HEARTLAND CONSUMERS POWER DISTRICT

2011 ANNUAL REPORT

THE POWER OF FORWARD THINKING

KEY PROFESSIONAL RESOURCES

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

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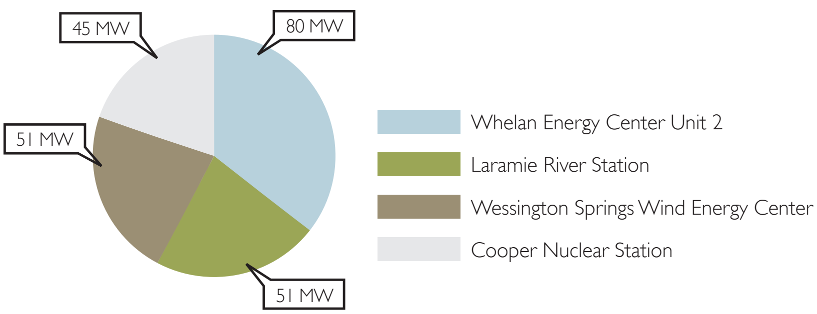
ABOUT HEARTLAND

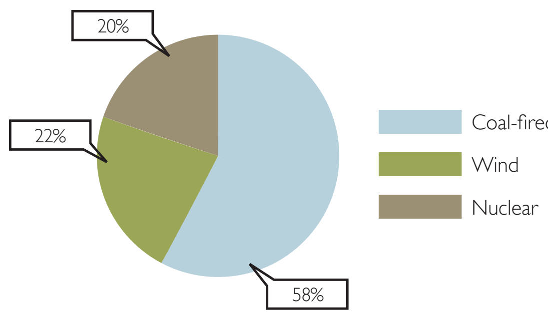
Heartland Consumers Power District is a public power utility providing reliable power as well as energy services and community development programs to customers in a three-state region. Heartland continually takes steps toward providing a cleaner, more reliable and more efficient energy product and offers services to help our customers succeed in the ever-changing utility industry.

Headquartered in Madison, South Dakota, Heartland is a public corporation and political subdivision of the state. Heartland is empowered by the Consumers Power District Law 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. Heartland is authorized to sell, transmit and deliver electric power and energy at wholesale to distributors within and outside the boundaries of South Dakota.

Our Mission: To be the trusted regional leader and partner of choice in the delivery of energy and service.
Our Vision: To aggressively meet our customers' needs for energy services by combining our proud heritage with the *Power of Forward Thinking*.

RESOURCE MIX





FINANCIAL HIGHLIGHTS

	2011	2010	2009	2008
Power sales				
Customer energy (MWh)	870,436	866,254	692,307	703,882
Customer cumulative demand (kW)	1,472,567	1,440,863	1,210,073	1,200,157
Peak demand (MW)	140	138	113	115
Total operating revenues	$ 67,601	$ 52,371	$ 42,360	$ 39,097
Total operating expenses	63,757	49,284	40,491	37,664
Total non-operating expenses, net	(1,154)	(1,427)	(1,171)	(1,095)
Total assets	54,662	56,950	58,042	58,416
Net assets	10,560	7,870	6,209	5,512
Total liabilities	44,102	49,080	51,832	52,905

2011 HIGHLIGHTS

JANUARY

- Finalized a HELP Fund loan of over $1 million to assist in building Maroney Commons in Howard, South Dakota.

FEBRUARY

- Welcomed new customer NIMECA with an agreement to provide power from Whelan Energy Center Unit 2.
- Said good-bye to long-time board member Ron Anderson.

MARCH

- Launched an energy efficiency grant program to help support energy efficiency projects in customer communities.
- Discussed regulatory reform, electric market transparency and municipal generation unit regulation with U.S. Legislators at the 2011 American Public Power Association (APPA) Legislative Rally.

APRIL

- Hosted South Dakota Congresswoman Kristi Noem at our headquarters for a listening event with local business owners and community leaders.
- Newest Heartland board members, Larry Nielson and Robert Skjonsberg, appointed to represent subdivisions 3 and 4, respectively.

MAY

- Newest and largest generating resource, Whelan Energy Center Unit 2, declared ready for commercial operation.

JUNE

- Hosted a record crowd at the sixth annual Heartland Invitational for sessions on utility management and customer service.
- Cooper Nuclear Station, a Heartland baseload resource, declared a "Notification of Unusual Event" to address rising water levels on the Missouri River.
- Launched online training for customers to become certified energy auditors.

JULY

- Earned a revised outlook from Standard & Poor's Ratings Services from negative to stable and A- issuer credit rating was affirmed.
- Cooper Nuclear Station exited the "Notification of Unusual Event" status it entered just over three weeks prior.

Heartland General Manager Mike McDowell, left, presents a personalized Heartland jacket to U.S. Representative Kristi Noem during a listening event at Heartland's headquarters in April.

Nuclear Regulatory Commission Chairman Gregory Jaczko (second from right, in blue), toured Cooper Nuclear Station in June and concluded the plant was "operating safely." Photo courtesy Nebraska Public Power District.

Energy Auditor Larry Malcomb, far left, leads eleven participants in an exterior assessment of a home in Madison during energy auditor training in October.

AUGUST

- Formed the Customer Connections Committee in an effort to enhance communication between Heartland and our customers and hosted inaugural meeting.

SEPTEMBER

- Launched a Student of the Month contest with local radio station, KJAM, recognizing outstanding students in customer communities within the KJAM listening area.
- Along with sixteen other non-profit, consumer-owned utilities, expressed concern to President Obama over the EPA's regulation of electric generation resources and urged transparency in the regulation process.

OCTOBER

- Concluded energy auditor training with a one-day field lab, giving participants a hands-on learning experience as they conducted a live home audit, going through all the steps required to assess a home's efficiency.
- Celebrated Public Power Week by offering energy saving tips to customer communities.

NOVEMBER

- Earned Award of Merit for our 2010 Annual Report in APPA's Annual Report Contest, the second consecutive year Heartland was awarded this honor.
- Awarded scholarships to students at Dakota State University who attended high school in one of our customer communities.
- Discussed EPA regulatory issues, economic development and energy efficiency programs, the operating of Whelan Energy Center Unit 2, power marketing and the 2012 budget at our annual customer budget meetings.

DECEMBER

- Finalized and released details of new Power Forward energy efficiency incentives to be offered in 2012.

BOARD OF DIRECTORS

In Memoriam:

RON ANDERSON

"Ron will be remembered by his Heartland colleagues for his work and dedication to our state. His passing also means the loss of a fine man with a quick wit and engaging sense of humor."

–Heartland General Manager Mike McDowell

Heartland is governed by a ten-member board of directors, each member elected to represent a designated subdivision within our service territory. Our board functions in the best interest of our customers and emphasizes reliable and economical generation and delivery systems. Directors are elected during the state's general election for terms of six years.

In 2011, Heartland bid farewell to respected colleague and director Ron Anderson, who passed away February 9 at the age of 61. Anderson resided in Beresford, South Dakota and had been a member of Heartland's board since July 1992, representing Subdivision 4. He most recently served as treasurer.

Gary Olson, who represented Subdivision 3, retired in early 2011 after more than 20 years of service. Olson is from Bath, South Dakota.

Heartland welcomed two new directors in 2011, who were both appointed in May. Robert Skjonsberg of rural Sioux Falls, South Dakota was appointed to serve Subdivision 4. Skjonsberg is the senior vice president of public policy and corporate affairs at POET, LLC in Sioux Falls. He formerly served as chief of staff for former Governor Mike Rounds and was previously employed in the banking industry. Larry Nielson of Tulare, South Dakota was appointed to serve Subdivision 3. Nielson is a lifelong farmer, residing on a family farm just southwest of Tulare. He purchased and took over the operation from his father in 1981.

Back row, left to right: Lisa Rave, *Subdivision 8*; Ed Lamers, *Subdivision 5, Assistant Secretary/Treasurer*; Robert Skjonsberg, *Subdivision 4*; Larry Nielson, *Subdivision 3*; Merlin VanWalleghen, *Subdivision 7, Vice President*; Roger Fritz, *Subdivision 9*. Front row, left to right: Jerry Micheel, *Subdivision 6, Secretary*; Mark Joffer, *Subdivision 1*; Dan O'Connor, *Subdivision 2, President*; Mike McDowell, *General Manager*; Dave Westbrock, *Subdivision 10, Treasurer*.

FROM THE CHAIRMAN & CEO

In 2011, Heartland continued our forward-looking planning, working to ensure a strong, long-term outlook. We acknowledge the impact of recent rate increases on our customer communities. However, our rate adjustments in recent years, including 2011, have provided a solid base for more stable, as well as competitive rates over the next five years.

