ANNUAL REPORT

Serving customers with the Power of Forward Thinking

HEARTLAND CONSUMERS POWER DISTRICT

2012

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.

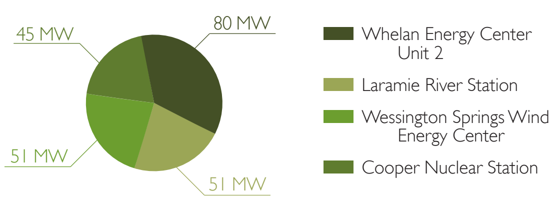
About Heartland

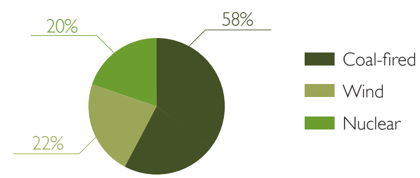
Heartland Consumers Power District is a public power utility providing reliable power as well as energy services and community development programs to municipalities, state agencies and other organizations in South Dakota, Minnesota and Iowa. Heartland continually takes steps toward providing a cleaner,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

Heartland is a public corporation and political subdivision of the state of South Dakota. 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.

Heartland's focus is to supply electric energy and encourage and extend its efficient, environmentally responsible use. In order to meet the growing needs of our customers, our diverse power supply portfolio includes coal-fired, nuclear, wind and diesel generation.

Resource Mix





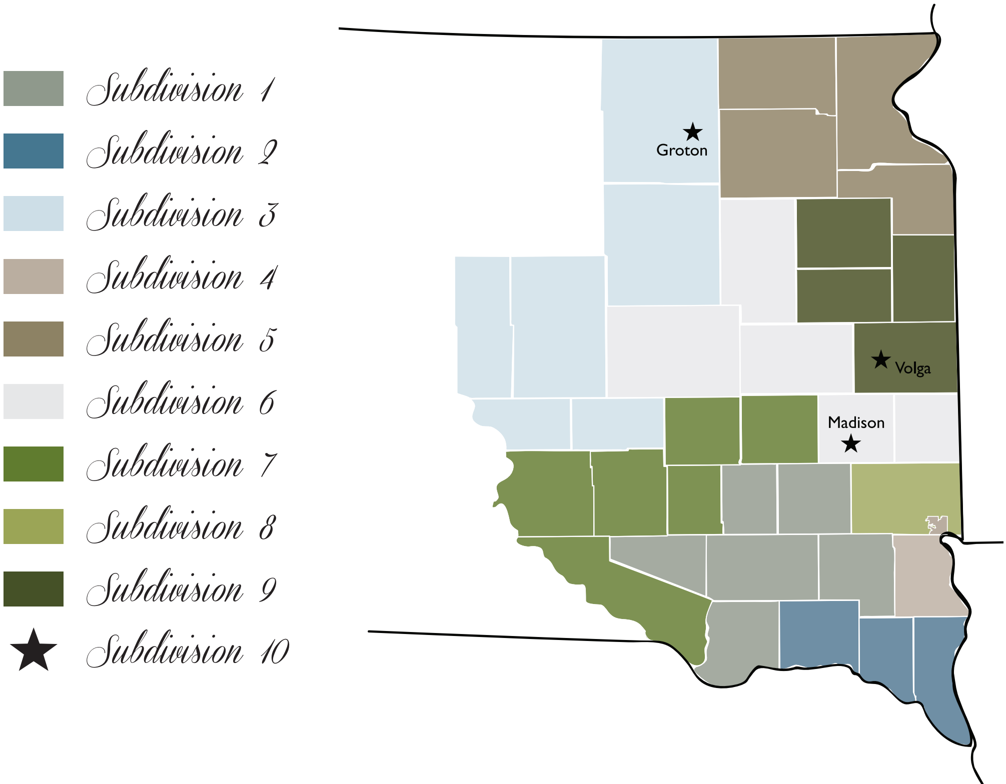
Financial Highlights

In thousands except power sales

	2012	2011	2010	2009
Power sales				
Customer energy (MWh)	868,656	870,436	866,254	692,307
Customer cumulative demand (kW)	1,448,641	1,472,567	1,440,863	1,210,073
Peak demand (MW)	139	140	138	113
Total operating revenues	$ 70,679	$ 67,601	$ 52,371	$ 42,360
Total operating expenses	71,750	63,757	49,284	40,491
Total non-operating expenses, net	(2,463)	(1,154)	(1,426)	(1,171)
Total assets	55,077	54,662	56,950	58,042
Total liabilities	48,051	44,102	49,080	51,832
Total net position	$ 7,026	$ 10,560	$ 7,870	$ 6,209

2012 Board of Directors

From left: Merlin VanWalleghen, Ed Lamers, Lisa Rave, Jerry Micheel, Dan O'Connor, Mark Joffer, Kay Anderson, Dave Westbrock, Roger Fritz and Larry Nielson.



Governance

Heartland is governed by a ten-member board of directors, each member elected to represent a designated subdivision within the district. Heartland's original nine subdivisions were established in 1969 and include virtually all rural areas of the 36 counties in eastern South Dakota. The cities of Subdivision 10 later elected to be annexed into the district. In January of 2012, the subdivisions were redrawn in accordance with Heartland's statutes.

