager at Heartland

At right: Jeff Heinemeyer

Staff

Heartland's staff is dedicated to helping customers succeed in the ever-changing utility industry. We are advocates for our customers and for public power, and strive to be not only a reliable power provider, but a trusted partner. From representation in national public power organizations to facilitating customer meetings, Heartland provides customers with the tools they need to enjoy continued growth and prosperity.

Russell Olson
CEO



Sharla Fedeler
Accountant

Patty Foley
Benefits Administrator

Adam Graff
Resource Manager

Ann Hyland
Communications Manager

Nate Jones
Market Operations Manager

John Knofczynski
Manager of Engineering & Operations

Kathie Lewis
Executive Assistant

Mike Malone
Chief Financial Officer

Steve Moses
Customer Relations & Marketing Manager

Danielle Rosheim
Projects & Marketing Coordinator

MIKE MCDOWELL RETIRES

Heartland General Manager and CEO Mike McDowell announced his retirement in April of 2013. His tenure at Heartland began in 2004 and was marked with several milestones including the introduction of an economic development incentive program, the acquisition of wind power and the construction of a LEED Certified Platinum headquarters. McDowell served as a champion for economic development and customer service.

"I've enjoyed a long career, but I feel privileged to have led Heartland for the past nine years. Together, we have built Heartland into a respected public power utility in South Dakota, as well as across the region and in the national consumer-owned electric industry."

-Mike McDowell

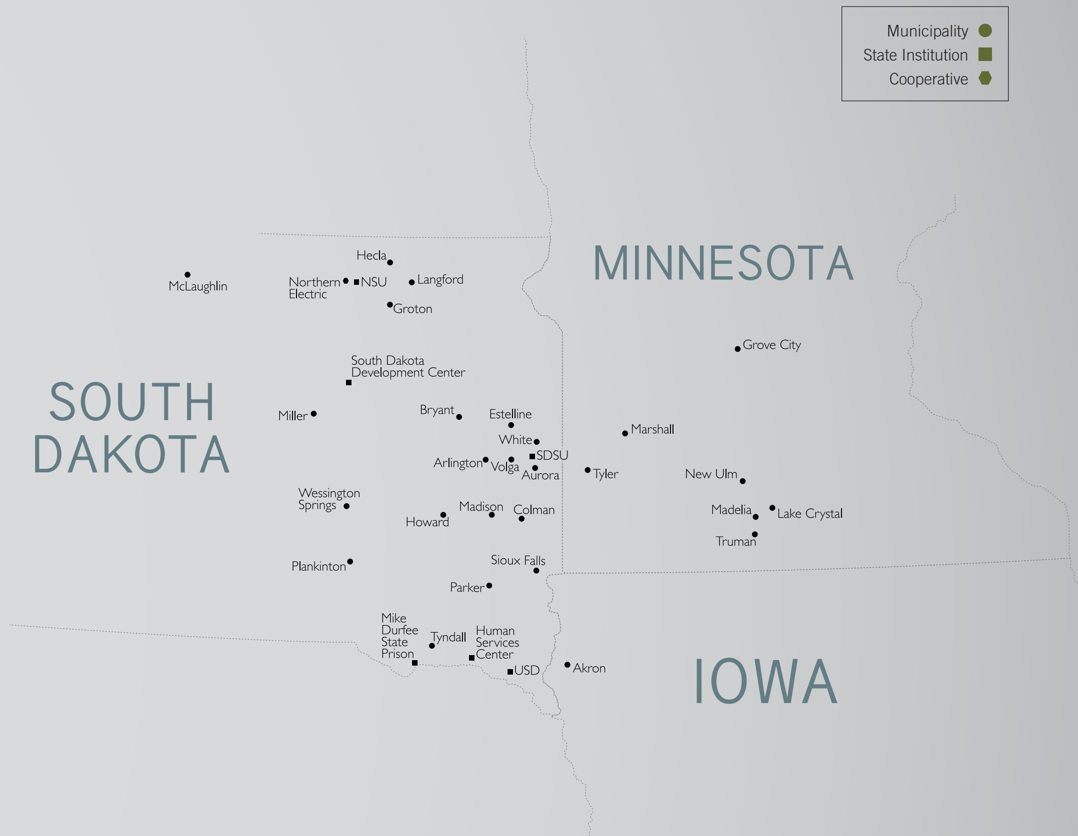
Below: Board President Dan O'Connor presents congratulatory notes written by South Dakota's Congressional delegation to McDowell at his retirement open house in September.

Customers

Heartland's customer base includes 27 municipal electric systems, six state institutions and one cooperative, all scattered across eastern South Dakota, southeast Minnesota and northwest Iowa. Depending on each customer's needs, Heartland serves as a partial, supplemental and full-requirement supplier of wholesale electric power and energy.

Heartland customers are primarily rural, agricultural-based communities with populations less than 3,000. As public power utilities, they enjoy benefits such as local control, reliability and efficiency. Our customers are public service institutions, held directly accountable by the people they serve through locally elected or appointed officials.

In addition to Heartland's growing customer base, we maintain short- and long-term power sales contracts with other organizations to expand the use of our resources.



BY THE NUMBERS

Largest Population	Smallest Population	Median Population
SIOUX FALLS, SD	*HECLA, SD*	*PARKER, SD*
159,908	**228**	**1,014**

PUTTING CUSTOMERS FIRST

2013 Customer Connections Committee members include, from left to right: Plankinton, SD Light Superintendent Vern Hill; Madison, SD Electric Superintendent Dennis Poppen; Groton, SD Finance Officer Anita Lowary; Tyler, MN Clerk Bruce Williams; Volga, SD Light Superintendent Brent Brown; Akron, IA Director of Public Works Gary Horton; and Miller, SD Light Superintendent Bill Lewellen. Not pictured are New Ulm, MN Utility Planning & Engineer Pat Wrase and Madelia, MN Council Member Jim Krueger.

CUSTOMER CONNECTIONS COMMITTEE

Heartland's Customer Connections Committee was formed in 2011 as a means to provide a formal channel for interaction between Heartland and our customers. Six members were originally appointed to the committee to offer their perspective and contribute feedback regarding Heartland operations to our staff and board of directors. Members serve three-year, staggered terms with three committee positions expiring each year. Elections to fill expiring terms are held at Heartland's Annual Meeting with only one representative from a customer community eligible to serve on the committee at a time.

The committee met four times in 2013. In March, the group amended their by-laws to allow for a larger committee, opening three new positions. The new members were elected in April. Two incumbents were also up for re-election including Gary Horton of Akron, IA and Mike Burkard of Sioux Falls, SD. Horton retained his seat while Burkard chose to vacate his.

"I greatly appreciate Heartland's strong desire to obtain feedback from their customers. The existence of the CCC is an excellent example of those efforts."

-Committee member Bruce Williams, city of Tyler, MN

MESSAGE FROM THE CHAIRMAN AND CEO

THE YEAR 2013 HAD ONE REOCCURRING THEME: TRANSITION

2013 was a year of transition, both at Heartland and in the electric utility industry. While the idea of change can be scary, it is necessary to keep moving forward. Transition brings new challenges, new goals, and new paths to overcome those challenges and achieve those goals. Transition brings opportunity. It makes us think differently and look at things from a new perspective.

Heartland experienced several internal transitions in 2013, including the retirement of a CEO and two long-time board members. But, Heartland proved the organization's strength and forged ahead with new leadership. A new program was launched and new system operation determined. Our resources continued to provide reliable generation and we fought to ensure their ongoing operation. We were also able to keep our promise to customers of predictable rates.

One of the most exciting milestones of 2013 was the announcement of the Energy ONE Incentive, which provides a special energy only rate to new or expanding businesses with a new load of at least one megawatt. The incentive officially launches in 2014, but all the legwork, including procuring customer participation and launching a marketing campaign, was done in 2013. We also signed on the first participant in the program, the Denny Sanford PREMIER Center, a multipurpose events center in Sioux Falls, SD, scheduled to open in the fall of 2014.

The beginning of perhaps the biggest transition for Heartland took root in 2013. After an extensive evaluation, Heartland, along with our partners in the Integrated System (IS), concluded it would be beneficial to move the load, generating resources and transmission assets within the IS into an organized energy market referred to as a Regional Transmission Organization (RTO). The partners evaluated two RTOs against remaining outside an RTO and determined Southwest Power Pool (SPP) to be the most viable option. By joining an RTO, IS partners agree to turn over functional control of their assets, which means SPP will plan, direct expansion, and sell service on the IS transmission system as well as direct and coordinate the operation of our generation and transmission assets in an integrated regional market. The earliest the IS will integrate into SPP would be the fall of 2015.

Heartland continued our commitment to providing reliable, affordable energy and services in 2013. Laramie River Station Unit 1, which has been part of Heartland's resource portfolio since its construction in 1980, continued to produce low-cost energy, although availability was lower than expected due to many unforeseen factors. Drought conditions persisted throughout 2013 which prompted the plant operator to purchase supplemental water for cooling in 2014. A major development for Whelan Energy Center Unit 2, which continues to develop into a reliable and economical resource, was the creation of a regional market for the beneficial use of the unit's scrubber ash. The coal combustion byproduct contains useful minerals and will be applied to agricultural land near the plant as a soil enhancement. Cooper Nuclear Station performed as expected throughout the year and Heartland's contract for power and energy from the plant expired December 31. Heartland continued our commitment to providing clean energy sources with the Wessington Springs Wind Energy Center, which continued to achieve above-industry average capacity factors.