One of the major challenges for any power supplier is keeping rates affordable. High energy costs hamper economic growth. Heartland is committed to growing jobs and building stronger communities. Long-term, stable and affordable energy prices will play a key role as we work toward growing beyond the Great Recession.

Yet, the utility industry faces an avalanche of environmental, regulatory and market pressures—challenging us to innovate, to develop new tools and analytic capabilities, and to focus our efforts on maintaining affordable rates. We plan to carefully examine investments in key technology and infrastructure areas in order to maintain our ability to reliably and affordably deliver electric power.

An issue of critical importance to Heartland is our ability to keep all of our fuel and resource options available, both now and in our long-term resource plan. In 2011, we continued to oppose regulatory efforts to foreclose one or more of these fuel options, particularly coal. As a leader in the utilization of renewable resources, we also continued to support incentives for consumer-owned utilities to develop these resources while opposing expensive, unfunded mandates to develop them.

Whelan Energy Center Unit 2 (WEC2) began commercial operation in May of 2011, adding a valuable new asset to our resource pool. WEC2 is a state-of-the-art plant, well-positioned to meet any pending and future regulations of coal-fired facilities. It will serve as Heartland's primary, long-term baseload resource going forward, and will provide customers with affordable energy for many years.

As the utility industry continues to evolve—with increasing mandates, regulatory requirements, the expansion of organized markets, and technology advances—Heartland faces new and changing cost pressures. As a result, we will initiate a review of our rate structure in 2012. It is important to determine if the optimal structure is in place for our customers.

The massive flooding of the Missouri River in 2011 resulted in the generation of vast amounts of surplus hydropower in the upper Midwest with little access to the electricity markets, further depressing already low prices in our region. Moderate weather reduced electric energy demands and revenues below projected levels. Nevertheless, our staff provided innovative responses that made it possible for Heartland to finish 2011 with a positive financial outcome. These responses included financial and power contract initiatives, aggressive marketing for new customers as well as short-term sales opportunities.

As can be seen in this report, Heartland ended 2011 financially stable, despite depressed market prices, tepid load growth, and a still sluggish economy. Heartland's board and staff made several important financial decisions and marketing initiatives in 2011 aimed at keeping rates as low as possible in the next five years. These decisions have strengthened Heartland's financial position and will provide greater rate stability, while effectively managing risk.

Heartland's goals are simple: affordable and reliable electric power, accountability to our customers, and commitment to economic growth as well as innovative energy efficiency programs. This was our mission in 2011 and will be our commitment in the future. Heartland is public power—the power of forward thinking.

Dan O'Connor
Board President

Mike McDowell
General Manager

CUSTOMERS

CUSTOMERS AT A GLANCE...

27	6	1	1
Municipal electric systems	State institutions	Cooperative	Joint action agency

Customer Spotlight:

NIMECA

The addition of North Iowa Municipal Electric Cooperative Association (NIMECA) to Heartland's customer pool coincided with the commercial operation of Heartland's newest baseload resource, Whelan Energy Center Unit 2 (WEC2). After expressing interest in long-term baseload supply for its 13 member utilities, NIMECA agreed to purchase three megawatts (MW) from WEC2. The purchase amount will increase gradually until 2019, at which time the agency will purchase 20 MW through the life of the project. Heartland's arrangement with NIMECA is unique, as most customers receive a blend of our resources.

Located in Humboldt, Iowa, NIMECA currently has no ownership of its resources. Instead, its members own resources, including baseload and peaking generating units and wind purchase power agreements, and commit them to the agency in a capacity sharing pool. NIMECA is also a member of Corn Belt Power Cooperative (CBPC), sharing generation and transmission facilities which results in cost savings to both organizations' consumers. NIMECA and CBPC joined the Western Area Power Administration control area in 2009 after CBPC became a member of Basin Electric Power Cooperative. This move created the possibility of an agreement with Heartland because it eliminated transmission constraint issues.

"Heartland functions similarly to a joint action agency, and that appealed to our members. They wanted to purchase from a new plant that will provide us with reliable baseload energy for many years. The plant having an operator with a good reputation and competitive rail access were also factors in our decision."

–NIMECA CEO Greg Fritz

Heartland provides wholesale electric power and energy to municipal electric systems, state institutions, one cooperative and one joint action agency across South Dakota, Minnesota and Iowa. Heartland serves as a partial, supplemental and full requirement power supplier, depending on the customer's needs. In 2011, Heartland welcomed a new customer, North Iowa Municipal Electric Cooperative Association. *See sidebar.*

In order to fulfill our mission to be a trusted leader and partner of choice, Heartland works to provide top-notch customer service and ensure open communication with each of our customers. Heartland is a strong advocate for our customers and public power in general. We strive to provide customers with up-to-date information affecting their day-to-day operations and ensure they have the tools to succeed in the ever-changing utility industry.

Heartland hosts events throughout the year to keep customers informed including the sixth annual Heartland Invitational, which was held in June 2011 and included key accounts training as well as a session on responsible utility management. Heartland staff traveled to three locations in November to update customers on the 2012 budget as well as EPA regulatory issues and power marketing activities.

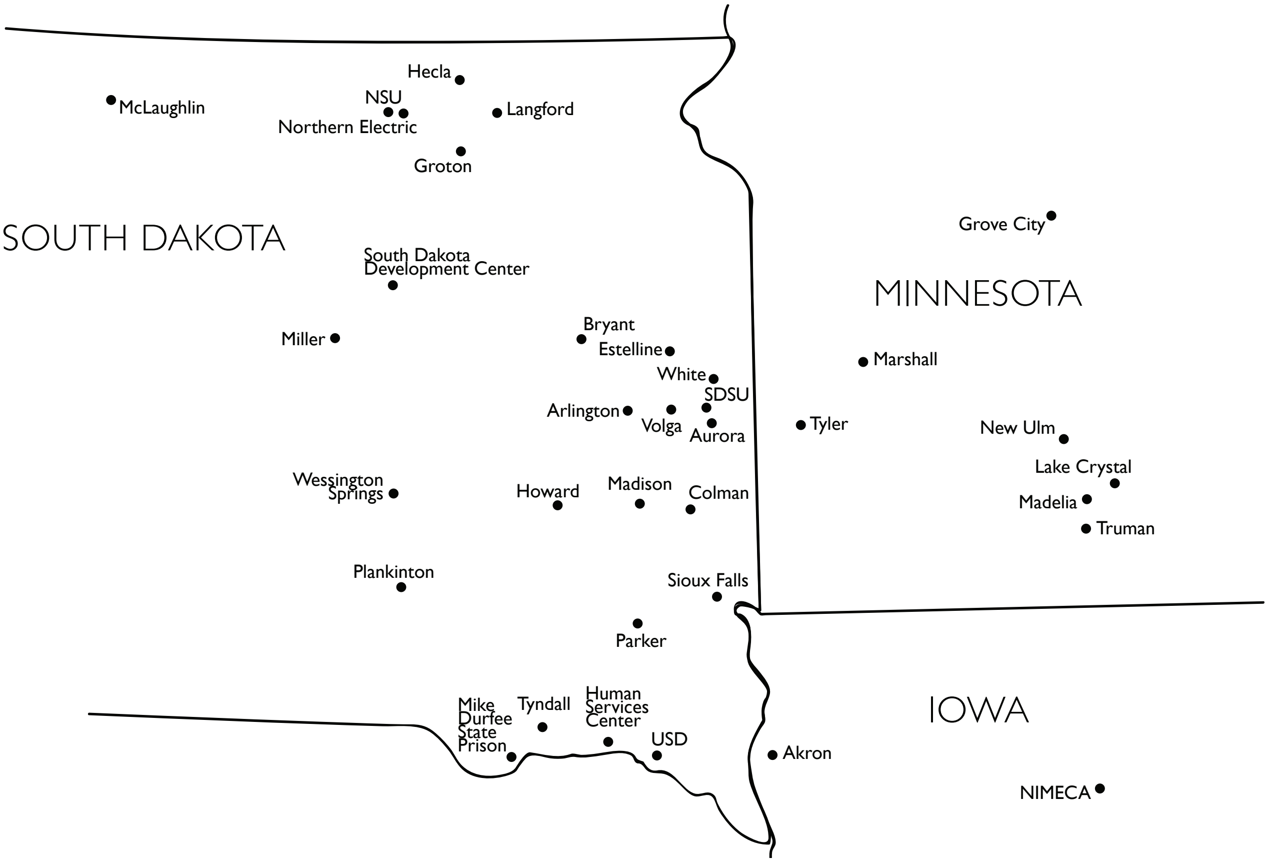
In an effort to enhance communication between Heartland and our customers, Heartland formed the Customer Connections Committee in 2011. The purpose of the committee is for customers to provide their perspective and feedback to Heartland's staff and board of directors regarding Heartland operations.