Subdivision 1: Mark Joffer; *Bon Homme, Douglas, Hanson, Hutchinson, McCook and Turner Counties*
Subdivision 2: Dan O'Connor, President; *Clay, Union and Yankton Counties*
Subdivision 3: Larry Nielson; *Brown, Buffalo, Hand, Hyde, Jerauld and Spink Counties*
Subdivision 4: Kay Anderson; *Lincoln County and Split Rock Township of Minnehaha County*
Subdivision 5: Ed Lamers, Assistant Secretary/Treasurer; *Day, Grant, Marshall and Roberts Counties*
Subdivision 6: Jerry Micheel, Secretary; *Beadle, Clark, Kingsbury, Lake and Moody Counties*
Subdivision 7: Merlin VanWalleghen, Vice President; *Aurora, Brule, Charles Mix, Davison, Miner and Sanborn Counties*
Subdivision 8: Lisa Rave; *Minnehaha County, excluding Split Rock Township*
Subdivision 9: Roger Fritz; *Brookings, Codington, Deuel and Hamlin Counties*
Subdivision 10: Dave Westbrock, Treasurer; *Cities of Groton, Madison and Volga, SD*

Directors are elected in the general election for terms of six years. Heartland's board functions in the best interest of customers and emphasizes reliable and economical generation and delivery systems. The board has sole jurisdiction in rate setting, operates as a non-profit and reviews and adjusts rates annually to reflect Heartland's cost of operation.

In April of 2012, the board of directors appointed Kay Anderson of Beresford, South Dakota to represent Subdivision 4. Anderson was chosen to fill the seat vacated by Robert Skjonsberg, who relocated outside the subdivision territory. Anderson is a retired teacher and former business owner.

Staff

Heartland's staff is dedicated to helping customers succeed in the ever-changing utility industry. Heartland is an advocate for public power, and ensures customers are informed of developments in the electric industry relevant to their operation. From representation in national public power organizations to facilitating customer meetings, Heartland provides customers with the tools they need to enjoy continued growth and prosperity.

Standing, from left: Mike McDowell, General Manager; John Knofczynski, Manager of Engineering & Operations; Nate Jones, Market Operations Manager; Russell Olson, Manager of Community & Economic Development; Sharla Fedeler, Accountant; Mike Malone, Chief Financial Officer; Steve Moses, Customer Relations & Marketing Manager; Adam Graff, Resource Manager; Danielle Rosheim, Projects & Marketing Coordinator. Seated, from left: Ann Hyland, Communications Manager; Patty Foley, Benefits Administrator; Kathie Lewis, Executive Assistant.

2012 Highlights

- Introduced new components to our energy efficiency program, Power Forward, including commercial lighting incentives and appliance rebates
- Successfully completed our first North American Electric Reliability Corporation audit with no findings
- Discussed the future of coal, utility MACT regulations, natural gas rates, renewable energy and energy efficiency at the 2012 American Public Power Association Legislative Rally
- Expressed concerns to the Minnesota Legislature about transmission and net metering bills
- Achieved a capacity factor at the Wessington Springs Wind Energy Center far beyond the national average
- Hosted our first Annual Meeting featuring presentations on the 2011 Missouri River flooding and the importance of energy efficiency programs
- Partnered with Omni-Pro Software, Inc. to provide a centralized load management support system
- Met with South Dakota's congressional leaders on Environmental Protection Agency actions affecting Heartland resources
- Joined federal power customers in opposing power marketing reforms issued by U.S. Department of Energy (DOE) Secretary Dr. Steven Chu by participating in two planning workshops hosted by Western Area Power Administration, writing letters of concern to our congressional delegation and expressing support of legislation to promote hydropower and block Chu's directives
- Discussed how to explain utility rates and mitigate rate increases, detailed the effects of pending EPA and DOE measures on public power, and reviewed our economic development programs at Heartland's seventh annual Summer Conference
- Joined Integrated System (IS) partners in a comprehensive evaluation that considered moving the IS and partners' load and generating resources into a Regional Transmission Organization
- Marked Public Power Week by performing a community service project of staining an enclosed picnic shelter at a Madison, SD city park
- Earned third consecutive Award of Merit in the APPA Annual Report Contest for our 2011 report
- Announced a 0% rate increase for 2013, as well as a new rate structure that unbundles transmission losses from system rates at our annual budget meetings
- Joined APPA, Consumers United for Rail Equity and National Rural Electric Cooperative Association in studying the pending Surface Transportation Board decision on the acquisition premium for Burlington Northern Santa Fe
- Executed contract with another regional utility to purchase most of our excess resource for the next five years

Message from the Chairman and CEO

2012 brought both successes and challenges for Heartland Consumers Power District. We continued our commitment to providing reliable, affordable energy and services, fought federal reform that would have a negative impact on that service, and invested in the communities we serve through our energy efficiency and economic development programs.

Heartland continued to meet the growing needs of our customers in 2012 with reliable resource generation. Although Laramie River Station Unit 1, which has been part of Heartland's resource portfolio since its construction in 1980, saw a below normal availability rating in 2012, we expect reliability to return to usual levels in the coming year. Both Whelan Energy Center Unit 2 and Cooper Nuclear Station performed as expected throughout the year while the Wessington Springs Wind Energy Center continued to achieve above normal capacity factors.

Throughout 2012, Heartland persisted in fighting federal reform and regulations that would have a detrimental effect on customers. We are determined to keep all of our fuel and resource options available in the long term and actively opposed regulatory efforts to remove one of our most reliable and affordable fuel options - coal. We also continued to support incentives and opportunities for consumer-owned utilities to develop renewable resources while opposing unnecessary and costly mandates to develop them.