The war on coal persisted throughout 2013, and Heartland continued our persistence in fighting reform and regulations that would have a negative impact on customers. The EPA issued New Source Performance Standards in 2013 for new coal-fired and natural gas-fired power plants requiring technology that is unproven and not commercially viable to meet carbon dioxide emission limits. Proposed standards for existing power plants are expected to be issued by June 1, 2014. Heartland will continue to monitor the development of these standards, provide comments to the EPA, and communicate the needs of our customers to our elected officials.

In order to protect our longest operating and lowest cost resource Laramie River Station, Heartland joined the Wyoming for Affordable Power Coalition after the EPA Region 8 partially disapproved the state of Wyoming's air quality implementation plan (SIP) for regional haze. The EPA seeks to implement a federal program which will directly and significantly increase electric bills of our customers. The coalition launched the "Stop EPA WY" campaign and asked EPA to acknowledge and respect Wyoming's authority and discretion to make its own decisions regarding clean air programs.

Heartland has continually worked toward stabilizing rates and limiting increases to those necessary for operation. A 3% rate increase for 2014 is a result of two primary increases in operating costs and cash flow requirements. Transmission expense is expected to increase in 2014 as is debt service. In previous years, refunding due to overlaps in baseload resources decreased the debt service deposit requirements. Because Heartland's contract with Cooper Nuclear Station expired at the end of 2013, the baseload overlap ceased, thereby ending the refunding and increasing cash flow requirements. Many factors lead us to believe we have more reliable and predictable rate forecasts through 2016.

At Heartland, our motto is the power of forward thinking. These aren't just words to us. While we certainly learn from the past, we are always looking to the future and pursuing avenues that will prove beneficial to our customers. Our industry is ever-changing and always evolving. Transition will forever be part of our daily business. We will face the challenges that lie ahead and embrace the opportunities that will make us a stronger company.

Russell Olson
CEO

Merlin VanWalleghen
Chairman of the Board

Heartland has positioned itself in a unique place in the public power industry–a position allowing us to responsibly bring on new customers while giving greater confidence to our existing customers as we move forward.

2013 IN REVIEW

JAN

- Expanded our energy efficiency program Power Forward to include heating and cooling incentives. Rebates became available for installing Energy Star qualified air-source heat pumps, central air conditioners and geothermal heat pumps. The rebates bolstered an already comprehensive program that provides commercial lighting incentives and residential appliance rebates.

- Joined a group of nearly 90 delegates in South Dakota's capital for Madison/Dakota State University Hosts the Legislature. Heartland sponsors the annual event, which included legislative committee meetings, a tour of the Capitol building and a visit with District 8 legislators, including Heartland Manager of Community & Economic Development and Senate Majority Leader Russell Olson. The group also held audience with Governor Dennis Daugaard and several state department heads.

Above: Olson speaks to the Madison group in Pierre, SD.

FEB

- Hosted 21 participants of the Madison Chamber of Commerce's Leadership Madison program. Participants toured our LEED Platinum facility and learned about Heartland and public power utilities.

Below: Communications Manager Ann Hyland leads the Leadership Madison group on a tour of Heartland's headquarters.

MAR

- Hosted a two-day infrared (IR) camera workshop for 18 participants from South Dakota, Minnesota, Iowa, Nebraska and Montana. Entitled "Infrared Inspection for System Maintenance and Energy Audits" and sponsored by Western Area Power Administration and Clean Energy Ambassadors, the course was an introduction to thermal imaging, designed to familiarize participants with the operation of IR cameras and the applications in which they're used.

- Met one-on-one with members of Congress during the American Public Power Association Legislative Rally in Washington, D.C. Heartland staff shared the benefits of public power and addressed several key issues impacting the long-term success of the public power industry and the communities we serve.

Above: Aurora, SD Utility Manager Andy Studer uses an IR camera during the workshop.

APR

- Announced the Large Load Incentive Program (LLIP) as a means to draw new businesses into the communities we serve. Later renamed the Energy ONE Incentive, the LLIP targets new retail loads one megawatt or larger and provides a special energy-only fixed rate for three years.

- Explored hydraulic fracturing, regional transmission organizations and other topics important to our customers during our second Annual Meeting. Representatives from 18 customer communities as well as members of Heartland's board of directors joined the discussion.

Opposite page: From left to right, Heartland Market Operations Manager Nate Jones, Field Representative from the office of U.S. Representative Kristi Noem Andrew Curley, Howard Finance Officer Donna Klinkhammer, and SD Municipal Electric Association President Todd Chambers paused for a team photo during Heartland's Summer Conference & Invitational in July of 2013.

MAY

- Wrapped up our annual “Student of the Month” promotion by recognizing Amanda Jensen, a senior at Arlington High School in Arlington, SD. Heartland teamed up with KJAM Radio in Madison to honor exceptional students within Heartland customer communities and the KJAM listening area. Students were recognized with advertisements broadcast on the radio station.

Above: Heartland Communications Manager Ann Hyland, left, presents a student of the month certificate to Amanda Jensen. Also present is Arlington High School Principal Rhonda Gross, who nominated Jensen for the award.

JUN

- Expressed concerns in response to President Obama’s comprehensive climate action plan that called for completion of “carbon pollution” standards for new and existing power plants. Heartland, along with the American Public Power Association, questioned how the Environmental Protection Agency would address emissions from existing plants since no commercially available technology to control greenhouse gas emissions from power plants currently exists. Heartland urged the EPA to set standards for coal-fired plants that can be achieved while keeping electricity affordable.

JUL

- Promoted youth engagement as a community development tool at our annual Summer Conference and Invitational. Utility employees, government officials and other representatives from 18 customer communities attended the event, which also included a recap of Heartland’s economic development programs.

- Joined the Wyoming for Affordable Power coalition in launching the “Stop EPA WY” campaign to promote keeping electricity rates reasonable and ensuring a viable future for coal. The campaign objected the Environmental Protection Agency’s partial disapproval of the state of Wyoming’s air quality implementation plan, and the agency’s federal implementation plan, mandating the installation of Selective Catalytic Reduction hardware at Wyoming power plants, including Heartland resource Laramie River Station.

Above: Craig Schroeder, senior fellow and director of youth engagement for the Center for Rural Entrepreneurship, leads a discussion on youth engagement at the Summer Conference.

AUG

- Hosted a youth engagement workshop for customers as a follow-up to the Summer Conference. Participants learned to identify successful strategies and local resources for building a youth engagement plan.

Below: Colman, SD Mayor Gloria Van Duyn, left, visits with Volga, SD City Administrator Andrew Bremseth during the youth workshop.

SEP

- Opposed the Obama administration's issuance of strict carbon limits for new power plants that burn fossil fuels. The first major action to carry out the Climate Action Plan announced in June, the New Source Performance Standards would require coal-fired plants to meet an emissions limit of 1,100 pounds of CO_2 per megawatt-hour. New plants could only meet the limits if CO_2 is removed using carbon capture and storage technology, which Heartland and many utility groups believe to be an unproven technology.

Above: President Obama outlines his Climate Action Plan in June. Photo source AP/Charles Dharapak.

OCT

- Welcomed former Manager of Community & Economic Development Russell Olson as Chief Executive Officer. Olson spent the first few months in his new role touring Heartland resources, visiting customer communities, meeting with industry partners and agencies, and rolling out a new economic development program.

- Marked Public Power Week by submitting press releases to each of our customers' local newspapers touting the advantages of public power, offering energy saving tips and providing information about Heartland's energy efficiency programs.

NOV

- Earned an Award of Merit from the American Public Power Association for our 2012 annual report. The award is Heartland's fourth consecutive in the national annual report contest, conducted to encourage and recognize excellence in communications.

- Hosted our annual series of budget meetings in the cities of Marshall, MN and Madison and Groton, SD. Representatives from 18 customer communities and agencies attended the events, which featured a presentation on Heartland's 2014 budget and the driving factors behind it. Staff also provided updates on Heartland's Energy ONE Incentive and our pending participation in a regional transmission organization.

Above: Officials from various customer communities listen to presentations during the budget meeting in Madison, SD.

DEC

- Participated in a panel discussion regarding Regional Transmission Organizations (RTOs) at the Mid-West Electric Consumers Association's annual meeting. The goals of the panel were to educate the audience on the functions of RTOs and organized energy markets as well as explain the process the Integrated System owners used to evaluate RTOs and why they support a move into one.

Below: Heartland Manager of Engineering & Operations John Knofczynski, second from left, participates in an RTO panel.

POWER SUPPLY

In order to meet the growing needs of our customers, Heartland maintains a diverse power supply portfolio. In 2013, our resources included coal-fired, renewable, nuclear and peaking sources located in our customer communities. Our power is delivered over the Integrated System, which covers a seven-state area and consists of over 9,800 miles of high-voltage transmission line. The IS is jointly owned by Heartland, Basin Electric Power Cooperative and Western Area Power Administration.

GENERATING RESOURCES AT A GLANCE

Whelan Energy Center Unit 2

80 MW

Heartland has a 36.4% entitlement in Whelan Energy Center Unit 2 (WEC2), making it the largest generating resource in our portfolio. WEC2 is a 220 megawatt, pulverized coal-fired generating plant located near Hastings, Nebraska. The plant meets or exceeds all current pollution control standards and is well-positioned to meet many rules pending with the Environmental Protection Agency.

Laramie River Station

51 MW

A three-unit, 1,710 megawatt coal-fired generating station located near Wheatland, Wyoming, Laramie River Station (LRS) is continuously ranked as one of the top ten lowest-cost generating stations in the country. LRS was constructed as part of the Missouri Basin Power Project, which also includes Grayrocks Dam and Reservoir and nearly 650 miles of high voltage transmission line. Heartland has a 3% undivided ownership share of LRS, drawn from the output of Unit 1.