Committee members will be able to openly discuss issues, provide opinions and their point of view. While customers are always welcome to provide input and offer suggestions, the committee provides a formal channel for interaction.

Heartland approached customers from each of the three states Heartland serves to ask for volunteers to serve on the initial committee. The inaugural meeting of the Customer Connections Committee was held in August. Jeff Heinemeyer of Madison, SD was elected chair and Pat Wrase of New Ulm, MN was elected vice-chair. Other committee members include Mike Burkard of Sioux Falls, SD, Vern Hill of Plankinton, SD, Gary Horton of Akron, Iowa and Bill Lewellen of Miller, SD. Future committee members will be nominated and elected by all customers. Members will be elected to three-year, staggered terms with two committee positions expiring each year.

Inaugural members of Heartland's Customer Connections Committee include Madison, SD Finance Officer Jeff Heinemeyer; Miller, SD Electric Superintendent Bill Lewellen; Sioux Falls, SD Light Superintendent Mike Burkard; Plankinton, SD Light Superintendent Vern Hill; New Ulm, MN, Utility Planning & Engineer Pat Wrase; and Akron, IA Director of Public Works Gary Horton.

HEARTLAND CUSTOMERS



2011 CUSTOMER HIGHLIGHTS

In addition to providing energy, Heartland strives to develop and gather tools and resources to help our customer communities grow and prosper. However, the quality of life in our customer communities is often enhanced thanks to the vision and dedication of local leaders. Many of our customers experienced notable achievements in 2011.

AKRON, IA

A transmission project several years in the making came to fruition in March when a contracting crew energized new transmission lines feeding power to the city. River bank erosion and repeated flooding of the nearby Big Sioux River had created a concerning situation for the community. The previous transmission line route directly crossed the river three times and was subject to rising water levels, erosion and structure damage. As a result, the city undertook a $200,000 project involving changing the transmission line route and installing new towers.

ARLINGTON, SD

Arlington Mayor Amiel "Doc" Redfish was one of 14 individuals inducted into the South Dakota Hall of Fame in 2011. Redfish was honored in the professional category, recognized for his long, successful career practicing medicine. He retired in 2010 after 46 years in the medical field and 21 years as Arlington's physician assistant. He has served as mayor of Arlington since 2000.

AURORA, SD

The community celebrated its annual Gala Day in August, celebrating the theme "Growing Like Weeds" in honor of the city's growth in the 2010 census. The festivities included a citywide rummage sale, 5K run/walk, pancake feed, car show, parade, petting zoo, vendors, hot-air balloon rides and more.

COLMAN, SD

The city completed its public building energy makeovers, awarded in 2010 as part of Heartland's energy efficiency program, Power Forward. Officials replaced lighting in the community center and city hall with efficient T-8s and upgraded exterior incandescent bulbs to LEDs. New overhead doors consisting of exterior and interior steel skins filled with polyurethane foam insulation replaced inefficient doors at the city shop. Officials expect annual energy savings of 13,672 kWh.

A new transmission tower with line feeding from the north, right, stands in Akron. The existing structures and route can be seen on the left, crossing the Big Sioux River three times in severely flooded areas. A contracting crew energized the new transmission lines feeding power to the city in March.

An artist's rendering of Phase 1 of the new McLaughlin middle and high school building. Construction on the new facility began in November.

ESTELLINE, SD

The city of Estelline received more than $1.9 million in funding from the American Recovery and Reinvestment Act to make improvements to its water system. The money helped with the construction of a new 150,000 gallon elevated water storage tank as well as water main replacements. The previous storage facility was built in 1908 and held only 17,000 gallons of water--hardly adequate for a city that typically used 70,000 gallons a day. Officials said the water system upgrades will reduce line breakages and water losses and improve water pressure throughout the town. Federal funds were leveraged with a Community Development Block Grant of $400,000 for a total project cost of $2,434,000.

GROTON, SD

In order to avoid exposing employees to inclement weather and other hazardous work conditions, the city implemented an automatic meter reading system for electricity and water in 2011. The city now utilizes Cannon Technologies' Yukon load management system (power line carrier) for meter reading and Banyon Data Systems billing software, as well as Badger water meters. The new technology provides the city with hourly readings and allows billing clerks to notify customers of water leaks or high power loads.

HOWARD, SD

Maroney Commons on the Rural Learning Center campus in Howard was one of five recipients of the 2011 National Award for Smart Growth Achievement from the Environmental Protection Agency. The annual award recognizes and supports communities that use innovative policies and strategies to strengthen their economies, provide sustainable housing and transportation choices and protect the environment. Maroney Commons was honored with the Rural Smart Growth award in recognition of their ability to help residents learn new skills to compete in the 21st-century economy, demonstration of environmental and energy efficient design and effectiveness as a model "for other rural towns looking to create vibrant community places that strengthen Main Streets." This was the first Smart Growth award to be made to a rural community.

LAKE CRYSTAL, MN

The city completed its energy makeover of city hall. Improvements included new ENERGY STAR windows, increased insulation, lighting upgrades and installation of a high efficiency heating and air conditioning system. The city is expecting to save 7,435 kwh annually.

LANGFORD, SD

U.S. Senator Tim Johnson declared a Congressional Record before the President on June 20 in honor of Langford's 125th anniversary, saying "Langford continues to be a vibrant community and a great asset to South Dakota." The city's quasquicentennial festivities, themed "Where Your Story Began," lasted three days and included an alumni banquet, car show, kids activities, a parade and more. Community members also held two sold-out performances of "The Wizard of Oz."

MCLAUGHLIN, SD

Construction began in November on a new, 70,000 square-foot middle and high school building. The McLaughlin School District received a $5 million American Recovery and Reinvestment Act School Discretionary Construction Grant to help fund the building construction as well as the demolition of the existing school, built in 1921. The new facility will be made of pre-cast concrete and will utilize a geothermal heat system and energy-efficient materials. The school will be built in two phases with a completion date of July 30, 2013.

MADELIA, MN

The Madelia Sportsmen's Club, Chamber of Commerce and city hosted its third annual Pheasant Phest in October. Created in an effort to revitalize and continue the tradition and passion of pheasant hunting in Madelia, the "Pheasant Capital of Minnesota," the event invites hunters and non-hunters of all ages to join in a variety of activities. The two-day event included a youth trap shoot and kickoff party featuring a DJ and bean bag and arm wrestling tournaments on Friday, followed by a pancake breakfast and pheasant hunt on Saturday, the pheasant opener.

MADISON, SD

A proposed renovation project for Madison High School will move forward after a $6.32 million bond issue passed with 65% voter approval in the November election. The project includes renovating existing areas of the 46-year-old building and adding new space for administrative offices, science labs, a library and a gym. Expected to last 18 months from start to finish, the total project will cost $14.5 million.

MARSHALL, MN

Community members gathered together to commemorate the tenth anniversary of the September 11th terrorist attacks with the dedication of a new memorial park and a ceremony to "Celebrate the American Spirit." The ceremony featured many events, including musical performances, presentations, a flyover, a candlelight vigil and fireworks. The Marshall Fire Department also unveiled a unique monument: a steel beam removed from the rubble of the World Trade Center. Officials hope the monument and park will serve as a gathering place for their revitalized downtown as it honors the public safety personnel who sacrificed their lives in an effort to save others.

MILLER, SD

Officials broke ground in November on a $5.5 million addition to the Hand County Memorial Hospital in order to expand health care services in Miller and the surrounding area. The expansion will provide nine new patient rooms, improve the kitchen area and allow for more privacy for patients and their families. It will be built in four phases extending over a two-year period.

NEW ULM, MN

Firmenich Inc. became the first commercial business in the city to install solar panels. The 23.7 kilowatt installation consisting of 103 individual solar panels received federal tax credit incentives as well as a $10,000 rebate from New Ulm Public Utilities (NUPU). The solar installation provides energy savings for the perfume and flavor company as well as a learning opportunity for NUPU and the community.

PARKER, SD

South Dakota Governor Dennis Daugaard and Secretary of Education Dr. Melody Schopp honored teachers and staff of Parker's public schools by proclaiming September 28 "Parker School Day." The proclamation was in honor of the school district being named "Distinguished District" by the South Dakota Department of Education for the seventh consecutive year. The designation is related to the national "No Child Left Behind" education program and is determined by a number of criteria, including school size, teach competency, student adequate yearly progress and more.

Marshall community members gathered in September to dedicate a new memorial park commemorating the tenth anniversary of 9/11. The dedication ceremony concluded with fireworks. Photo courtesy the city of Marshall.