Most notably, Heartland opposed U.S. Energy Secretary Steven Chu's announced plan to reform the federal power marketing administrations. Heartland joined forces with other federal power customers by participating in workshops, submitting comments to the Department of Energy and contacting our congressional delegation. We believe the proposed reforms would have significant cost implications while reducing hydropower benefits to customers. Although Chu's directives are currently in limbo, Heartland will continue to be proactive, and supports American Public Power Association's call to start the process anew.

Although moderate weather conditions in 2012 reduced electric energy demands and revenues below our projected levels, we were able to finish the year with a positive long-term outlook. Our staff worked tirelessly throughout the year, initiating financial and power contracts, aggressively marketing for new customers and successfully completing short-term sales agreements. These collective actions allowed us to keep rates unchanged for 2013 and will provide rate stability in the coming years.

Heartland completed a review of our rate structure in 2012 to ensure equitable allocation of costs for all customers. As a result, our board of directors approved a modified rate structure for 2013 that unbundles wheeling losses. Because customer losses are not a system cost, it was determined they should not be bundled in the rate base, and will now be equitably charged to the associated customer.

Heartland continued to invest in the communities we serve by expanding our commitment to energy efficiency and economic development in 2012. We launched a new energy efficiency incentive program for retail customers, which saw great success with 25 businesses making lighting upgrades and 88 residents purchasing new Energy Star appliances. We invested over $40,000 in growth incentives and $300,000 in loans into our customer communities, because Heartland's future depends on the prosperity and growth of the communities we serve.

Heartland General Manager and CEO Mike McDowell, left, and Board Chairman Dan O'Connor

At Heartland, we are focused on affordable rates and reliable service. We are accountable to our customers and are committed to ensuring their long-term success. We are continually working to make sure we are the trusted regional leader and partner of choice in the delivery of energy and service. At Heartland, we believe in the power of forward thinking, because the decisions we make today will impact us for years to come. We believe we're on the right track to achieving great things with and for our customers.

Dan O'Connor
Chairman of the Board

Mike McDowell
General Manager and
Chief Executive Officer

Heartland Customers

Heartland provides wholesale electric power and energy to 27 municipal electric systems, six state institutions and one cooperative across South Dakota, Minnesota and Iowa. Heartland serves as a partial, supplemental and full-requirement power supplier, depending on the customer's needs. Heartland also maintains short- and long-term power sales contracts with other organizations to expand the use of our resources.

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

Construction workers discuss plans while building the Akron Care Center in Akron, Iowa.

Customer Highlights

The quality of life in our customer communities is enhanced thanks to the vision and dedication of local leaders. Many of our customers had their own notable achievements in 2012.

- Construction began on the new $5.5 million Akron Care Center in **Akron, IA** with a groundbreaking held in May. First proposed in 2010, the facility is being built on approximately six acres of donated land and project officials hope residents will move into their new home by August, 2013. The new facility will replace the existing two-story care center, which is owned by the city, employs 60 people and has a 45-bed capacity.
- The city of **Arlington, SD** received a Heartland economic development grant to help fund the purchase and installation of an automated meter reading system. The new system will allow the city to more effectively utilize their current load management system, as well as provide cost savings.
- Officials in **Aurora, SD** installed infrastructure and completed street work for 32 lots in the Milparc Housing Development. The work was part of the second phase of the development; 50 lots were readied as part of Phase 1 in 2008.
- Landis Ag Sales in **Colman, SD** relocated to a new 9,600 square-foot facility in the local industrial park, thanks in part to an economic development loan from Heartland. Specializing in farm sales, Landis Ag offers products ranging from fertilizer and insecticide to dog food. Growth in recent years led to the need to either expand or relocate, and the new location will help increase the business's foot traffic and provide optimal storage conditions. The industrial park is also located within Colman's tax increment financing (TIF) district, adding taxable property value within the TIF for the benefit of the community.
- Capital improvement projects completed in **Estelline, SD** reduced the city's operating expenses by 13% and increased its revenue by 11%, according to a recent water audit. The audit also revealed a water loss reduction of 41% as well as reduced overall pumping by 32%. In 2011, the city installed a new 125,000 gallon elevated steel pedestal tank and replaced an old water main, hydrants, curb stops, valves, service lines and remote-read water meters.

Construction crew members use a crane to lift steel rebar and form the frame of the new ICAP Head Start building in Madison, SD.