Wessington Springs Wind Energy Center

51 MW

Through a long-term purchase power agreement with NextEra Energy, Heartland purchases the full output of the 34, 1.5 MW turbines at Wessington Springs Wind Energy Center (WSW Energy Center). Situated on approximately 3,500 acres on the bluffs of Jerauld County, WSW Energy Center fulfills Heartland's commitment to renewable energy standards and objectives in Minnesota, South Dakota and Iowa.

Cooper Nuclear Station

45 MW

Heartland signed a purchase power agreement in 2003 with Nebraska Public Power District to purchase capacity and energy from Cooper Nuclear Station (CNS), located near Brownville, Nebraska. CNS is a 791 megawatt boiling water reactor and the largest single-unit generator in Nebraska. Heartland's contract with CNS expired December 31, 2013.

Peaking Sources

28 MW

Heartland uses contracts with our customers and other utilities to acquire low cost capacity resources to meet reserve margin requirements and provide a hedge against high market prices. Several Heartland customers have diesel generating plants totaling 28-MW which Heartland has secured on a long-term basis. Contracts with other utilities are used to fill short-term capacity needs.

DIVERSE, RELIABLE AND AFFORDABLE

Whelan Energy Center Unit 2

Heartland's newest and largest generating unit has continued to develop into a reliable and economical resource. By the end of 2013, Whelan Energy Center Unit 2 (WEC2) achieved an 80.2% running plant capacity factor with an average availability of 85.9%. Output was limited intermittently due to market conditions, two planned maintenance outages and a small number of unplanned outages.

WEC2's biggest achievement in 2013 was the development of a market for the beneficial use of the unit's scrubber ash. WEC2 owners were able to secure a contract with a regional company for application of the ash, which contains sulfur and calcium, useful minerals to agricultural land as a soil enhancement. Both the Nebraska Department of Environmental Quality and the U.S. Department of Agriculture approved the use of the scrubber ash for agricultural applications. Due to a favorable court ruling prohibiting the Environmental Protection Agency from designating coal ash as a hazardous waste, WEC2 will no longer need to construct a new landfill for ash.

Laramie River Station

Although plant availability and production was limited throughout the year due to transmission curtailments, unit de-rates due to coal quality and multiple unplanned outages, Laramie River Station (LRS) continued to produce reliable and low-cost energy in 2013. LRS achieved an overall 85.9% running plant capacity factor with an average availability of 90.5%.

On January 31, LRS began operating using an Energy Management System (EMS). Installed by plant operator Basin Electric, the EMS allows LRS owners to begin scheduling their own entitlements using an automated process through Basin.

Poor water conditions persisted in 2013, threatening LRS's future cooling water supply. Despite above normal precipitation, below normal runoff reduced Grayrocks Reservoir, the primary source of cooling water for LRS, from 70% full on January 1 to 47% full on December 31. In the event the drought continued into 2014, Basin executed several contracts to

purchase supplemental ground water for operations in 2014.

The EPA also posed a threat in 2013 with its decision to overrule Wyoming's state implementation plan for regional haze. EPA Region 8 published a proposed federal implementation plan (FIP) that mandates LRS owners install Selective Catalytic Reduction (SCR) hardware to reduce NOx emissions and improve regional haze conditions. Heartland staff attended three public hearings on the matter, providing testimony at two. General Manager Mike McDowell testified at the first hearing in Wyoming in late June against the FIP, calling for more cost-effective and less onerous alternatives to the SCR technology. Heartland also joined a coalition "Wyoming for Affordable Power" and participated in the Stop EPA WY campaign, submitting written comments to the EPA on behalf of our customers. The compliance deadline is five years after publication of the final rule, or approximately March of 2019.

Wessington Springs Wind Energy Center

With the inclusion of the Wessington Springs Wind Energy Center (WSW Energy Center) in our portfolio, Heartland fulfills our commitment to providing clean energy resources. WSW Energy Center continues to produce excellent results, achieving a running plant capacity factor of 45.9% and average turbine availability of 98.2% in 2013.

Although generation was poor by the plant's own standards during the summer months, it improved dramatically in the last quarter of 2013 due to higher-than-expected wind conditions. By December 31, the wind farm produced approximately 202,000 megawatt hours of energy. Overall, the WSW Energy Center has proven to be a better-than-average energy producer.

Cooper Nuclear Station

Rounding out Heartland's power supply mix, Cooper Nuclear Station (CNS) operated at 99.1% running plant capacity factor and 100% availability for 2013. Plant operators were able to avoid a five-day maintenance outage in March, but CNS dipped to a year-low capacity factor of 95% in June and July due to equipment problems. The plant resumed operating at full output by August.

Heartland's contract for power energy from CNS expired December 31.

Energy Markets

To balance our hourly position of load and resource, Heartland uses short-term energy sales to and purchases from the energy markets. Heartland transacts in three markets: Western Area Power Administration (WAPA), Southwest Power Pool (SPP) and Midcontinent Independent System Operator (MISO).

In most cases, pricing in the energy markets are driven by the price of natural gas. In 2012, natural gas prices dropped, driving down market sales prices in both WAPA and SPP. However, in 2013, natural gas began an upward trend, helping Heartland realize much better market pricing for its surplus energy sales.

Heartland and the Integrated System (IS) partners have decided to pursue membership in SPP after concluding an extensive Regional Transmission Organization (RTO) evaluation in 2013. The evaluation compared SPP & MISO against staying out of an RTO. At the conclusion of the evaluation, Heartland, WAPA and Basin Electric recommended the load, generating resources and transmission assets within the IS be moved into an RTO and determined SPP to be the most viable option.

The earliest the IS would integrate its load and resources into SPP would be the fall of 2015. Heartland expects the impacts to customers to be negligible, and WAPA customers should benefit from operation within a market.

From left to right: Whelan Energy Center Unit 2's air quality control system includes a scrubber, the black building with a large tank situated on top of it. Grayrocks Reservoir, the primary source of cooling water at Laramie River Station, experienced drought conditions in 2013. Windy conditions in the fall and early winter months of 2013 improved the Wessington Springs Wind Energy Center's overall generation output. Cooper Nuclear Station operated at 100% availability in 2013. Heartland executes energy sales to and from the energy marketplace to balance our hourly position of load and resource.

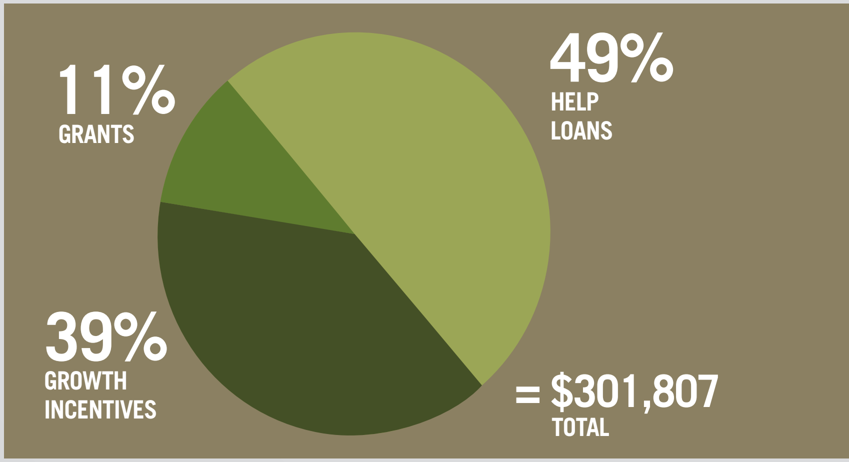

HEARTLAND
CONSUMERS POWER DISTRICT
1000
March 28 20 13
Pay To The Order Of
Beacon Promotions
$ 8,813 88/XX
EIGHT THOUSAND EIGHT HUNDRED THIRTEEN & 88/XX Dollars
Notta Real Bank
Memo Growth Incentive

ECONOMIC DEVELOPMENT

HELPING CUSTOMERS GROW AND THRIVE LIKE NEVER BEFORE

Heartland's progressive economic development program provides customers with resources to help them be successful. Customers have access to a toolkit to promote growth and expansion in their communities, including grants, a revolving loan fund and growth incentives. The launch of a new energy-only rate for new or expanding large energy users futher illustrates our commitment to helping our customers create economic stability while maintaining a superior quality of life.

2013 PROGRAM HIGHLIGHTS



Grants

Economic development takes a commitment of time and resources to ensure a community's success. Heartland promotes economic prosperity by providing grants to customers and their local economic development corporations for projects that foster growth and support the economic well-being of a community.

Since 1997, Heartland has awarded 204 grants for over $654,000. Projects funded in 2013 included an electrical system study in Colman, SD, the development of a property management group to own and operate a restaurant and bar in Langford, SD, and print and electronic community advertising in Estelline and Wessington Springs, SD, among others.

Growth Incentives

One piece of a successful economic development program is an incentive to draw businesses to your community and help existing businesses grow. Heartland's growth incentive program offers hiring incentives and utility rebates to assist with business recruitment, retention and expansion, as well as job creation. Electric bill rebates are provided for three years, equating to one year's worth of free power. Cash incentives for new jobs created are paid upon a business's start-up or expansion with additional positions created for the next three years also eligible.

Since 2004, Heartland has awarded over $721,000 in electric rebates and hiring incentives, resulting in an increased customer load of over 24 million kilowatt hours.