Officials from On Hand Development Corporation, Hand County Memorial Hospital, Hand County Commission and Avera McKennan break ground on a $5.5 million addition to the Hand County Memorial Hospital in Miller in November. Photo courtesy The Miller Press.

Pioneer Hi-Bred opened its research center in Volga in 2008 with nine full-time researchers and administrative staff members at a cost of $3.5 million. Pioneer broke ground in September on a 12,000 square-foot addition which will house a new soybean research and plot product advancement program.

PLANKINTON, SD

City Light Superintendent Vern Hill was honored by the South Dakota Water and Wastewater Association with the Price-Rees Award in recognition of 20 years of loyal service. In accepting his award, Hill recalled being hired by Plankinton to maintain the electrical and load management system in 1990. According to Hill, at that time, the water, sewer, streets, parks, pool and cemetery duties were "just part of the job," easy to maintain and required little paperwork or assistance. Now, the paperwork is "nearly overwhelming" and Hill is thankful for the help from his two linemen, who he says have been a great asset to him and the community.

SIOUX FALLS, SD

Voters in Sioux Falls chose to move forward with the construction of a new events center, with 58% approval in the November election. Funding will be provided by the city's existing second penny sales tax. The proposed facility will have a seating capacity of 12,000 for sports, concerts, large conventions, conferences and other events and will be located adjacent to the current arena and convention center. Project supporters expect the economic impact to be $36 million annually.

TYNDALL, SD

City officials reported substantial electrical and financial savings from energy efficient upgrades to several public buildings. Insulation improvements at the finance office and city shop building cut their energy use by 35,518 kWh annually, or about $2,841 per year. Lighting upgrades in the city library saved an estimated 5.16 kW a month. Energy use at the senior center is down 4,415 kWh annually thanks to the installation of two new doors, a new picture window and several lighting upgrades. The improvements came as part of Heartland's energy makeover contest, awarded in 2010.

VOLGA, SD

Agricultural research center Pioneer Hi-Bred broke ground in September on a 12,000 square-foot expansion of their facility. The addition will house a new soybean research program as well as an existing corn research program and a program that seeks to tailor Pioneer corn and bean products to local growing environments. The expansion reflects Pioneer's commitment to developing and advancing products on South Dakota acres for South Dakota farmers. Open since 2008, Pioneer projected the creation of five to six new jobs, mostly for research associates, in conjunction with the expansion.

WESSINGTON SPRINGS, SD

Alumni and residents gathered over the Fourth of July weekend to celebrate the 100th anniversary of the high school's first graduating class, who received diplomas in 1911. Many of the community's holiday festivities were dedicated to the all-school observance, "Celebrating 100 years of Continuing Education."

WHITE, SD

The community held its annual Pioneer Days in July. The festival included a parade, dance, chili cook-off, volleyball and golf tournaments, food and craft vendors, and children's activities.

POWER RESOURCES

PRODUCTION AT A GLANCE...

346,782 MWH	375,026 MWH	218,721 MWH	330,588 MWH
Whelan Energy Center Unit 2	Laramie River Station	Wessington Springs Wind Energy Center	Cooper Nuclear Station

Resource Spotlight:

WHELAN ENERGY CENTER UNIT 2

After nearly ten years of planning and five years of construction, Heartland's newest resource, Whelan Energy Center Unit 2 (WEC2), was declared ready for commercial operation on May 1, 2011. Located near Hastings, Nebraska, WEC2 is a 220 MW pulverized coal-fired generating plant. The project is unique for several reasons, including dual rail access for delivery of coal and the use of groundwater for cooling. The plant meets all of the latest pollution control standards and is well positioned to meet many existing and future rules pending with the Environmental Protection Agency. WEC2 includes an air quality control system that includes an electrostatic precipitator to remove fly ash, a scrubber to remove sulfur dioxide, selective catalytic reduction to reduce nitrous oxides, and a baghouse for additional particulate removal, as well as mercury removal controls.

WEC2 is owned by five public power utilities, including Heartland, which formed the Public Power Generation Agency for the sole purpose of constructing and operating WEC2. The project was financed using tax-exempt and Build America bonds. WEC2 operates within the Southwest Power Pool Energy Imbalance Market, giving Heartland the opportunity to sell excess energy in an additional market.

In order to meet the growing needs of our customers, Heartland maintains a diverse power supply portfolio including coal-fired, nuclear, hydro, wind and peaking units. Our power is delivered over the Integrated System, a high-voltage transmission system that covers a seven-state area and consists of over 9,300 miles of line, and is jointly owned by Heartland, Basin Electric Power Cooperative and Western Area Power Administration.

Currently in its fourth decade of operation, Laramie River Station (LRS) has been providing our customers dependable, low-cost power and energy since its construction as part of the Missouri Basin Power Project (MBPP) in 1980. Heartland's first baseload resource, LRS is a three-unit, 1,710 MW coal-fired generating station located near Wheatland, Wyoming. Heartland receives all of its power and energy from Unit 1, the only LRS unit connected to the Eastern Interconnect. Heartland owns a 3% undivided share of the MBPP, entitling us to 51 MW from LRS. LRS production was limited in 2011 from June through mid-October due to system reliability issues resulting from Missouri River flooding and its effect on hydropower operations.

In 2011, Heartland added a new baseload resource to our portfolio. Heartland has a 36% entitlement in the output of Whelan Energy Center Unit 2 (WEC2), which equals 80 MW, making it the largest generating resource in Heartland's portfolio. WEC2 will serve as Heartland's primary, long-term baseload resource going forward. *See sidebar.*

Cooper Nuclear Station (CNS), located near Brownville, Nebraska, is an additional baseload resource in Heartland's portfolio. Heartland signed a purchase power agreement with Nebraska Public Power District (NPPD), effective in 2004, to purchase 45 MW of power and energy from CNS. The carbon-free facility has a net generating capacity of 791 MW. Heartland's contract with NPPD is scheduled to terminate at the end of 2013. CNS was off-line in 2011 from March 13 to May 10 for a planned refueling outage.

On June 19, 2011, CNS declared a "Notification of Unusual Event" as part of standard procedure to address rising water levels of the Missouri River due to releases from dams upstream by the U.S. Army Corps of Engineers. According to the plant's owner and operator NPPD, the notification was declared "as part of a safety and emergency preparedness plan the station follows when flooding conditions are in

Rising Missouri River water levels during the summer of 2011 posed a potential threat to Cooper Nuclear Station, pictured in June, in Brownville, Nebraska. However, plant officials assured the public the plant was "reliable and ready" thanks to preparation and prevention strategies such as filling nearly 10,000 sandbags and erecting roughly 800 barriers around the station. Photo courtesy Nebraska Public Power District.

effect." The plan calls for a notification to be declared when the river reaches 42.5 feet, or greater than 899 feet above sea level. There was no threat to plant employees or the public throughout the event, which ended July 12 when the river was down to 895.8 feet. Plant personnel began preparing for the high water in May by bagging more than 5,000 tons of sand for barricades and reinforcing the plant's access road. A Notification of Unusual Event is the lowest and least serious of four emergency classifications established by the Nuclear Regulatory Commission for power plants.

Wessington Springs Wind Energy Center (WSW Energy Center) is a 34 turbine, 51 MW wind project located near Wessington Springs, South Dakota. Heartland purchases the entire output of the facility through a long-term purchase power agreement with the facility's owner and operator, NextEra Energy Resources. The WSW Energy Center has provided renewable power and energy to Heartland's customers since 2009 and its location is proving to be conducive to high levels of wind energy production. In February of 2011, WSW Energy Center achieved a monthly average capacity factor of 75.1%. The annual average capacity factor for 2011 was 53.1% exceeding the typical upper Midwest wind project capacity factor of 30 to 40 percent.

ENERGY EFFICIENCY

Since its launch in 2009, Heartland's energy efficiency program, Power Forward, has seen many changes. Our focus in 2011 shifted to more actively helping customers implement programs to optimize electric energy use in their communities while remaining committed to educating the public on the benefits of energy efficiency.

In June of 2011, Heartland launched an energy auditor training program for employees of Heartland customer communities. Participants worked at their own pace through four online courses including diagnostic testing, manufactured homes, residential energy efficiency and weatherization. The training culminated in October with a one-day field lab hosted by Heartland. Participants performed a live energy audit, going through all the steps required to assess a home's efficiency. Upon completion of the training, participants were given access to a software program enabling them to enter data from an audit and generate reports for customers. Heartland also purchased two energy auditing toolkits for those who completed the training to perform audits in their communities. Each kit includes a blower door system and thermal imaging camera as well as a variety of other tools to effectively perform an audit.