- Officials in **Groton, SD** began a project to improve the city's electric system by reconfiguring the distribution system from 4,160 volts to 12,470 volts. Phase 1 began when transformers in both of the city's substations were replaced with dual voltage units. Other transformers will be replaced in 2013 to complete the update.
- Horizon Health Care, Inc., headquartered in **Howard, SD**, was awarded a three-year, $900,000 Health Information Technology Grant from the Office of Rural Health Policy with the U.S. Department of Health and Human Services. The grant will fund Horizon's Prairie Health Information Technology Network Project, allowing Horizon and two other rural federally qualified community health centers to share electronic medical records among its members and other health care facilities.
- Lake Crystal Municipal Utilities in **Lake Crystal, MN** completed the implementation of a remote/automatic meter reading system for both water and electric meters. Approximately 1,900 water and electric meters were either modified or replaced for both residential and commercial customers.
- The city of **Langford, SD** received a Heartland energy efficiency grant to upgrade lighting at the fire hall. Officials replaced 21 T12 fluorescent fixtures with more efficient T8 fixtures for an expected annual savings of over 16,000 kilowatt hours.
- City council members in **Madelia, MN** announced the community's once-in-a-lifetime opportunity to host the Governor's Pheasant Hunting Opener in 2013. The city, dubbed the "Pheasant Capitol of Minnesota," was chosen from a pool of eleven applicants. Officials plan to expand upon the city's annual Pheasant Phest in hopes to further market the area as a hunting destination.
- Construction began on a new Head Start building for Inter-Lakes Community Action Partnership (ICAP) in **Madison, SD**. Partially funded through USDA Rural Development and a Community Development Block Grant, the $1.6 million, 6,650 square-foot facility will include two classrooms, a commons area, advocate's office, conference room and teachers' offices. ICAP is a non-profit organization that operates a variety of programs in a 14-county area in eastern South Dakota.
- Marshall Municipal Utilities (MMU) in **Marshall, MN** was one of 94 public power utilities to receive American Public Power Association's Reliable Public Power Provider (RP3) designation in April. The RP3 designation recognizes utilities that provide customers with the highest degree of reliable and safe electric service through proficiency in four key disciplines: reliability, safety, workforce development and system improvement. The designation is awarded at three levels: Diamond, Platinum and Gold. MMU earned Platinum RP3, awarded when a utility meets 90% of the criteria.

Sioux Falls, SD Light & Power employee Tony Wolles inspects and repairs a streetlight in a residential neighborhood in June. The utility repaired 2,400 street lights in 2012.

- The city of **Miller, SD** partnered with fifteen communities to launch a new web-based economic development portal designed to draw site selectors and businesses to their region. The new website, South Dakota Prairie Gateway, is a collaborative effort between community development corporations across 30 counties and lead project developer GROW South Dakota. The site provides information on real estate, available workforce and incentive packages for each individual community as well as the entire region.
- A major aeration blower project was completed at the wastewater treatment plant in **New Ulm, MN**. Two 900 horsepower blowers were replaced with two 300 horsepower variable speed blowers. The new system will meet current treatment needs, provide better control and is expected to save over 1,000,000 kilowatt hours per year.
- Officials in **Parker, SD** celebrated the long-awaited arrival of water from the Lewis & Clark Regional Water System in July. Parker has been a member of Lewis & Clark since its incorporation in 1990. The city reserved 490,000 gallons per day and will use the new system as their sole water source, replacing their aging water treatment plant built in 1962.
- The city of **Plankinton, SD** was awarded a Heartland energy efficiency grant for upgrading lighting at the fire hall and city shop. Sixteen fixtures were replaced for expected annual energy savings of 3,325 kilowatt hours.
- The Light and Power Division of the Public Works Department in **Sioux Falls, SD** completed several projects, including the installation of energy efficient windows in the Light Plant office and vehicle storage area, repair of 2,400 non-functioning street lights, and an inspection and treatment program of wood power poles as part of a three-year initiative. The division

also constructed a tie circuit to back feed the airport more efficiently and constructed two new underground electrical distribution circuits to improve redundancy for their existing customers and position the utility to serve load growth in the downtown area.

- South Dakota State University received a $200,000 grant from the state Board of Regents for photovoltaic (PV) research. The funding allows SDSU to research and develop PV devices that utilize innovative plasma technology while reducing greenhouse gasses and other emissions.
- Prairieland Compost Facility in Truman, MN discontinued composting garbage and began grinding it into Refused Derived Fuel in order to be burned at an Xcel Energy power plant in Mankato, MN to make electricity. Prairieland also purchased a large grinding machine to grind larger flammable items such as couches or other furniture. The entire process reduces the amount of trash in landfills for beneficial reuse by using machines that pull out recyclables including metals and plastics.

A crew member prepares to weld the top portion of a new water tower tank into place in Tyler, MN.
Photo courtesy Robert Wolfington of the Tyler Tribute.

- In April, a 150,000 gallon water tower took its final shape in **Tyler, MN** as crews installed the top portion. The new elevated tank holds 50,000 gallons more than the city's previous tower. The work was part of a $5.2 million Drinking Water Improvement Project that began in 2011. Other project components included new water mains, fire hydrants and remote-read water meters.
- The city of **Tyndall, SD** upgraded lighting at two of its facilities with help from a Heartland energy efficiency grant. Forty-seven T12 fluorescent fixtures were replaced with T8s at the fire and rescue hall, where lights are left on at all times, for expected annual savings of $530. At the community auditorium, 105 T12 fixtures were replaced with T8s for an estimated annual savings of $500.
- The **University of South Dakota** in Vermillion observed its 150th birthday in April, commemorating its creation by the Dakota Territory Legislature in 1862. President James Abbott, iconic university mascot Charlie Coyote, the USD Pep Band, officials from the Governor's office, the Student Government Association and Alumni Association joined students and community members for campus tours and a celebratory kickoff party.
- Governor Dennis Daugaard, First Lady Linda Daugaard and several state administrators visited **Volga, SD** in June to recognize the community as "Capital for a Day." Activities included community forums, business tours and a ribbon cutting and grand opening for a recently expanded soybean research center. Governor Daugaard commended the city for attracting businesses and improving infrastructures as well as offering affordable housing, a growing workforce and a great school.
- After a devastating fire completely destroyed Springs Auto in **Wessington Springs, SD**, owners Lawrence and Ada Caffee showed their commitment to their employees and community by immediately moving the business to a new location in town. The dealership remains a vital part of the community.