HELP Loans

Partnerships are another vital aspect of economic development. Through a partnership with the United States Department of Agriculture Rural Development, the Heartland Economic development Loan Program (HELP) Fund finances business ownership and expansion, job retention and creation, and entrepreneurial enterprises. Heartland customers, their local economic development corporations and businesses served by our customers are eligible to

Aletha Whitethorn of Metal Finish, Inc., accepts a HELP Fund loan from Heartland CEO Russell Olson. Owners and operators of Laser Cut, Inc. in Madison, SD, Aletha and her husband Hal secured financing for start-up costs of Metal Finish to provide quality metal plating at an affordable price and fill a regional need for the service.

GRANTS

5 customer recipients
$34,068 total funding

GROWTH INCENTIVES

9 customer communities
18 business recipients
20 new full-time employees
$58,000 in utility rebates awarded
$9,200 in hiring incentives awarded
$67,200 total funding
3.4 million kWh added

HELP LOAN

1 recipient
$150,000 total funding

apply for up to $150,000 or 75% of the total project cost.

To date, the HELP Fund has issued more than $4.4 million to 21 recipients. In 2013, Heartland announced a $150,000 HELP loan to assist with start-up costs of a metal plating business in Madison, SD.

Energy ONE Incentive

Heartland developed the Energy ONE Incentive to provide customers with a significant competitive advantage when recruiting new businesses or retaining existing businesses looking to expand. Adopted in April of 2013, the Energy ONE Incentive provides a special, energy-only rate to new or expanding businesses with a new load of one megawatt or larger. The incentive rate is fixed for the first three years of operation and eliminates demand charges in that same time period.

ENERGY ONE INCENTIVE

To date, eighteen Heartland customers have opted to participate in the incentive program, agreeing to pass the incentive rate set by Heartland through to the qualifying retail customer. Each year, Heartland will set the rate which will be fixed for the following three calendar years. At start-up, the qualifying retail customer would be eligible to use the then-effective rate for the remainder of the three year period, giving them time to establish use patterns and better plan for the future.

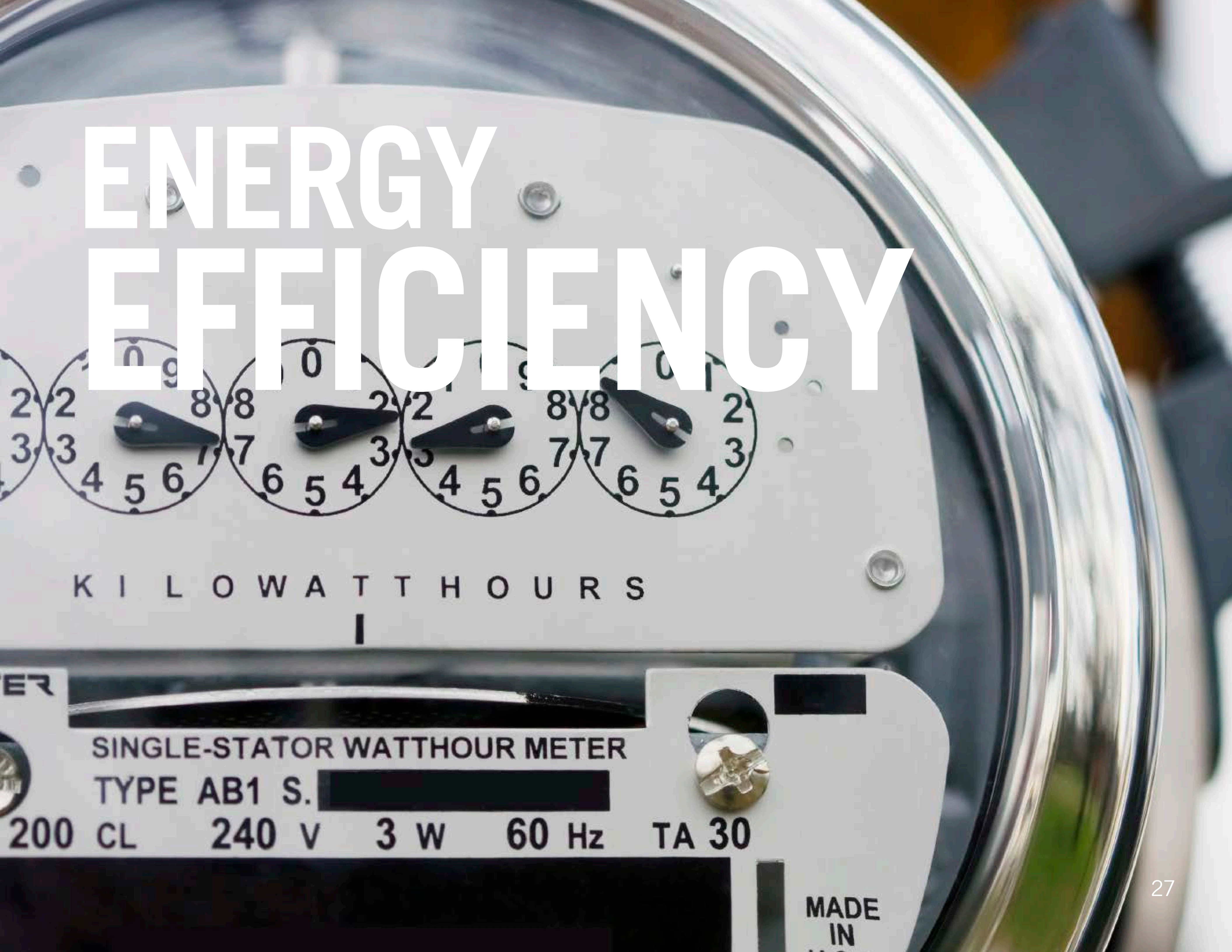
SIOUX FALLS IS FIRST CUSTOMER TO UTILIZE NEW INCENTIVE

In addition to extending an existing agreement with Heartland in October to provide the city's supplemental electric power and energy, the city of Sioux Falls, SD became the first customer to participate in Heartland's newest program, the Energy ONE Incentive. The Denny Sanford PREMIER Center, a multipurpose events center currently under construction, will receive the energy-only incentive rate during its first few years of operation. The events center will generate an estimated 4.5 megawatt peak electric load when it opens in the fall of 2014. The incentive is expected to save the city about $2.5 million.

At right: Sioux Falls Mayor Mike Huether, left, and Heartland CEO Russell Olson sign the extension agreement. Photo courtesy Sioux Falls Light & Power.

OUR CUSTOMERS WILL BE THE ONLY PUBLIC POWER MUNICIPALITIES IN THE NATION TO OFFER SUCH AN AGGRESSIVE COST-BASED INCENTIVE

ENERGY EFFICIENCY



EMBRACING INNOVATION AND SUSTAINABILITY

Heartland's comprehensive energy efficiency program, Power Forward, provides customers with valuable incentives and educational tools to promote the more efficient use of electricity. Since the program's launch in 2009, Power Forward has provided energy makeovers to municipal utilities and homeowners, training to utility employees to become energy auditors, incentives to residents and businesses to upgrade to more efficient products, and grants to help utilities make energy efficiency upgrades.

Rebates and Incentives

Price is a big factor when a consumer makes a purchase. While purchasing an energy efficient appliance or light bulb will save money in the long run, it's difficult to look past the initial cost. One goal of Power Forward is to help bridge the gap between the often higher priced efficient model and the non-efficient model.

Power Forward offers rebates to residential customers for upgrading their appliances, including dishwashers, clothes washers, refrigerators and freezers, to Energy Star models. Rebates are also offered to commercial customers for replacing lighting with new, efficient fixtures. In 2013, a new component was added to Power Forward. Rebates became available for purchasing an Energy Star electric heat pump, geothermal heat pump or central air conditioner.

Since launching the incentive program in 2012, Heartland has awarded 182 appliance rebates and helped 46 businesses replace 1,845 light fixtures. In 2013 alone, 94 appliance rebates were issued, which helped replace 31 refrigerators, 30 dishwashers, 31 clothes washers and two freezers. Nine heating and cooling rebates were issued and 21 businesses replaced 717 light fixtures.

Grants

In order for a utility to effectively promote energy efficiency, they must demonstrate their own commitment. Heartland began offering grants to customers in 2011 to perform energy efficiency improvements at city facilities. Eligible projects include those that optimize electric energy use, thereby reducing the city's energy costs.

Heartland has awarded over $53,000 in energy efficiency grants since 2011, including nine grants in 2013 to seven customers for a total of nearly $20,000.

Centralized Load Management

Heartland forged a partnership with Omni-Pro Software in Madison, SD in 2012 to help customer utilities reduce demand and costs through the use of a Centralized Load Management Support System (CLMSS). The CLMSS provides discounted pricing to Heartland customers for implementation of new load management and automated meter reading systems through Omni-Pro. Additionally, Heartland is able to monitor and offer assistance in the implementation and ongoing operations of load management systems. Using the CLMSS, Heartland is able to help customers troubleshoot and maintain system operations.

2013 PROGRAM HIGHLIGHTS

REBATES

94 appliance rebates issued
9 heating and cooling rebates issued
$9,355 total funding

31 Refrigerators
31 Clothes washers
30 Dishwashers
2 Freezers

LIGHTING INCENTIVES

21 participating businesses
717 light fixtures replaced
$18,790 total funding

GRANTS

Customer Recipients
7

Total Funding
$19,700

Estimated Annual Savings
66,563 kWh

At left: Heartland Communications Manager Ann Hyland, left, presents an energy efficiency grant to Tyler, MN Mayor Kurt Thomsen for the installation of new LED streetlights on Main Street. Hyland and Thomsen stand in front of one of the new poles, which displays a plaque recognizing Heartland's contribution.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Heartland Consumers Power District
Madison, South Dakota

We have audited the accompanying basic financial statements of Heartland Consumers Power District (the District), which are comprised of balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heartland Consumers Power District as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Lincoln, Nebraska
April 11, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Heartland Consumers Power District's (Heartland or HCPD) financial statements provides the reader an overview of the financial activities for 2013, 2012 and 2011. 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 with respect to the context of the entire document.