Another addition to Power Forward in 2011 was an energy efficiency grant program, designed to financially support energy efficiency in customer communities. Grants were awarded for projects that would optimize electric energy use in city facilities and were capped at $5,000 per customer. Four customers received grants in 2011, totaling $14,500.

Throughout 2011, Heartland continued to monitor the results of our first Extreme Energy Home Makeover performed in 2009. Rod and Kari Schmidt's home in Colman, South Dakota was retrofitted with new windows, doors, extra insulation, a Marathon water heater and an air-source heat pump. The Schmidts have seen cumulative cost savings of nearly $2,000 in the past two years as well as total energy savings of 123 BTU. On average, in 2010 and 2011, they saw 31% monthly energy savings and 22% monthly cost savings.

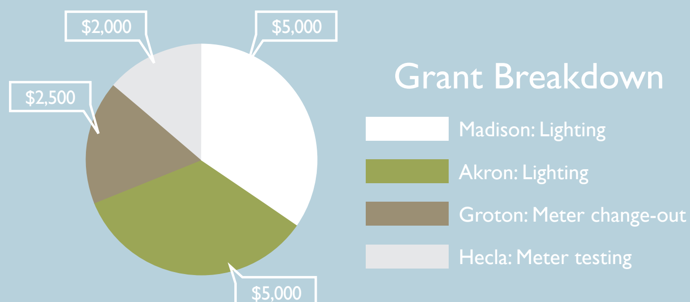
In December of 2011, Heartland announced plans for another addition to Power Forward. Beginning in 2012, customers will have the option to participate in a Power Forward incentive program, which will offer rebates to commercial customers for lighting upgrades and to residential customers for purchasing certain Energy Star qualified appliances. Incentives will also be available for energy audits on large commercial and industrial facilities.

ENERGY EFFICIENCY AT A GLANCE...

$14,500
Energy efficiency funds distributed

$10,422
Estimated annual savings attributed to energy efficiency grants

30,820
Energy savings in kWh attributed to energy efficiency grants



Energy Efficiency Spotlight:

AKRON, IOWA

The city of Akron received an energy efficiency grant in 2011 totaling $5,000 for lighting upgrades made at several city facilities. Twenty-three metal halide and eight T12 fixtures were replaced at the city fire station with T8s and four metal halides were replaced with LEDs. The city previously had to leave the metal halide lights turned on at all times because of the time it takes for them to warm up when switched on. Firefighters didn't have time to wait for the lights to warm up when entering the station to prepare for a fire. The new lights will operate more efficiently as well as provide savings from being turned off when not in use. In addition, lighting at the senior center, water building, electric building and street building was all upgraded from T12s to T8s. The total project is estimated to provide annual savings of $1,297 and 12,643 kilowatt hours.

"Upgrading lighting to more efficient models typically provides significant energy savings. The city should see a simple payback in just over five years."
–Heartland Communications Manager Ann Hyland

ECONOMIC DEVELOPMENT

Heartland's progressive economic development program invests resources into our customer communities in order to help them grow and thrive. We offer a variety of incentives to attract new businesses as well as encourage existing businesses to expand.

Heartland's growth incentive program helps customers with business recruitment, retention and expansion as well as job creation by awarding rebates to new and expanding businesses on their retail electric bills as well as cash incentives for new jobs created. Heartland awarded $40,800 in growth incentives to businesses in 2011.

In May 2011, Custom Touch Homes of Madison, South Dakota announced plans for a 48,000 square-foot addition, their second expansion in two years, and the creation of up to 50 new jobs. Custom Touch Homes builds homes from start to finish inside an enclosed facility and delivers them to their final destination. Custom Touch completed their expansion in five short months, doubling their capacity, increasing production efficiency and allowing them to meet growing demand. The expansion earned the company nearly $1,500 in electric rebates and $7,800 in hiring incentives for the creation of 22 jobs from Heartland's growth incentive program.

The Heartland Economic development Loan Program (HELP) Fund finances business ownership and expansion, job creation and retention, and entrepreneurial enterprises through a revolving loan fund. Heartland, utilizing funds from the Rural Economic Development Loan and Grant program administered by USDA Rural Development, awarded one HELP loan in 2011 for over $1 million. *See sidebar.*

Heartland awards grants to customers and their economic development corporations to help fund projects that foster growth and development. Over $30,000 in grants were issued in 2011.

An economic development grant from Heartland in 2011 helped with the preservation of the Sweep Van-Dyke Hotel in Plankinton, South Dakota. The hotel was added to the National Register of Historic Places in February 2005. The hotel once drew rail travelers in search of room and board and its preservation will emphasize the integral role the railroad played in the development of Plankinton and the state. Upon completion, the building will host a railroad museum, serve as a cultural heritage center and provide space for community gatherings, including a wedding chapel.

ECONOMIC DEVELOPMENT AT A GLANCE...

$1.1	1,300	22
Million injected into customer communities in rebates and incentives	Megawatt hours added to customer load due to economic development programs	Full-time employment positions created in customer communities

HELP Fund Spotlight:

RURAL LEARNING CENTER

The August 2011 grand opening of Maroney Comons in Howard, South Dakota was a celebration of the "power of partnerships." In January 2011, Heartland awarded the Rural Learning Center a HELP loan of $1,040,000 at 0% interest to support construction of the facility. Maroney Commons, located on the Rural Learning Center campus on Main Street, is the culmination of more than a decade-long effort of partnerships and collaborations to build a place where rural community leaders can gather to work on the future of their communities.

The $6.5 million facility includes a one-of-a-kind conference and training center, 24-room hotel, full-service restaurant and community wellness center. Built to achieve LEED Platinum certification, the building features rooftop solar panels, a commercial-scale wind turbine and a geothermal heat system. Rainwater and snowmelt are collected and channeled for use inside the building lavatories, and a roof complete with a garden of native prairie flowers and grasses planted in 30 inches of soil helps cool the building and mitigate water run-off.

Photo courtesy the Rural Learning Center.

STAFF

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Manager of Community & Economic Development

Danielle Rosheim
Projects & Marketing Coordinator

ACCOUNTANTS' REPORT AND FINANCIAL STATEMENTS

Contents

INDEPENDENT ACCOUNTANTS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

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) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

BKD, LLP

March 16, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Heartland Consumers Power District's (Heartland or HCPD) financial statements provides the reader of an overview of the financial acitivities for 2011, 2010 and 2009. 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 liabilities, with the difference between the two reports as the net assets. Over time, increases or decreases in net assets 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 Assets as of December 31,			Fiscal Year-to-Year Percentage Change	
	2011	2010	2009	From 2010 to 2011	From 2009 to 2010
Current assets	$ 18,217	$ 19,559	$ 13,793	(6.9)%	41.8%
Net capital assets	18,411	18,818	21,531	(2.2)%	(12.6)%
Other noncurrent assets	18,034	18,573	22,717	(2.9)%	(18.2)%
Total assets	$ 54,662	$ 56,950	$ 58,041	(4.0)%	(1.9)%
Current liabilities	$ 8,863	$ 9,075	$ 10,417	(2.3)%	(12.9)%
Noncurrent liabilities	35,239	40,005	41,415	(11.9)%	(3.4)%
Total liabilities	44,102	49,080	51,832	(10.1)%	(5.3)%
Invested in capital assets, net of related debt	(2,132)	(1,351)	(334)	57.8%	304.5%
Restricted	4,365	3,058	2,103	42.7%	45.4%
Unrestricted	8,327	6,163	4,440	35.1%	38.8%
Total net assets	10,560	7,870	6,209	34.2%	26.8%
Total liabilities and net assets	$ 54,662	$ 56,950	$ 58,041	(4.0)%	(1.9)%

Heartland's overall net assets increased in 2011 and 2010 by $2,690,471 and $1,660,206, respectively. The overall net assets increased by $697,727 during 2009. The increase in net assets in 2011, 2010, and 2009 were a result of increased customer revenue and other revenue.

The increased customer revenue in 2011, 2010, and 2009 is attributed to 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 activities present information showing how Heartland's net assets 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).