Community leaders and state officials joined South Dakota Governor Dennis Daugaard in June to recognize Volga, SD as "Capital for a Day." From left: South Dakota Representative Spencer Hawley, Heartland Manager of Community & Economic Development and South Dakota Senator Russell Olson, South Dakota Senator Larry Tidemann, Governor Daugaard, Volga Mayor Mary Bjerke and South Dakota Secretary of Agriculture Walt Bones.

Power Supply

Heartland is committed to providing reliable, environmentally-sensitive, cost-based capacity and energy to our customers. Our power supply portfolio includes coal-fired, nuclear, wind and diesel generation. Power is delivered over the Integrated System, which covers a seven-state area, consists of over 9,300 miles of high-voltage transmission line and is jointly owned by Heartland, Basin Electric Power Cooperative and the Western Area Power Administration (WAPA).

Whelan Energy Center Unit 2

BENEFITS OF WEC2

In 2012, WEC2 officials revealed benefits attributed to the $620 million project as realized by adjacent Whelan Energy Center Unit 1, Hastings Utilities (plant operator), the city of Hastings and the surrounding area.

- $88 million in labor costs paid during construction
- 27 new full-time employment positions
- New substations valued at $11.5 million
- New coal dozer and dozer maintenance facility
- $1.1 million in reduced annual labor costs
- $600,000 savings in annual overhead costs
- Paved access roads

Whelan Energy Center Unit 2

The largest generating resource in Heartland's portfolio is Whelan Energy Center Unit 2 (WEC2), a 220 megawatt (MW), pulverized coal-fired generating plant located near Hastings, Nebraska. Heartland has a 36.4% ownership entitlement in the output of WEC2, equal to about 80 MW. The project began commercial operation in 2011 after nearly ten years of planning and construction. The plant meets or exceeds all current pollution control standards and is well-positioned to meet many rules pending with the Environmental Protection Agency.

WEC2 was available 74% of the year with a running plant capacity factor (average plant output compared to its maximum output when the unit is available for operation) of 79%. WEC2 had an extended scheduled outage for warranty work in the spring and operated very well the remainder of 2012.

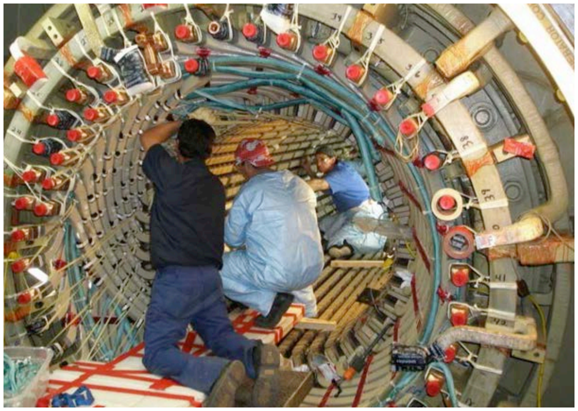
WEC2 is located within the Southwest Power Pool (SPP), a Regional Transmission Organization covering states in the south central part of the United States. SPP operates an Energy Imbalance Market that provides a centralized dispatch for generators within the SPP footprint. This is different from Heartland's other generators, which are dispatched by WAPA.

Laramie River Station

A three-unit, 1,710 MW coal-fired generating station located near Wheatland, Wyoming, Laramie River Station (LRS) has been providing Heartland's customers dependable, low-cost capacity and energy since its construction as part of the Missouri Basin Power Project (MBPP) in 1980. Continuously ranked as one of the top ten lowest-cost generating stations in the country, MBPP also includes Grayrocks Dam and Reservoir and nearly 650 miles of high-voltage transmission lines. Heartland owns a 3% undivided share of MBPP, which entitles us to schedule about 51 MW from LRS. MBPP owners have continually upgraded all three units of LRS to provide reliable output, more efficient operation and steadily improving emission controls.

LRS achieved a 59% availability rate in 2012 with an 84% running plant capacity factor. The availability of LRS was well below normal due to the extension of the scheduled maintenance outage in the spring and numerous unscheduled outages throughout the summer and fall. However, it remains our lowest-cost resource with reliability expected to return to historical levels in 2013 and beyond.

Laramie River Station officials inspect the Unit 1 generator during a maintenance outage in July.
Photo courtesy LRS.



Wessington Springs Wind Energy Center

Through a long-term purchase power agreement with NextEra Energy, Heartland purchases the full output of the 34 turbine, 51 MW Wessington Springs Wind Energy Center (WSW Energy Center). Situated on approximately 3,500 acres on the bluffs of Jerauld County in central South Dakota, the WSW Energy Center has provided renewable capacity and energy to Heartland's customers since 2009 and its location continues to be conducive to high levels of wind energy production. With the addition of WSW Energy Center to our power supply portfolio, Heartland has fulfilled our commitment to the Renewable Energy Objective for the state of South Dakota (10% renewable by 2015) and the Renewable Energy Standard for the state of Minnesota (25% renewable by 2025).