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

	Net Position as of December 31,			Fiscal Year-to-Year Percentage Change	
	2013	2012	2011	From 2012 to 2013	From 2011 to 2012
Current assets	$ 19,180	$ 14,803	$ 18,217	29.6%	(18.7)%
Capital assets, net	19,481	18,765	18,411	3.8%	1.9%
Other noncurrent assets	18,619	21,509	18,034	(13.4)%	19.3%
Total assets	57,280	55,077	54,662	4.0%	0.8%
Deferred outflows of resources	--	224	634		
Total deferred outflows of resources and assets	$ 57,280	$ 55,301	$ 52,296	3.6%	0.0%
Current liabilities	$ 11,715	$ 7,912	$ 8,863	48.1%	(10.7)%
Noncurrent liabilities	36,159	39,150	33,879	(7.6)%	15.6%
Total liabilities	47,874	47,062	42,742	1.7%	10.1%
Deferred inflows of resources	1,089	1,213	1,994	(10.2)%	(39.2)%
Net investment in capital assets	(1,769)	(1.664)	(2,132)	6.3%	(22.0)%
Restricted	4,707	5,058	4,365	(6.9)%	15.9%
Unrestricted	5,379	3,632	8,327	48.1%	(56.4)%
Total net position	8,317	7,026	10,560	18.4%	(33.5)%
Total liabilities, deferred inflows of resources and net position	$ 57,280	$ 55,301	$ 55,296	3.6%	0.0%

Heartland's overall net position increased in 2013 by $1,291,439 and decreased in 2012 by $3,534,206, respectively. The overall net position increased by $2,690,471 during 2011. The increase in net position in 2013 was the result of increased customer and off-system sales revenue. The decrease in net position in 2012 was the result of off-system and customer sales below budgeted expectations. The increase in net position in 2011 was a result of increased customer revenue and other revenue.

The increased customer revenue in 2013, 2012, and 2011 is attributed to an increase in customer sales and an increase in the demand and energy rates. The demand and energy rates were increased to meet the increasing costs of power supply generation and maintenance and other operating expenses. Generation and transmission facilities represent 95% of Heartland's total capital assets. The remaining 5% of capital assets includes Heartland's headquarters building, transportation equipment, and office equipment. The level of assets should remain reasonably stable until such time as Laramie River Station (LRS) requires substantial capital improvements.

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.

Heartland's results for the current and prior two years are summarized in the following table. This information is derived from the financial statements and records of Heartland.

Results of Operations

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

	2013 Actual	2012 Actual	2011 Actual	Fiscal Year-to-Year Percentage Change From 2012 to 2013	From 2011 to 2012
Power sales					
Customer energy (MWh)	869,871	868,656	870,436	0.1%	(0.2)%
Customer cumulative demand (kW)	1,457,163	1,448,641	1,472,567	0.6%	(1.6)%
Revenues					
Customer revenue	$ 60,018	$ 59,636	$ 55,194	0.6%	8.0%
Surplus sales revenue	22,699	9,424	11,887	140.9%	(20.7)%
Other operating revenue	1,157	1,033	1,106	12.0%	(6.6)%
Transfer (Provision) for rate stabilization	--	586	(586)	100.0%	(100.0)%
Total operating revenue	83,874	70,679	67,601	18.7%	4.6%
Expenses					
LRS production and O&M	8,576	6,817	8,038	25.8%	(15.2)%
Cost of power	62,696	56,908	50,787	10.2%	12.1%
Settlement proceeds	--	--	(3,586)	100.0%	(100.0)%
Transmission	4,372	2,552	3,473	71.3%	(26.5)%
Depreciation	1,111	1,035	959	7.3%	7.9%
Taxes	192	270	193	(28.9)%	39.9%
Administration and general	3,864	3,600	3,220	7.3%	11.8%
Amortization	324	341	446	(5.0)%	(23.5)%
Total operating expenses	81,135	71,523	63,530	13.4%	12.6%
Operating income (loss)	2,739	(844)	4,071	(424.5)%	(120.7)%
Total nonoperating expenses, net	(1,448)	(2,690)	(1,381)	(46.2)%	94.8%
Change in net position	1,291	(3,534)	2,690	(136.5)%	(231.4)%
Net position, beginning of year	7,026	10,560	7,870		
Net position, end of year	$ 8,317	$ 7,026	$ 10,560		

Operating revenues include firm power sales to customers, short-term energy sales on the surplus market, and other revenues. Heartland's customer demand and energy sales for 2013 were 1,457,163 kW and 869,871 MWh, respectively. The 2013 peak demand of 141.9MW occurred in August. Demand and energy sales for 2012 were 1,448,641 kW and 868,656 MWh, respectively. Demand and energy sales for 2011 were 1,472,567 kW and 870,436 MWh, respectively. Heartland's peak demand for 2012 and 2011 were 142.9 MW and 140.4 MW, respectively.

Surplus energy sales are the sales of energy produced by Heartland's resources in excess of the energy required by Heartland's customers. 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 requirements, and market and contractual pricing. The large increase in surplus sales revenue compared to 2012 is the result of two primary reasons. First, none of Heartland's baseload generation had significant scheduled outages in 2013 and in 2012 all three of Heartland's baseload resources had scheduled maintenance or refueling outages. This resulted in an increased amount of excess energy to sell both contractually and in the short-term markets. Secondly, the average price Heartland was paid both contractually and in the short-term market was greater in 2013 than in 2012. Surplus sales decreased in 2012 primarily due to less available excess energy for sale. This reduction in energy was an effect of scheduled maintenance and refueling outages at three of Heartland's baseload resources.

The operating expenses fluctuated in some areas. Production expenses (the cost for coal, transportation, and operations and maintenance at LRS) increased by 25.8% in 2013 due to no scheduled outage and fewer unscheduled outages than occurred in 2012. The scheduled outage and unscheduled outages in 2012 resulted in less energy produced and therefore reduced costs.

Heartland purchases power, in addition to its ownership share in LRS, to meet the total contract resource obligations to its customers. The purchased power contracts include base-load resources, renewable generation facilities, short-term purchases during peak conditions or during an outage, and additional capacity purchases required to comply with the resource reserve requirements for maintaining regional reliability.

Whelan Energy Center 2 (WEC2) was operational for the entire year in 2013 and 2012 as opposed to becoming commercially operational in 2011. This resulted in increased cost of power in 2013, 2012 and 2011. WEC2 had fewer scheduled and unscheduled outages in 2013 compared to 2012 which resulted in higher total energy production. Heartland is a member of Public Power Generation Agency (PPGA), an interlocal agency created under Nebraska statute to build WEC2, a 220 megawatt coal-fired project near Hastings, Nebraska. Heartland's participation in PPGA is for 80 megawatts and WEC2 became commercial in May of 2011. PPGA financed construction of WEC2 directly, rather than obtaining funding from its members.

In 2011, Heartland recognized settlement proceeds of $3,585,693 related to a Surface Transportation Board decision which occurred in 2009. The case was related to rail rates charged to LRS by Burlington Northern Santé Fe. The rebate of previous operating expenses was previously held in reserve until the appeals process was materially complete. The D.C. Circuit Court of Appeals has affirmed the previous decision by the STB. A provision of $585,693 was retained in rate stabilization to offset expenses in 2012.

Transmission credits for PPGA's investment in Nebraska Public Power District's transmission system were passed on to PPGA's partners. These credits started on the commercial operation of WEC2 and were fully utilized in 2013. This resulted in increased 2013 transmission expense compared to 2012. The credits were fully utilized in 2013 resulting in higher transmission costs in 2013 compared to 2012. Transmission expense decreased in 2012 compared to 2011 as a result of the commercial operation date not occurring until May 1, 2011. In addition, transmission expense has increased with increase in customer loads and escalating transmission rates.

The nonoperating revenues/expenses include interest on bonds, investment income, and amortization of defeasance credits from earlier bond issues. Heartland's debt service coverage (as defined in the senior bond resolution) for 2013 and 2012 was 2.80 and 1.90, respectively. The debt service coverage was 3.29 in 2011. The minimum coverage required by the bond resolutions was increased to 1.35 in 2010.

During 2013, Heartland made $674,017 in principal payments on its outstanding bonds. Principal payments in 2012 and 2011 were $1,875,000 and $3,535,000, respectively. Heartland issued an advanced refunding in 2011 related to the 2012, 2013, and 2014 bond maturities. Any additions to plant in service were the result of improvements to the Missouri Basin Power Project, which includes LRS and various associated transmission facilities. There were no significant additions in 2013, 2012, or 2011.

Heartland's bonds are insured by Insured Guaranty Municipal Corp. who has a Moody's rating of A2 and Standard & Poor's rating of AA, as of the date of this report. Moody's assigned an underlying rating of Baa1 to Heartland and Standard & Poor's has assigned an issuer credit rating of BBB+ to Heartland.