							Fiscal Year-to-Year Percentage Change	
		2011 Actual		2010 Actual		2009 Actual	From 2010 to 2011	From 2009 to 2010
Power sales								
Customer energy (MWh)		870,436		866,254		692,307	0.5%	25.1%
Customer cumulative demand (kW)		1,472,567		1,440,863		1,210,073	2.2%	19.1%
Revenues								
Customer revenue	$	55,194	$	47,317	$	36,219	16.6%	30.6%
Surplus sales revenue		11,887		3,889		4,581	205.7%	(15.1)%
Other operating revenue		1,106		1,165		1,560	(5.1)%	(25.3)%
Provision for rate stabilization		(586)		--		--	100.0%	--%
Total operating revenue		67,601		52,371		42,360	29.1%	23.6%
Expenses								
LRS production and O&M		8,038		8,055		7,424	(0.2)%	8.5%
Cost of power		50,787		31,347		23,916	62.0%	31.1%
Settlement proceeds		(3,586)		--		--	100.0%	--%
Transmission		3,473		2,581		2,500	34.6%	3.2%
Depreciation		959		3,671		3,362	(73.9)%	9.2%
Taxes		193		165		160	17.0%	3.1%
Administration and general		3,220		3,219		2,913	0.0%	10.5%
Amortization		673		246		216	173.6%	13.9%
Total operating expenses		63,757		49,284		40,491	29.4%	21.7%
Operating income		3,844		3,087		1,869	24.5%	65.2%
Total nonoperating expenses, net		(1,154)		(1,426)		(1,171)	(19.1)%	21.8%
Change in net assets		2,690		1,661		698	62.0%	138.0%
Net assets, beginning of year		7,870		6,209		5,511		
Net assets, end of year	$	10,560	$	7,870	$	6,209		

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 2011 were 1,472,567 kW and 870,436 MWh, respectively. The 2011 peak demand of 140.4 MW occurred in January. Demand and energy sales for 2010 were 1,440,863 kW and 866,254 MWh, respectively. Demand and energy sales for 2009 were 1,210,073 kW and 692,307 MWh, respectively. Heartland's peak demand for 2010 and 2009 were 137.7 MW and 113.2 MW, respectively. The increase in 2010 sales was the result of a new customer.

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. Surplus sales revenue increased in 2011 as a result of additional excess energy available for sale due to a new baseload resource becoming commerical in 2011. Surplus sales revenue decreased in 2010 due to reduced market prices which were below 2009 levels.

The operating expenses fluctuated in some areas. Production expenses (the cost for coal, transportation, and operations and maintenance at LRS) were stable in 2011. As a result of a full year of generation in 2010, production expenses increased 8.5% compared to 2009. In 2009 LRS had less MWh generated due to a scheduled maintenance outage which resulted in decreased energy 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.

Cost of power increased in 2011 primarily due to the commercial operation of Whelan Energy Center 2 (WEC2). 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. Cost of power increased in 2010 due to an additional contract to meet new and existing customer load growth and escalation in contract prices. Heartland also started purchasing renewable energy from Wessington Springs Wind Farm in 2009.

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 Sante 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 $585,693 was retained in rate stabilization to offset future expenses.

Transmission expense increased in 2011 due to the transmission service related to WEC2 and increased customer load.

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 2011 and 2010 was 3.29 and 2.45, respectively. The debt service coverage was 1.28 in 2009. The minimum coverage required by the bond resolutions was increased to 1.35 in 2010.

During 2011, Heartland made $3,535,000 in principal payments on its outstanding bonds. Principal payments in 2010 and 2009 were $3,330,000 and $3,150,000, respectively. Because the debt service payments are essentially a level amount, the principal payment each year increases correspondingly with a decrease in the interest payments. 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 2011, 2010, or 2009.

Heartland's bonds are insured and their ratings are AAA and Aaa by Standard & Poor's and Moody's, respectively. Moody's assigned an underlying rating of A3 to Heartland and Standard & Poor's has assigned an issuer credit rating of A- to Heartland.

Contact Information

This financial report is designed to provide a general overview of Heartland's finances. Question 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, 2011 AND 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	$ 960,028	$ 2,049,728
Restricted cash and cash equivalents	2,873,949	4,656,210
Short-term investments	4,030,179	3,836,797
Accounts receivable	6,382,552	4,952,000
Notes receivable, current portion	283,453	307,937
Plant operation assets	3,605,853	3,640,351
Prepaid expenses and other current assets	80,825	115,792
Total current assets	18,216,839	19,558,815
Noncurrent assets		
Notes receivable, net allowance of $45,000 for 2011 and 2010	2,797,107	2,088,148
Restricted deposits and investments	11,647,439	11,815,283
Deferred financing costs, net	982,515	1,611,103
Capital assets, net	18,411,614	18,818,023
Deferred charges	2,395,289	2,736,817
Other	211,444	321,897
Total noncurrent assets	36,445,408	37,391,271
Total assets	$ 54,662,247	$ 56,950,086

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of long-term debt	$ 2,627,923	$ 4,260,697
Accounts payable	5,096,512	3,536,862
Accrued expenses	296,892	307,364
Accrued interest payable	842,031	970,465
Total current liabilities	8,863,358	9,075,388
Noncurrent Liabilities		
Long-term debt	33,055,798	35,034,317
Other noncurrent liabilities	189,035	164,712
Total noncurrent liabilities	$ 33,244,833	$ 35,199,029
Deferred Revenue	1,993,892	1,220,283
Reserve for Settlement Proceeds	--	3,585,693
Net Assets		
Invested in capital assets, net of related debt	(2,131,926)	(1,351,013)
Restricted for debt service	4,365,087	3,057,773
Unrestricted	8,327,003	6,162,933
Total net assets	10,560,164	7,869,693
Total liabilities and net assets	$ 54,662,247	$ 56,950,086

See Notes to Financial Statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating Revenues		
Requirements to customers	$ 55,194,391	$ 47,316,732
Surplus sales revenue	11,886,782	3,889,643
Other operating revenue	1,105,924	1,164,875
Provision for rate stabilization	(585,693)	--
Total operating revenues	67,601,404	52,371,250
Operating Expenses		
Cost of power	58,825,011	39,401,945
Settlement proceeds	(3,585,693)	--
Depreciation and amortization	1,631,844	3,917,105
Transmission	3,472,874	2,580,680
Other	3,412,895	3,384,613
Total operating expenses	63,756,931	49,284,343
Operating Income	3,844,473	3,086,907
Nonoperating Revenues (Expenses)		
Investment income	728,073	712,041
Net costs to be refundable in future periods	(187,915)	(141,221)
Interest expense	(1,994,160)	(1,989,673)
Grant revenue	300,000	--
Other	--	(7,848)
Net nonoperating expenses	(1,154,002)	(1,426,701)
Increase in Net Assets	2,690,471	1,660,206
Net Assets, Beginning of Year	7,869,693	6,209,487
Net Assets, End of Year	$ 10,560,164	$ 7,869,693

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Operating Activities		
Receipts from customers	$ 54,689,489	$ 46,573,973
Receipts from others	12,067,056	5,054,518
Payments to suppliers	(62,905,343)	(43,563,377)
Payments to employees	(1,230,584)	(1,158,551)
Net cash provided by operating activities	2,620,618	6,906,563
Noncapital Financing Activities		
Advances on revolving line of credit	3,539,573	1,910,630
Payments on revolving line of credit	(3,539,573)	(4,783,181)
Federal grants received	300,000	--
Proceeds from issuance of promissory notes	740,000	225,000
Payments on promissory notes	(106,822)	(59,542)
Net cash provided by (used in) noncapital financing activities	933,178	(2,707,093)
Capital and Related Financing Activities		
Purchase of capital assets	(486,479)	(507,738)
Proceeds from sale of capital assets	--	247,500
Principal payments on long-term debt	(3,535,000)	(3,330,000)
Proceeds from issuance of promissory notes	--	7,500,000
Payments on promissory notes	(618,882)	(4,935,396)
Interest paid	(1,686,057)	(2,228,012)
Return of capital (payments) for future power projects	(2,155)	366,519
Debt issuance costs	(150,264)	(52,018)
Net cash used in capital and related financing activities	(6,478,837)	(2,939,145)
Investing Activities		
Proceeds from sales and maturities of investment securities	12,727,479	9,639,002
Purchases of investment securities	(12,088,241)	(10,541,601)
Issuance of notes receivable	(1,078,000)	(300,000)
Repayments of notes receivable	393,525	215,015
Investment income received	338,545	802,542
Net cash provided by (used in) investing activities	293,308	(185,042)
Increase (Decrease) in Cash and Cash Equivalents	(2,631,733)	1,075,283
Cash and Cash Equivalents, Beginning of Year	7,079,191	6,003,908
Cash and Cash Equivalents, End of Year	$ 4,447,458	$ 7,079,191
Composition of Cash and Cash Equivalents		
Cash and cash equivalents	$ 960,028	$ 2,049,728
Restricted cash and cash equivalents	2,873,949	4,656,210
Restricted deposits and investments	11,647,439	11,815,283
Total	15,481,416	18,521,221
Less investments not defined as cash equivalents	11,033,958	11,442,030
Total cash and cash equivalents	$ 4,447,458	$ 7,079,191

See Notes to Financial Statements

	2011	2010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 3,844,473	$ 3,086,907
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,631,844	3,917,105
Loss on disposition of capital assets	--	5,766
Provision for rate stabilization	585,693	--
Recognition of settlement proceeds	(3,585,693)	--
Changes in operating assets and liabilities		
Accounts receivable	(1,430,552)	(742,759)
Plant operation assets	34,498	414,679
Prepaid expenses and other assets	7,988	73,598
Accounts payable	1,518,516	178,672
Accrued liabilities	13,851	(27,405)
Net Cash Provided by Operating Activities	$ 2,620,618	$ 6,906,563
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ 65,557	$ 40,994
Direct financings of capital assets	$ --	$ 625,366

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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 has also elected to follow all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Heartland's accounting policies also conform to FASB Accounting Standards Codification (ASC) 980, Regulated Operations. Accordingly, ASC 980 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 and liabilities 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 assets during the reporting period. Actual results may differ from those estimates.