The WSW Energy Center achieved near record production levels in 2012, beginning with a phenomenal 62.9% capacity factor in January. A typical wind farm will produce a capacity factor ranging from 30-40%, but the WSW Energy Center achieved a 48.2% capacity factor in 2012 with an average turbine availability of 97%.

Cooper Nuclear Station

To supplement our baseload supply, Heartland signed a purchase power agreement in 2004 for 45 MW of capacity and energy from the Nebraska Public Power District's (NPPD) Cooper Nuclear Station (CNS) located near Brownville, Nebraska. CNS is a 791 MW boiling water reactor and is the largest single-unit generator in Nebraska. Unlike traditional fossil fuel plants that burn coal, oil or gas, CNS utilizes nuclear fuel, a more compact, longer lasting fuel, to produce electricity. The energy generated by CNS is entirely carbon free. Heartland's contract with NPPD is scheduled to terminate at the end of 2013.

CNS was available 87% of the year with a running plant capacity factor of 99%, despite a six-week refueling outage that began in October.

Regional Transmission Organization Consideration

In 2012, Heartland, along with its partners in the Integrated System, began an evaluation of the Regional Transmission Organizations (RTOs) located adjacent to the Western balancing area. The RTOs are independent, non-profit companies sanctioned by the Federal Energy Regulatory Commission. RTOs provide centralized transmission planning and operation within their footprints and operate wholesale electric energy markets. The purpose of the evaluation was to determine the costs, savings and other advantages and disadvantages to the Integrated System owners of joining an RTO. The evaluation will be completed in early 2013.

Energy Efficiency

Power Forward is Heartland's comprehensive energy efficiency program, providing incentives and educational tools to our customers. Since the program's launch in 2009, Heartland has made significant investments in the communities we serve. Power Forward has provided energy makeovers to homeowners and municipal utilities, training to utility employees to become energy auditors and grants to help utilities make energy efficiency upgrades. In 2012, Power Forward launched a new incentive program, offering rebates to residential customers for upgrading to ENERGY STAR appliances and to commercial customers for installing more efficient lighting.

Heartland Communications Manager Ann Hyland, left, presents an energy efficiency grant to New Ulm Public Utilities Director Gary Gleisner and Electric Distribution Superintendent Steve Soukup. The utility replaced 16 high pressure sodium fixtures with LED lights for expected annual savings of 8,880 kWh per year.

Energy Efficiency Grants

Heartland began offering grants to customer communities in 2011 to perform energy efficiency improvements at city facilities. Heartland continued the program in 2012, awarding grants for projects which optimize electric energy use, thereby reducing the city's energy costs. Funds are dispersed on a first-come, first-served basis and customers are eligible for up to $5,000 per year.

Seven customers received energy efficiency grants in 2012, which resulted in total estimated annual savings of 103,353 kilowatt hours and $17,965.

Rebates and Incentives

In 2012, Heartland launched a comprehensive energy efficiency incentive program for commercial, industrial and residential customers. Heartland began offering rebates to residential customers in participating customer communities for replacing existing appliances with more efficient ENERGY STAR models. Eighty-eight rebates were issued in 2012, which helped replace 29 refrigerators, nine freezers, 27 clothes washers and 23 dishwashers.

Rebates also became available in 2012 for commercial and industrial customers upgrading to more efficient lighting. Heartland offered rebates for replacing metal halide fixtures with high output fluorescent high bays, or mercury vapor with high pressure sodium. The most popular rebated upgrade was from T12 flourescent fixtures to T8s or T5s. A rebate was also available for replacing incandescent EXIT signs with LED signs.

Customized rebates were available for other lighting upgrades as long as significant savings could be proven. Twenty-five businesses took part in the program in 2012, replacing a total of 1,128 light fixtures.

Power Forward is a voluntary program; Heartland's customers may choose whether or not the incentives are offered in their communities. It does not have a cost share requirement, but does entail some administrative work on the part of each customer. Heartland provides and analyzes applications, as well as promotes the incentives in participating communities. For those customers already facilitating similar energy efficiency programs, Heartland may help implement custom programs if desired.