Contact Information

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

BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

Assets and Deferred Outflows of Resources

	2013	2012
Current Assets		
Cash and cash equivalents	$ 3,640,986	$ 1,997,510
Restricted cash and cash equivalents	1,003,756	1,003,750
Short-term investments	2,774,213	1,275,349
Accounts receivable	7,879,881	6,524,653
Notes receivable, current portion	374,778	365,709
Plant operation assets	3,402,289	3,554,625
Prepaid expenses and other current assets	104,210	81,182
Total current assets	19,180,113	14,802,778
Noncurrent Assets		
Notes receivable, net allowance of $350,850 for 2013 and $814,526 for 2012	2,043,497	1,821,451
Restricted deposits and investments	11,824,529	12,187,613
Long-term investments	1,935,363	4,655,432
Capital assets, net	19,481,380	18,764,511
Costs recoverable from future billings	2,370,786	2,674,480
Other noncurrent assets	445,000	170,000
Total noncurrent assets	38,100,555	40,273,487
Total assets	$ 57,280,668	$ 55,076,265
Deferred Outflows of Resources		
Deferred loss on refunding	--	224,495
Total assets and deferred outflows of resources	$ 57,280,668	$ 55,300,760

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resourcs and Net Position

	2013	2012
Current Liabilities		
Current maturities of long-term debt	$ 864,705	$ 866,116
Accounts payable	7,200,962	5,970,688
Accrued expenses	474,509	297,870
Accrued interest payable	771,180	777,746
Unearned revenue	2,404,062	--
Total current liabilities	11,715,418	7,912,420
Noncurrent Liabilities		
Long-term debt, net	32,327,594	32,936,440
Unearned revenue	3,595,938	6,000,000
Other noncurrent liabilities	235,421	213,273
Total noncurrent liabilities	36,158,953	39,149,713
Total liabilities	$ 47,874,371	$ 47,062,133
Deferred Inflows of Resources		
Deferred gain on refunding	239,315	--
Reductions of future billings	849,585	1,212,669
Total deferred inflows of resources	$ 1,088,900	$ 1,212,669
Net Position		
Net investment in capital assets	(1,769,278)	(1,664,294)
Restricted for debt service	4,707,171	5,057,578
Unrestricted	5,379,504	3,632,674
Total net position	8,317,397	7,025,958
Total liabilities, deferred inflows of resources and net position	$ 57,280,668	$ 55,300,760

See Notes to Financial Statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2013 AND 2012

		2013	2012
Operating Revenues			
Customer requirements		$ 60,017,772	$ 59,636,418
Surplus sales revenue		22,698,517	9,424,316
Other operating revenue		1,157,304	1,032,866
Transfer for rate stabilization		--	585,693
	Total operating revenues	83,873,593	70,679,293
Operating Expenses			
Cost of power		71,271,900	63,725,677
Depreciation and amortization		1,434,322	1,375,680
Transmission		4,371,616	2,552,141
Other		4,056,262	3,869,989
	Total operating expenses	81,134,100	71,523,487
Operating Income (Loss)		2,739,493	(844,194)
Nonoperating Revenues (Expenses)			
Investment income		446,031	461,655
Interest expense		(2,136,451)	(2,154,736)
Amortization expense		(233,793)	(227,405)
Bad debt (recovery) expense		476,159	(769,526)
	Net nonoperating expenses	(1,448,054)	(2,690,012)
Change in Net Position		1,291,439	(3,534,206)
Net Position, Beginning of Year		7,025,958	10,560,164
Net Position, End of Year		$ 8,317,397	$ 7,025,958

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Operating Activities		
Receipts from customers	$ 59,727,449	$ 58,979,619
Receipts from others	22,790,916	10,971,880
Payments to suppliers	(77,413,120)	(67,988,564)
Payments to employees	(1,410,193)	(1,312,093)
Net cash provided by operating activities	3,695,052	650,842
Noncapital Financing Activities		
Advances on revolving line of credit	2,310,061	6,785,820
Payments on revolving line of credit	(2,310,061)	(6,785,820)
Proceeds from issuance of promissory notes	225,000	112,500
Payments on promissory notes	(161,240)	(107,061)
Advance payment received under energy purchase contract	--	6,000,000
Net cash provided by noncapital financing activities	63,760	6,005,439
Capital and Related Financing Activities		
Purchase of capital assets	(1,685,295)	(1,296,675)
Principal payments on long-term debt	--	(1,875,000)
Payments on promissory notes	(674,017)	(645,861)
Interest paid	(1,679,207)	(1,809,259)
Return of capital for future power projects	--	188,142
Net cash used in capital and related financing activities	(4.038,519)	(5,438,653)
Investing Activities		
Proceeds from sales and maturities of investment securities	2,652,021	5,703,953
Purchases of investment securities	(996,863)	(8,397,520)
Issuance of notes receivable	(150,000)	(302,250)
Repayments of notes receivable	395,044	426,124
Investment income received	243,451	245,163
Net cash provided by (used in) investing activities	2,143,653	(2,324,530)
Increase (Decrease) in Cash and Cash Equivalents	1,863,946	(1,106,902)
Cash and Cash Equivalents, Beginning of Year	3,340,556	4,447,458
Cash and Cash Equivalents, End of Year	$ 5,204,502	$ 3,340,556
Composition of Cash and Cash Equivalents		
Cash and cash equivalents	$ 3,640,986	$ 1,997,510
Restricted cash and cash equivalents	1,003,756	1,003,750
Restricted deposits and investments	11,824,529	12,187,613
Total	16,469,271	15,188,873
Less investments not defined as cash equivalents	11,264,769	11,848,317
Total cash and cash equivalents	$ 5,204,502	$ 3,340,556

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS, CONTINUED
YEARS ENDED DECEMBER 31, 2013 AND 2012

		2013		2012
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	$	2,739,493	$	(844,194)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization		1,434,322		1,375,680
Transfer for rate stabilization		--		(585,693)
Changes in operating assets and liabilities				
Accounts receivable		(1,355,228)		(142,101)
Plant operation assets		(100,877)		51,228
Prepaid expenses and other assets		(308,937)		(12,221)
Accounts payable		1,087,492		782,927
Accrued liabilities		198,787		25,216
Net Cash Provided by Operating Activities	$	3,695,052	$	650,842
Supplemental Cash Flows Information				
Capital asset acquisitions included in accounts payable	$	142,782	$	66,715
Increase (decrease) in allowance for notes receivable	$	(14,949)	$	769,526
Recovery of bad debt	$	491,108	$	--

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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

Nature of Operations

Heartland Consumers Power District (Heartland) is a public corporation and a political subdivision of the state of South Dakota created under the Consumers Power District Law for the purpose of supplying electric energy. Heartland is empowered by the Consumers Power District Law to finance, own, and operate, either singly or jointly with others and anywhere within or without the boundaries of Heartland or the state of South Dakota, any electric light and power plants, lines, and systems or interest therein for the generation and transmission of electric power and energy. Heartland has firm power customers in the three-state region of Minnesota, 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 District 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) the District'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 the District and (3) the entity's fiscal dependency on the District. Based upon the above criteria, Heartland has determined that it has no reportable component units.

Basis of Accounting

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

Heartland's accounting policies also follow the regulated operations provisions of GASB Statement No. 62, 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2013 AND 2012

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

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, 2013 and 2012, cash equivalents consisted of money market funds.

Investments and Investment Income

Heartland maintains various debt service reserve accounts that are available for debt service obligations. The reserve accounts consist of bank deposits and investments. Investments in money market mutual funds, U.S. Treasury securities and U.S. agency obligations are carried at fair value. Fair value is determined based on quoted market prices or yields currently available on comparable securities of issuers with similar credit ratings.

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

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, 2013 and 2012, 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 $350,850 and $814,526 at December 31, 2013 and 2012, respectively.

Plant Operation Assets

The operation of the Missouri Basin Power Project (MBPP) requires the establishment of certain operating assets, primarily fuel inventories, supplies, and operating cash. These assets are managed by the operating agent for MBPP and are stated at cost.

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 up to a maximum allowed accumulation which is in no case longer than 40 days. 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 the District's regulated operations are established and approved by the Board of Directors. The District applies the regulated operations provisions of GASB Statement No. 62, 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 the District's bond issuances and costs incurred by the District for initial payments made on long-term capacity contracts. 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.

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

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

Income 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. Tax expense was $9,340 and $5,000 in 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2013 AND 2012

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net position.

Implementation of New Accounting Principles

In 2013, the District implemented the provisions of the following accounting principles:

GASB Statement No. 61, *The Financial Reporting Entity-Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. The requirements of GASB Statements No. 14 and No. 34 were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The implementation of this standard did not have a significant impact on the District's financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In addition, the statement changes the method of reporting debt issuance costs. Prior to implementation of GASB Statement No. 65, the District reported debt issuance costs as deferred charges which were capitalized and amortized over the life of the related debt. Under GASB Statement No. 65, debt issuance costs for unregulated operations are to be recognized as an expense in the period incurred. However, GASB 65 provides an exception for regulated operations to allow certain incurred costs related to regulated activities, such as debt issuance costs, to be reported as a regulatory asset. Because the District meets the criteria of a ratemaking entity under the regulated operations provisions of GASB Statement No. 62, the District's debt issuance costs are capitalized and are shown as costs recoverable from future billings on the balance sheets. GASB Statement No. 65 also required the District to reclassify the deferred gain or loss on refunding from long-term debt to deferred inflows of resources and deferred outflows of resources, respectively, on the balance sheets for 2013 and 2012. Additionally, under GASB 65's regulated operations provisions, the District also reclassified unrealized gains on trust investments to deferred inflows of resources - reductions of future billings.