Cash Equivalents

Heartland considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. At December 31, 2011 and 2010, 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, U.S. agency obligations and other debt securities 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 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 at December 31, 2011 and 2010, as there were no delinquent accounts.

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.

Deferred Financing Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds, generally using the effective interest method. Amortization of bond issue costs included in the statements of revenues, expenses and changes in net assets totaled $227,303 and $245,903 for 2011 and 2010, respectively.

Capital Assets

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

In 2011 the District completed a review of the estimated useful lives of its utility plant. The District determined that as a result of preventative maintenance actions taken, useful lives for certain asset categories were generally longer than the original lives assigned for depreciation purposes. Therefore, the District extended the estimated useful lives of certain categories of utility plant, effective January 1, 2011. The effect of this change in estimate reduced depreciation expense by approximately $2,900,000 for the year ended December 31, 2011.

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 provisions of ASC 980, which provide for the deferral of expenses which are expected to be recovered through customer rates over some future period (regulatory assets) and reductions in earnings to cover future expenditures (regulatory liabilities).

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

Net Asset Classification

Net assets are required to be classified into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation, and costs to be recovered from future revenues 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. 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 invested in capital assets, net of related debt.

Restricted - This component of net assets consists of constraints placed on net assets 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 assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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 $5,000 in both 2011 and 2010, respectively.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. These reclassifications had no effect on the change in net assets.

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. Pursuant to legislation enacted in 2010, the Federal Deposit Insurance Corporation (FDIC) will fully insure all noninterest-bearing transaction accounts through December 31, 2012, at all FDIC institutions.

Investments

At December 31, 2011 and 2010, Heartland had the following investments and maturities:

		Maturities in Years				
	Fair value	Less than 1	1-5	6-10	More than 10	Credit Ratings
December 31, 2011						
Money market mutual funds	$ 3,945,062	$ 3,945,062	$ --	$ --	$ --	AAA
U.S. Treasury strips	6,091,832	991,092	5,100,740	--	--	N/A
U.S. agency obligations	6,500,305	2,225,108	4,110,061	165,136	--	AAA
	$ 16,537,199	$ 7,161,262	$ 9,210,801	$ 165,136	$ --	
December 31, 2010						
Money market mutual funds	$ 6,765,113	$ 6,765,113	$ --	$ --	$ ---	AAA
U.S. Treasury strips	4,616,536	--	4,616,536	--	--	N/A
U.S. agency obligations	7,075,164	--	6,851,639	--	223,525	AAA
	$ 18,456,813	$ 6,765,113	$ 11,468,175	$ --	$ 223,525	

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.

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,	
	2011	2010
U.S. sponsored agency obligations		
Federal National Mortgage Association	12.19 %	13.95 %
Federal Home Loan Bank	16.78	12.73

Note 2: Deposits, Investments and Investment Return - continued

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2011 and 2010 as follows:

	2011	2010
Carrying value		
Deposits	$ 2,974,396	$ 3,901,205
Investments	16,537,199	18,456,813
	$ 19,511,595	$ 22,358,018

Included in the deposits shown above are $2,472,000 and $3,587,128 of certificates of deposits as of December 31, 2011 and 2010, respectively.

Included in the following balance sheet captions:

	2010	2011
Current Assets		
Cash and cash equivalents	$ 960,028	$ 2,049,728
Restricted cash and cash equivalents	2,873,949	4,656,210
Short-term investments	4,030,179	3,836,797
Noncurrent Assets		
Restricted deposits and investments	11,647,439	11,815,283
	$ 19,511,595	$ 22,358,018

Investment Return

Investment return for the years ended December 31, 2011 and 2010 consisted of interest income and realized and unrealized gains of $728,073 and $712,041, respectively. Unrealized gains on restricted investments are deferred in accordance with ASC 980.

Note 3: Notes Receivable

	2011				
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	$ 527,506	$ --	$ 68,613	$ 458,893	$ 51,845
3.0% to 6.25% notes in connection with the Intermediary Relending Program Promissory Note (see Note 15), due in monthly installments through September 2020	914,574	27,000	208,524	733,050	115,219
Interest-free notes in connection with the Rural Economic Development Loan Agreement and Rural Economic Development Grant Agreement (see Note 15), due in monthly installments of $9,699 and $9,731 through July 2019 and December 2021, respectively	999,005	1,051,000	116,388	1,933,617	116,389
Total notes receivable	$ 2,441,085	$ 1,078,000	$ 393,525	$ 3,125,560	$ 283,453

	2010				
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	$ 588,679	$ --	$ 61,173	$ 527,506	$ 63,875
3.0% to 6.25% notes in connection with the Intermediary Relending Program Promissory Note (see Note 15), due in monthly installments through September 2020	719,921	300,000	105,347	914,574	127,673
Interest-free note in connection with the Rural Economic Development Loan Agreement and Rural Economic Development Grant Agreement (see Note 15), due in monthly installments of $9,699 through July 2019	1,047,500	--	48,495	999,005	116,389
Total notes receivable	$ 2,356,100	$ 300,000	$ 215,015	$ 2,441,085	$ 307,937

Interest income on these notes totaled $53,357 and $55,199 for 2011 and 2010, respectively.

Note 4: Capital Assets

Capital assets at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Depreciable assets		
Missouri Basin Power Project	$ 51,351,763	$ 51,235,430
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	384,975
Heartland headquarters building	2,836,288	2,807,728
General plant	636,847	625,328
Total depreciable assets	62,869,813	62,713,401
Nondepreciable assets		
Land	80,402	80,402
Construction in progress	547,371	151,747
Total nondepreciable assets	627,773	232,149
	$ 63,497,586	$ 62,945,550

Capital assets activity for 2011 and 2010 was:

	2011				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Missouri Basin Power Project	$ 51,235,430	$ --	$ (42,824)	$ 159,157	$ 51,351,763
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	--	--	--	384,975
Heartland headquarters building	2,807,728	28,560	--	--	2,836,288
General plant	625,328	11,519	--	--	636,847
Land	80,402	--	--	--	80,402
Construction in progress	151,747	554,781	--	(159,157)	547,371
Total capital assets	62,945,550	594,860	(42,824)	--	63,497,586
Less accumulated depreciation	(44,127,527)	(1,001,269)	42,824	--	(45,085,972)
Capital assets, net	$ 18,818,023	$ (406,409)	$ --	$ --	$ 18,411,614

	2010				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Missouri Basin Power Project	$ 50,726,602	$ --	$ (60,590)	$ 569,418	$ 51,235,430
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	--	--	--	384,975
Heartland headquarters building	617,234	--	(617,234)	2,807,728	2,807,728
General plant	675,642	49,517	(456,222)	356,391	625,328
Land	80,402	--	--	--	80,402
Construction in progress	2,760,703	1,124,581	--	(3,733,537)	151,747
Total capital assets	62,905,498	1,174,098	(1,134,046)	--	62,945,550
Less accumulated depreciation	(41,374,257)	(3,671,202)	917,932	--	(44,127,527)
Capital assets, net	$ 21,531,241	$ (2,497,104)	$ (216,114)	$ --	$ 18,818,023

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 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: Regulatory Assets and Liabilities

Regulatory assets are comprised of costs incurred by the District for initial payments made on long-term capacity contracts. These costs are included in deferred charges and are being amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates. Regulatory liabilities, which are presented as deferred revenues, consist of unrealized gains on investments of $1,408,199 and $1,220,283 at December 31, 2011 and 2010, respectively, and revenues deferred for rate stabilization of $585,693 at December 31, 2011.

Note 6: Credit Facilities

Heartland finances certain operating payments through a revolving line of credit with a financial institution that provides for borrowings up to $5,000,000; 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 2012 and borrowings under the line of credit bear interest at 4.0%. There were no outstanding borrowings on this line at December 31, 2011 and 2010.