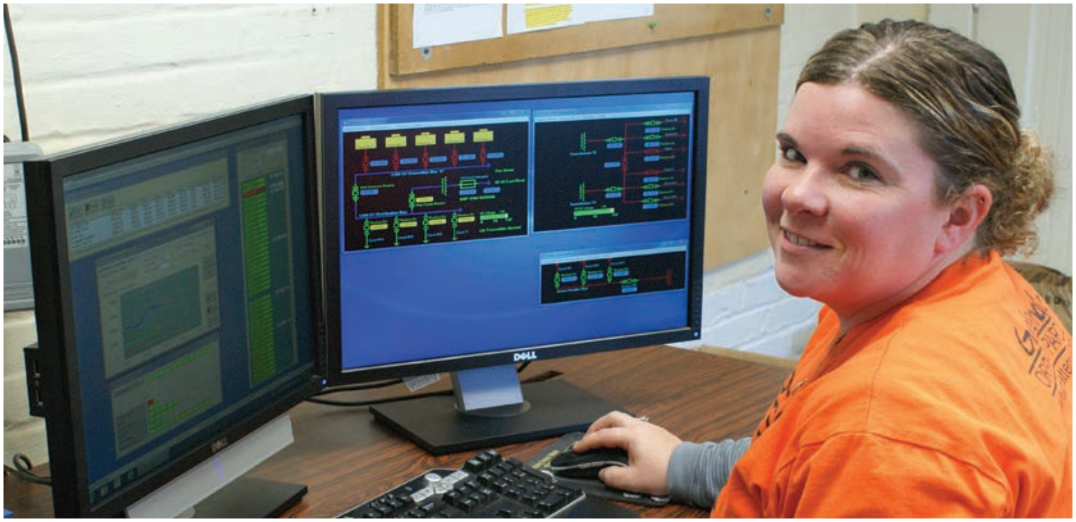
Centralized Load Management

In an effort to promote demand management and provide further services to our customers, Heartland entered into an agreement in 2012 with Omni-Pro Software, Inc. of Madison, SD to provide a Centralized Load Management Support System (CLMSS) for use by Heartland and our customers. The CLMSS provides discounted pricing to Heartland customers for implementation of new load management and Automated Meter Reading systems through Omni-Pro.

The agreement also allows Heartland to monitor and offer assistance in the implementation and ongoing operations of load management systems. Using the CLMSS, Heartland is able to help customers troubleshoot and maintain system optimization.

2012 ENERGY EFFICIENCY GRANTS

Recipient	*Amount*	*Purpose*	*Estimated Annual Energy Savings (kWh)*	*Estimated Annual Dollar Savings*
Langford, SD	$1,000	Upgrade lighting at Fire Hall	16,402	$1,276
Madison, SD	$5,000	Upgrade lighting at Recycling Center and Airport	56,575	$4,730
New Ulm, MN	$5,000	Upgrade lighting at Wastewater Treatment Plant	8,880	$8,835
Plankinton, SD	$2,000	Upgrade lighting at Fire Station and City Shop	3,325	$620
Tyler, MN	$1,500	Upgrade lighting at Utility Building	8,810	$1,644
Tyndall, SD	$3,000	Upgrade lighting at Fire & Rescue Building and Auditorium	5,603	$501
Volga, SD	$2,000	Upgrade lighting at the city's Pool and Park	3,758	$359



Load Management Operator Tess Nelson maintains the customer database and sets thresholds for the city of Madison's load management system. Madison has been utilizing load management since 1986 and currently controls nearly 3,250 items, including water heaters, air conditioners, heating systems and more. In 2012, the city saved over $228,000 and 12,811 kilowatts using Omni-Pro's system.

Economic Development

Many of Heartland's customers have experienced growth with help from Heartland's economic development program. Heartland offers a variety of incentives, including grants, growth incentives and a revolving loan fund, all designed to help customers attract new businesses and encourage existing businesses to expand.

Grants

Heartland awards economic development grants to customers and their local economic development corporations to help fund projects that foster growth. A community development project that promotes economic prosperity, supports new business opportunities, or improves the social and economic well-being of local residents may also qualify. Grants are awarded on a first-come, first-served basis. Heartland awarded ten economic development grants in 2012 to utilities and development corporations from eight customer communities.

2012 ECONOMIC DEVELOPMENT GRANTS		
Recipient	Amount	Purpose
Akron, IA	$2,000	New community signage
Arlington, SD	$2,000	Automated meter reading system
Arlington Community Development Corporation, Arlington, SD	$2,000	New business signage
Colman Economic Development Corporation, Colman, SD	$3,300	New billboard lighting
Estelline, SD	$500	Community event marketing
Groton, SD	$2,000	Voltage changeover project
Grove City, MN	$1,890	Lineman equipment upgrade
Howard, SD	$2,000	Underground wiring upgrade
Howard, SD	$1,000	New outdoor park lighting
Volga, SD	$2,000	New business signage

The Colman Economic Development Corporation received a $3,330 economic development grant to help fund the installation of a billboard lighting system. The billboard promotes available lots in the local industrial park, located along SD Highway 34. The lighting system will increase visibility with hopes of increasing inquiries about the park.

Growth Incentives

Heartland's growth incentive program awards retail electric bill rebates and hiring incentives to qualifying new and expanding businesses. Retail electric bill rebates are provided for three years, equating to one year's worth of free power. Cash incentives for new jobs created are paid upon a business's start-up or expansion with additional positions created for the next three years also eligible.

Since 2004, Heartland has awarded over $549,000 in electric rebates and hiring incentives, resulting in an increased customer load of over 17 million kilowatt hours. In 2012, Heartland awarded $48,216 in electric rebates to 17 qualifying businesses in ten customer communities, accounting for nearly 1.4 million kilowatt hours in load growth. Seven businesses in four customer communities received hiring incentives in 2012, earning a total of $25,100 for the creation of 62 full-time employment positions.

2012 GROWTH INCENTIVES

Recipient	Amount
Akron, IA	$312
Bryant, SD	$6,922
Estelline, SD	$507
Howard, SD	$13,396
Madison, SD	$18,295
New Ulm, MN	$23,025
Parker, SD	$722
Tyndall, SD	$1,916
Volga, SD	$810
Wessington Springs, SD	$7,411

HELP Fund

The Heartland Economic development Loan Program (HELP) Fund promotes community development for customers through a regional revolving loan fund. It provides funds for business ownership and expansion, job retention and creation, and entrepreneurial enterprises. Heartland customers, their local economic development corporations and businesses served by our customers are eligible to apply. The HELP Fund offers an interest rate typically lower than traditional rates and up to ten years financing for real estate and up to ten years or the useful life for machinery or equipment. Loans will not exceed $150,000 or 75% of the total project cost.