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

Investments

At December 31, 2013 and 2012, Heartland had the following investments and maturities:

		Maturities in Years				
	Fair value	Less than 1	1-5	6-10	More than 10	Credit Ratings (Moody's)
December 31, 2013						
Money market mutual funds	$ 4,310,845	$ 4,310,845	$ --	$ --	$ --	Aaa-mf
U.S. Treasury securities	8,708,011	1,251,025	7,456,986	--	--	N/A
U.S. agency obligations	4,787,182	1,869,754	2,295,977	80,599	540,852	Aaa
	$ 17,806,038	$ 7,431,624	$ 9,752,963	$ 80,599	$ 540,852	
December 31, 2012						
Money market mutual funds	$ 2,782,113	$ 2,782,113	$ --	$ --	$ ---	Aaa-mf
U.S. Treasury securities	9,140,480	1,270,208	7,870,272	--	--	N/A
U.S. agency obligations	6,166,299	1,015,983	4,264,334	117,364	768,618	Aaa
	$ 18,088,892	$ 5,068,304	$ 12,134,606	$ 117,364	$ 768,618	

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. The District'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 the District as owner.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2013 AND 2012

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%.

	Portfolio Composition December 31, 2013	2012
U.S. sponsored agency obligations		
Federal Home Loan Bank	7.81 %	8.94 %
Federal National Mortgage Association	6.40	10.19
Federal Home Loan Mortgage Corporation	6.18	6.18

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2013 and 2012 as follows:

	2013	2012
Carrying value		
Deposits	$ 3,372,809	$ 3,030,762
Investments	17,806,038	18,088,892
	$ 21,178,847	$ 21,119,654

Included in the deposits shown above are $2,476,742 and $2,475,000 of certificates of deposits as of December 31, 2013 and 2012, respectively.

Included in the following balance sheet captions:

	2013	2012
Current Assets		
Cash and cash equivalents	$ 3,640,986	$ 1,997,510
Restricted cash and cash equivalents	1,003,756	1,003,750
Short-term investments	2,774,213	1,275,349
Noncurrent Assets		
Restricted deposits and investments	11,824,529	12,187,613
Long-term investments	1,935,363	4,655,432
	$ 21,178,847	$ 21,119,654

Investment Return

Investment return for the years ended December 31, 2013 and 2012 consisted of interest income and realized gains of $408,110 and $416,720, respectively. Unrealized gains and losses on restricted investments are deferred and reported as reductions of future billings as a deferred inflow of resources in accordance with the regulated operations provisions of GASB Statement No. 62.

Note 3: Notes Receivable

	2013				
Type of Notes	January 1,	Additions	Reductions	December 31,	Due Within One Year
4.0% to 4.5% notes in connection with Heartland's economic development program, payable in annual installments through December 2018	$ 339,460	$ 12,483	$ 59,431	$ 292,512	$ 63,018
3.0% to 6.25% notes in connection with the Intermediary Relending Program Promissory Note (see Note 13), due in monthly installments through September 2022	844,997	150,000	167,786	827,211	134,010
Interest-free notes in connection with the Rural Economic Development Loan Agreement and Rural Economic Development Grant Agreement (see Note 13), due in monthly installments through November 2028	1,817,229	740,000	907,827	1,649,402	177,750
Allowance for notes receivable	(814,526)	(14,949)	(478,625)	(350,850)	--
Total notes receivable, net	$ 2,187,160	$ 887,534	$ 656,419	$ 2,418,275	$ 374,778

	2012				
Type of Notes	January 1,	Additions	Reductions	December 31,	Due Within One Year
4.0% to 4.5% notes in connection with Heartland's economic development program, payable in annual installments through October 2016	$ 458,893	$ --	$ 119,433	$ 339,460	$ 61,251
3.0% to 6.25% notes in connection with the Intermediary Relending Program Promissory Note (see Note 13), due in monthly installments through September 2020	733,050	302,250	190,303	844,997	146,568
Interest-free notes in connection with the Rural Economic Development Loan Agreement and Rural Economic Development Grant Agreement (see Note 13), due in monthly installments through January 2023	1,933,617	--	116,388	1,817,229	157,890
Allowance for notes receivable	(45,000)	(769,526)	--	(814,526)	--
Total notes receivable, net	$ 3,080,560	$ (467,276)	$ 426,124	$ 2,187,160	$ 365,709

Interest income on these notes totaled $37,921 and $44,935 for 2013 and 2012, respectively, and is included within investment income on the statements of revenues, expenses and changes in net position.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2013 AND 2012

Note 4: Capital Assets

Capital assets at December 31, 2013 and 2012 consisted of the following:

	2013	2012
Depreciable assets		
Missouri Basin Power Project	$ 53,004,721	$ 51,749,562
Transmission Project I (TP I)	907,635	907,635
Transmission Project II (TP II)	6,752,305	6,752,305
Groton substation (TP III)	400,608	393,104
Heartland headquarters building	2,837,333	2,837,333
General plant	731,477	707,637
Total depreciable assets	64,634,079	63,347,576
Nondepreciable assets		
Land	80,402	80,402
Construction in progress	741,711	824,242
Total nondepreciable assets	822,113	904,644
	$ 65,456,192	$ 64,252,220

Capital assets activity for 2013 and 2012 was:

2013	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Missouri Basin Power Project	$ 51,749,562	$ 8,852	$ (624,105)	$ 1,870,412	$ 53,004,721
Transmission Project I (TP I)	907,635	--	--	--	907,635
Transmission Project II (TP II)	6,752,305	--	--	--	6,752,305
Groton substation (TP III)	393,104	7,504	--	--	400,608
Heartland headquarters building	2,837,333	--	--	--	2,837,333
General plant	707,637	23,840	--	--	731,477
Land	80,402	--	--	--	80,402
Construction in progress	824,242	1,787,881	--	(1,870,412)	741,711
Total capital assets	64,252,220	1,828,077	(624,105)	--	65,456,192
Less accumulated depreciation	(45,487,709)	(1,111,208)	624,105	--	(45,974,812)
Capital assets, net	$ 18,764,511	$ 716,869	$ --	$ --	$ 19,481,380

2012	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Missouri Basin Power Project	$ 51,351,763	$ 1,031,091	$ (633,292)	$ --	$ 51,749,562
Transmission Project I (TP I)	907,635	--	--	--	907,635
Transmission Project II (TP II)	6,752,305	--	--	--	6,752,305
Groton substation (TP III)	384,975	8,129	--	--	393,104
Heartland headquarters building	2,836,288	1,045	--	--	2,837,333
General plant	636,847	70,790	--	--	707,637
Land	80,402	--	--	--	80,402
Construction in progress	547,371	276,871	--	--	824,242
Total capital assets	63,497,586	1,387,926	(633,292)	--	64,252,220
Less accumulated depreciation	(45,085,972)	(1,035,029)	633,292	--	(45,487,709)
Capital assets, net	$ 18,411,614	$ 352,897	$ --	$ --	$ 18,764,511

Heartland is a 3% co-owner of the Missouri Basin Power Project, which includes Laramie River Station, a three-unit, 1,650 mW, coal-fired power supply station in eastern Wyoming, and a related transmission system. Heartland is also a 24% of 75% (total of 18%) owner of TP I, which consists of approximately eight miles of 115 kv transmission line and associated switching equipment.

TP II consists of 3 115/69 kv substations, certain improvements to three East River Electric Power Cooperative (East River) 69/12.5 kv substations, three microwave towers and associated facilities, and approximately 51 miles of additions to East River 115 kv and 69 kv transmission lines, the additions owned jointly by Heartland and East River as tenants in common. Heartland holds a 99% ownership interest and East River a 1% ownership interest in those additions. East River has 100% use of this East River Section of TP II and purchases 100% of the total capacity of this section on a take-or-pay basis.

TP III consists of a 345/115 kv substation located near Groton, South Dakota; a 115 kv tie line between the Groton substation and the substation owned by Western Area Power Administration (WAPA); and a 115 kv circuit breaker in addition to the WAPA Groton substation for the termination of the tie line. Heartland owns a 3.9% share in TP III.

Note 5: Credit Facilities

Heartland finances certain operating payments through a revolving line of credit with a financial institution that provides for borrowings up to $6,000,000; secured by a subordinate lien on the revenues of Heartland's electric system and certain productive capacity assets. The line of credit expires in June 2014 and borrowings under the line of credit bear interest at a variable rate, but not less than 4.0% (4.0% at December 31, 2013 and 2012). There were no outstanding borrowings on this line at December 31, 2013 and 2012.

Note 6: Long-term Liabilities

Long-term liabilities at December 31, 2013 consisted of the following:

	2013				
Type of Debt	January 1,	Additions	Reductions	December 31,	Due Within One Year
6.0% Electric System Revenue Bonds, Series 1992, due annually on January 1 with a final payment due January 1, 2017	$ 14,225,000	$ --	$ --	$ 14,225,000	$ --
4.29% Electric System Second Lien Revenue Note, Series 2010, due quarterly on January 1, April 1, July 1, and October 1 with final payment due on July 1, 2020. Callable at Heartland's option on June 1, 2013.	6,059,861	--	674,017	5,385,844	703,401
4.75-5.25% Electric System Second Lien Revenue Bonds, Series 2011, with interest payments due semi-annually and principal payments due on January 1, 2016 and 2017.	11,350,000	--	--	11,350,000	--
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036.	675,145	--	25,087	650,058	25,337
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 beginning in 2014 with a final payment due June 25, 2040.	211,258	225,000	--	436,258	14,155
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $6,852 through July 31, 2019.	541,292	--	82,224	459,068	82,224
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $7,709 through January 31, 2021.	740,000	--	53,929	686,071	39,588
Total bonds and notes payable	33,802,556	225,000	835,257	33,192,299	864,705
Compensated absences	314,029	153,440	122,150	345,319	109,898
Total long-term liabilities	$ 34,116,585	$ 378,440	$ 957,407	$ 33,537,618	$ 974,603

NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2013 AND 2012

Note 6: Long-term Liabilities, continued

Long-term liabilities at December 31, 2012 consisted of the following:

Type of Debt	2012 January 1,	Additions	Reductions	December 31,	Due Within One Year
6.0% Electric System Revenue Bonds, Series 1992, due annually on January 1 with a final payment due January 1, 2017	$ 16,100,000	$ --	$ 1,875,000	$ 14,225,000	$ --
4.29% Electric System Second Lien Revenue Note, Series 2010, due quarterly on January 1, April 1, July 1, and October 1 with final payment due on July 1, 2020. Callable at Heartland's option on June 1, 2013.	6,705,722	--	645,861	6,059,861	674,017
4.75-5.25% Electric System Second Lien Revenue Bonds, Series 2011, with interest payments due semi-annually and principal payments due on January 1, 2016 and 2017.	11,350,000	--	--	11,350,000	--
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036.	699,982	--	24,837	675,145	25,087
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 beginning in 2014 with a final payment due June 25, 2040.	98,758	112,500	--	211,258	--
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $6,852 through July 31, 2019.	623,516	--	82,224	541,292	82,224
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $7,709 through January 31, 2021.	740,000	--	--	740,000	84,788
Total bonds and notes payable	36,317,978	112,500	2,627,922	33,802,556	866,116
Compensated absences	289,717	125,071	100,759	314,029	100,756
Total long-term liabilities	$ 36,607,695	$ 237,571	$ 2,728,681	$ 34,116,585	$ 966,872

Debt service requirements at December 31, 2013 are as follows:

	Principal	Interest	Total
2014	$ 864,705	$ 1,650,847	$ 2,515,552
2015	5,360,705	1,486,342	6,847,047
2016	11,408,107	1,041,529	12,449,636
2017	11,591,908	431,365	12,023,273
2018	997,168	98,205	1,095,373
2019-2023	2,005,864	107,301	2,113,165
2024-2028	420,206	29,345	449,551
2029-2033	325,889	17,973	343,862
2034-2038	181,396	6,339	187,735
2039-2040	36,351	535	36,886
	$ 33,192,299	$ 4,869,781	$ 38,062,080

The District has executed two credit agreements with a financial institution, each for $740,000, which are renewed annually. 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, 2013 and 2012.

The principal and interest on the revenue notes and bonds are payable solely from, and secured solely by, a pledge of and lien on: (1) the revenues of Heartland's electric system, subject to prior payments there from of operation and maintenance expense; (2) the proceeds of the sale of the notes or bonds; and (3) all accounts established under the Bond Resolution, including income, if any, from investments thereof. The total principal and interest remaining to be paid on the secured bonds and notes is approximately $35,690,000, with annual payments expected to require 3-4% of net revenues in 2014 and 9-18% of net revenues in 2015 through 2017. Principal and interest for the current year and total operating revenues were $2,343,864 and $83,873,593, respectively.

Prior Year Bond Refunding

In 2011, the District issued $11,345,000 of Electric System Revenue Bonds, Series 2011, to advance refund $10,045,000 of Electric System Revenue Bonds, Series 1992. The refunded bonds are considered defeased under applicable accounting guidance, as the proceeds from the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the District's financial statements. At December 31, 2013, $4,205,000 of these bonds are still outstanding.

Note 7: Power Sales Agreements

Heartland is a party to electric power sales agreements with municipalities in South Dakota, Minnesota, 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 has a power sales agreement with Northern Electric Cooperative, Inc. (Northern) to provide supplemental electric service to a small portion of Northern's service area under the same terms and conditions as the agreements with Heartland's municipal customers. Heartland also has power sales agreements with the State of South Dakota to provide service to various state institutions.

Heartland has an agreement with East River Electric Power Cooperative whereby East River will pay approximately 95% of the operating expenses of TP II on a take-or-pay basis. The payments are set to underwrite the cost of debt service on the associated bonds along with Heartland's overhead expenses. East River operates and maintains the facilities at its own expense. The contract continues until 2016, at which time East River may acquire Heartland's interest for $1,000.

Heartland entered into power sales agreements with Basin Electric Power Cooperative (Basin) whereby Heartland will sell and deliver 50 MW of power to Basin through December 31, 2017. The agreements provide for a fixed energy rate throughout the term of the contracts.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2013 AND 2012

Note 8: Commitments

Western Area Power Administration (WAPA)

Heartland has a long-term agreement with WAPA whereby WAPA is making available to Heartland the use of a shared transmission system. Effective September 1998, Heartland, WAPA, and Basin Electric Power Cooperative transmission facilities created the Integrated System (IS), which is a combined transmission system operated as a single integrated system by WAPA. The IS has been developed to allow for third-party transmission use consistent with the Federal Energy Regulatory Commission final orders and policies governing open access transmission service.

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 the District 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.

Energy Purchase Contracts

Heartland entered into an energy purchase contract with a national energy company to purchase 30 MW of energy at a fixed price during the period of January 1, 2014 through June 30, 2016. In connection with the agreement, Heartland received a $6,000,000 advance payment from the energy company in 2012. This advance payment is recorded as unearned revenue and will be recognized over the term of the contract as a reduction of the cost of the power purchased under the agreement.

Note 9: Retirement Plans

Defined Benefit Plan

Plan Description

Heartland contributes to the South Dakota State Retirement System (the Plan), which is a cost-sharing, multiple-employer, public employee retirement system. The Plan is a defined benefit plan covering all full-time employees and provides for retirement benefits based on a percentage of final average compensation. The Plan provides retirement, disability, and survivor benefits to members and beneficiaries. The Plan's board of trustees is the governing authority of the Plan, which has the authority to establish and amend benefit provisions. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing the South Dakota Retirement System, P.O. Box 1098, Pierre, SD 57501-1098.

Funding Policy

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. Benefits vest upon completing three years of service. The contribution requirements of plan members and Heartland are established and may be amended by the Plan's board of trustees. Employer contributions were $101,920, $94,045, and $86,668 during 2013, 2012 and 2011, respectively. The employees' contributions during 2013, 2012 and 2011, were $83,855, $78,574, and $73,604, respectively, and were in accordance with statutory rates.

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 Heartland for the years ended December 31, 2013 and 2012 were $54,814 and $51,388, respectively. The contributions made by Heartland employees for the years ended December 31, 2013 and 2012 were $98,136 and $88,771, respectively.

Note 10: Significant Estimates and Concentrations

Major Customers

Sales to two customers were approximately 45% and 55% of total revenue for the years ended December 31, 2013 and 2012, respectively. Approximately 59% of total accounts receivable were owed from three customers at December 31, 2013. Approximately 52% of total accounts receivable were owed from two customers at December 31, 2012.

Proposed Environmental Standards

In June 1999, the Environmental Protection Agency (EPA) issued final regulations for a Regional Haze Program. The purpose of the regulations is to improve visibility in the form of reduced regional haze in 156 national parks and wilderness areas across the country. The EPA's claim is that haze is formed, in part, from emissions of SO2 (sulfur dioxide) and NOx (nitrogen dioxide). Heartland is impacted by these regulations through its co-ownership of Laramie River Station (LRS) in Wyoming.

As part of the EPA's Clean Air Act regulations, each state is required to submit a state implementation plan (SIP) identifying the emission control technology proposed to comply with the Regional Haze Program. The State of Wyoming submitted its SIP to the EPA in 2011, which included plans for LRS. In January 2014, the EPA issued their final ruling on this SIP, requiring installation of selective catalytic reduction (SCR) NOx removal technology for five coal plants in Wyoming, including the three units at LRS. MBPP is currently evaluating the impact of this decision and its options in responding to the decision.

The EPA's final rule is expected to impose significant future costs at LRS, as a result of the extensive renovations at these facilities, the high capital cost of the SCR equipment and dramatically increased operating costs associated with SCRs. Although initial estimates of these costs have been calculated, the level of regulatory and legal uncertainty related to these facilities makes it impractical to quantify the specific potential financial impacts at this time.

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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2013 AND 2012

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:

	2013	2012
Employees (unaudited)	12	12
Total salaries	$ 1,410,193	$ 1,312,093
Maintenance expense	$ 168,741	$ 154,168
Total kilowatt hours sold (unaudited)	1,606,961,737	1,261,649,712

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 District operations. Condensed 2013 and 2012 financial information for the revolving loan fund is presented below:

Condensed Balance Sheet

	2013	2012
Current assets	$ 1,087,971	$ 807,291
Other assets	1,814,003	1,687,083
Total assets	$ 2,901,974	$ 2,494,374
Liabilities		
Current liabilities	$ 164,408	$ 194,540
Noncurrent liabilities	2,070,151	1,975,596
Total liabilities	2,234,559	2,170,136
Net Position	667,415	324,238
Total liabilities and net position	$ 2,901,974	$ 2,494,374

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2013	2012
Nonoperating revenues (expenses)		
Investment income	$ 30,608	$ 28,532
Interest expense	(9,715)	(8,453)
Bad debt recoveries (expense)	334,784	(625,685)
Other	(50,000)	(19,186)
Capital contributions	37,500	37,500
Increase (Decrease) in Net Position	343,177	(587,292)
Net Position, Beginning of Year	324,238	911,530
Net Position, End of Year	$ 667,415	$ 324,238

Note 13: Segment Information, continued

Condensed Statement of Cash Flows

	2013	2012
Net cash provided by (used in)		
Noncapital financing activities	$ 13,277	$ (21,736)
Investing activities	260,220	70,454
Increase in Cash	273,497	48,718
Beginning of year	500,968	452,250
End of year	774,465	500,968

If you have receieved this report in error or would like to update your mailing address, please contact Danielle Rosheim at *drosheim@hcpd.com* or call (800) 520-4746.

Heartland Consumers Power District
432 SE 12th Street
Madison, SD 57042
www.hcpd.com