Note 7: Long-term Liabilities

Long-term liabilities at December 31, 2011 consisted of the following:

	2011				
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	$ 29,680,000	$ --	$ 13,580,000	$ 16,100,000	$ 1,875,000
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	7,324,604	--	618,882	6,705,722	645,861
4.75-5.25% Electric System Second Lien Revenue Bonds, Series 2011, due monthly with the final payment on January 1, 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	724,575	--	24,593	699,982	24,838
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 beginning in 2014 with a final payment due June 25, 2040	98,763	--	5	98,758	--
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $6,852 beginning July 31, 2010 with a final payment due July 31, 2019	705,740	--	82,224	623,516	82,224
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $7,709 beginning February 28, 2013 with a final payment due January 31, 2021	--	740,000	--	740,000	--
Total bonds and notes payable	38,533,682	12,090,000	14,305,704	36,317,978	2,627,923
Deferred bond refunding gain (loss)	761,332	(1,271,316)	124,273	(634,257)	--
Compensated absences	254,372	114,601	79,256	289,717	100,682
Total long-term liabilities	$ 39,549,386	$ 10,933,285	$ 14,509,233	$ 35,973,438	$ 2,728,605

Long-term liabilities at December 31, 2010 consisted of the following:

Type of Debt	2010 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	$ 33,010,000	$ --	$ 3,330,000	$ 29,680,000	$ 3,535,000
4.55% Electric System Second Lien Revenue Note, Series 2007, due in one lump sum payment on January 1, 2012	4,760,000	--	4,760,000	--	--
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	--	7,500,000	175,396	7,324,604	618,881
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036	623,620	126,237	25,282	724,575	24,592
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 beginning in 2014 with a final payment due June 25, 2040	--	98,763	--	98,763	--
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $6,852 beginning July 31, 2010 with a final payment due July 31, 2019	740,000	--	34,260	705,740	82,224
Total bonds and notes payable	39,133,620	7,725,000	8,324,938	38,533,682	4,260,697
Deferred bond refunding gain	867,117	--	105,785	761,332	--
Compensated absences	231,094	102,977	79,699	254,372	89,660
Total long-term liabilities	$ 40,231,831	$ 7,827,977	$ 8,510,422	$ 39,549,386	$ 4,350,357

Debt service requirements at December 31, 2011 are as follows:

	Principal	Interest	Total
2012	$ 2,627,923	$ 1,763,853	$ 4,391,776
2013	866,061	1,677,622	2,543,683
2014	906,608	1,647,987	2,554,595
2015	5,402,559	1,483,086	6,885,645
2016	11,449,850	1,038,383	12,488,233
2017-2021	14,552,067	608,047	15,160,114
2022-2026	157,358	22,640	179,998
2027-2031	165,423	14,576	179,999
2032-2036	173,900	6,098	179,998
2037-2040	16,229	413	16,642
	$ 36,317,978	$ 8,262,705	$ 44,580,683

Note 7: Long-term Liabilities - continued

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, 2011 and 2010.

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 $42,300,000, with annual payments expected to require 3-7% of net revenues in 2012 through 2014 and 10-20% of net revenues in 2015 through 2017. Principal and interest for the current year and net operating revenues were $6,132,989 and $67,601,404, respectively.

In 2011, the District issued $11,350,000 of Electric System Revenue Bonds, Series 2011, to advance refund $10,045,000 of Electric System Revenue Bonds, Series 1992, which were scheduled to mature in 2012 through 2014. The net proceeds of the Series 2011 issuance were used to purchase U.S. Treasury securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, a portion of the Series 1992 bonds are considered defeased and the liability for those bonds has been removed from the District's financial statements. This advance refunding was executed by the District to cover temporary cash flow shortages as a result of the timing of changes in certain of its municipal customer contracts, expiring power contracts and the initial commercial operation of WEC2. The deferral of payments from this refunding will increase the District's overall debt service payments by approximately $2,800,000, which equates to a present value loss of approximately $970,000. Amortization of the deferred bond refunding loss is included as a component of interest expense. Amortization expense was approximately $232,000 for 2011.

Note 8: Settlement Proceeds

During 2009, the Surface Transportation Board (STB) issued its Order that rates charged by Burlington Northern Santa Fe (BNSF) for coal transportation to MBPP were unreasonable. The STB concluded the Operating Agent of MBPP should receive approximately $120 million in reparations from BNSF for past overcharges. In November 2009, these reparations were transferred to the Operating Agent, which transferred the funds to the Participants, including Heartland, who received $3,585,693. BNSF appealed the STB's decision to the U.S. Court of Appeals for the D.C. Circuit, which ruled in favor of the Operating Agent in 2010. BNSF formally petitioned for the U.S. Supreme Court to review the decision of the D.C. Circuit. This petition was denied in May 2011. At December 31, 2010, the District had recorded its portion of the settlement as restricted cash and an offsetting settlement reserve credit in noncurrent liabilities. In 2011, the District recognized its portion of the settlement as an offset to operating expenses.

Note 9: 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. The majority of these agreements expire in 2040, while the remainder expires in 2016.

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.

Note 10: 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.

Nebraska Public Power District (NPPD)

Heartland entered into a long-term Unit Participation Power Agreement with NPPD, effective January 1, 2004, whereby NPPD will supply power requirements to Heartland's customers from its Cooper Nuclear Station. In addition to charges for energy provided by NPPD, Heartland is contracted to pay an escalating monthly capacity charge through the contract's expiration date of December 31, 2013.

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.

Note 11: Retirement Plans

Defined Benefit Plan

Plan Description

Heartland contributes to the South Dakota State Retirement System (the Plan), which is a costsharing, 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 $86,668, $80,019, and $68,560 2011, 2010 and 2009, respectively. The employees' contributions during 2011, 2010 and 2009, were $73,604, $69,072, and $60,430, 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, 2011 and 2010 were $14,426 and $13,360, respectively. The contributions made by Heartland employees for the years ended December 31, 2011 and 2010 were $47,346 and $45,956, respectively.

Note 12: Significant Estimates and Concentrations

Major Customers

Sales to two customers were approximately 51% and 59% for the years ended December 31, 2011 and 2010, respectively. Approximately 61% of total accounts receivable were owed from three customers at December 31, 2011. Approximately 52% of total accounts receivable were owed from two customers at December 31, 2010.

Propsed Environmental Standards

On March 16, 2011, the EPA issued a proposed maximum achievable control technology (MACT) rule that would require reduction of emissions of toxic air pollutants from power plants, specifically industrial utility boilers. The proposed rule is expected to be finalized in early 2012. Specifically, the proposed rule would require reductions in emissions from new and existing coal and oil-fired steam utility electric generating units. The proposed rule is being analyzed and it is unknown what the impacts to the District will be until the rule is finalized.

Any changes in the environmental regulatory requirements imposed by federal or state law which are applicable to generating stations, in which the District is either an owner or participant, could result in increased capital and operating costs being incurred by the District. Until such changes are finalized and implemented, Heartland is unable to predict when pending changes will be made to current environmental regulatory requirements and how the changes may impact the District.

Note 13: Risk Management

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

Note 14: 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:

		2011		2010
Employees (unaudited)		12		12
Total salaries	$	1,230,584	$	1,158,551
Maintenance expense	$	162,435	$	142,582
Total kilowatt hours sold (unaudited)		1,382,645,889		1,092,027,307

Note 15: 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 2011 and 2010 financial information for the revolving loan fund is presented below:

		2011		2010
Condensed Balance Sheet				
Assets				
Current assets	$	685,704	$	502,278
Other assets		2,390,057		1,624,517
Total assets	$	3,075,761	$	2,126,795
Liabilities				
Current liabilities	$	109,036	$	109,775
Noncurrent liabilities		2,055,195		1,422,262
Total liabilities	$	2,164,231	$	1,532,037
Net Assets		911,530		594,758
Total liabilities and net assets	$	3,075,761	$	2,126,795
Condensed Statement of Revenues, Expenses and Changes in Net Assets				
Nonoperating revenues (expenses)				
Investment income	$	32,559	$	31,686
Interest expense		(8,640)		(6,768)
Other		292,853		(59,287)
Capital contributions		--		75,000
Increase in Net Assets		316,772		40,631
Net Assets, Beginning of Year		594,758		554,127
Net Assets, End of Year	$	911,530	$	594,758
Condensed Statement of Cash Flows				
Net cash provided by (used in)				
Noncapital financing activities	$	916,408	$	146,063
Investing activities		(720,276)		(39,996)
Increase (Decrease) in Cash		196,132		106,067
Beginning of year		256,118		150,051
End of year	$	452,250	$	256,118

If you have received this report in error or would like to update your mailing address with Heartland, please contact Danielle Rosheim:

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