To date, the HELP Fund has issued more than $4.3 million to 20 recipients. In 2012, Heartland issued two HELP loans for $150,000 each to help facilitate business construction and expansions in two customer communities. Landis Ag Sales in Colman, SD was awarded financing for the construction of a new 9,600 square-foot facility in the local industrial park. Heartland awarded a HELP loan to 1481 Grille in Arlington, SD to help the restaurant and catering business operate more efficiently, expand and purchase new equipment.

2012 HELP FUND LOANS

Recipient	Amount	Purpose
1481 Grille	$150,000	Business expansion and purchase of new equipment
Landis Ag Sales	$150,000	New construction

Heartland awarded a HELP loan to Jason and Shelly Parker, owners of 1481 Grille in Arlington, SD to assist with an expansion and the purchase of new HVAC, restaurant and catering equipment. From left: Heartland Manager of Community & Economic Development Russell Olson, Shelly Parker, Jason Parker and Citizens State Bank President Robert Rutten.

Customer Service Activities

Pursuant to our mission to be a trusted leader and partner of choice, Heartland continued to provide support to our customers in 2012. Heartland hosted a variety of events in order to provide current, relevant information on the electric industry and Heartland operations; traveled to customer communities to visit with staff and council members; and advocated for public power to ensure our customers' voices were heard at the state and national levels.

Customer Meetings

Heartland held its first Annual Meeting for customers in March, designed to provide updates on Heartland activities, as well as cover topics with a current or potential impact on the electric industry. Members of Heartland's Customer Connections Committee were also formally introduced. The committee was formed in 2011 to enhance communication between Heartland and our customers, creating a formal channel to provide customer feedback and perspective to Heartland's staff and board of directors regarding Heartland operations.

Speakers at the Annual Meeting included David Becker of the U.S. Army Corps of Engineers and Wallace Barron of Barron & Associates. Becker spoke about the Corps' management of the 2011 Missouri River flood and the challenges it presented. Barron discussed the importance of energy efficiency and how to best implement programs. Guests were given an overview of a wastewater treatment plant improvement project in New Ulm, MN, as well as a year-in-review summary of Heartland's operations, activities and programs. Representatives from 14 customer communities and agencies attended.

One of Heartland's most popular events, the seventh annual Summer Conference held in July, drew a crowd of nearly 100 people. The event started with a recap of Heartland's economic development program, including growth incentives, grants and HELP Fund loans. Breakout sessions featured Dawn Lund of Utility Financial Solutions, LLC, who discussed managing utility rate increases, and Heartland General Manager Mike McDowell, who discussed the effects of pending Environmental Protection Agency and Department of Energy measures on public power. South Dakota Governor Dennis Daugaard closed the informational portion of the event with a discussion on the importance of community development programs. The day closed with attendees taking part in a nine-hole golf tournament or a scenic pontoon tour of Lake Madison.

South Dakota Governor Dennis Daugaard (center, in black) and First Lady Linda Daugaard (in red) joined Heartland customers, staff, board members, state legislators and state officials during the 2012 Heartland Summer Conference.

In November, Heartland hosted its annual series of budget meetings to discuss the 2013 budget and rates, making visits to Madison and Groton, SD and Marshall, MN. Forty-five individuals representing 22 customers attended the meetings, which also included a presentation on wheeling as well as updates on Heartland's economic development and energy efficiency programs. The meetings are designed to provide customers insight into the costs related to Heartland's operations, which ultimately affect rates. Heartland was able to hold rates stable moving from 2012 to 2013.

Grove City officials and residents repaired broken utility poles and cleaned up fallen trees the morning after a severe storm in June.
Photo courtesy Jasmine Maki of the West Central Tribune.

Customer Visits

Heartland values our relationships with our customers and is committed to providing exceptional service and support. Heartland Customer Relations and Marketing Manager Steve Moses traveled throughout our service territory in 2012, making 58 scheduled visits to customer communities. In addition, he made 22 unscheduled visits to assist customers with matters including rates, reporting requirements and billing. He also attended several city council and electric commission meetings to answer questions about Heartland rates and incentives, as well as EPA regulations. Moses serves as a primary point of contact for customers and coordinates support activities.

One of Moses's visits in 2012 was to Grove City, MN after a severe storm with straight line winds up to 78 miles per hour, funnel clouds, hail and lightning left residents without power for 70 hours in June. According to reports, up to 46 power poles and dozens of trees were knocked down and authorities closed a two-mile portion of the highway northwest of the city. In order to assist the community in their time of need, Moses delivered 300 hamburgers, hotdogs, buns, chips and pop for volunteers and residents.

Public Power Advocacy

In October, Heartland and our customers joined more than 2,000 utilities across the nation in celebrating an American tradition that works: public power. Heartland staff marked Public Power Week by partnering with the city of Madison, SD to improve one of the city's parks by staining an enclosed picnic shelter. Heartland also submitted a press release to each of our customers' local newspapers offering energy saving tips and touting the advantages of public power. Finally, Heartland hung a banner proclaiming Public Power Week as a reminder of the important role a utility plays in a public power community.

Heartland has long recognized the importance of education and engagement at the federal level to ensure long-term success of the public power industry and the communities we serve. In 2012, Heartland actively opposed reforms to the federal power marketing adminstrations (PMAs), as proposed by U.S. Energy Secretary Steven Chu. In his March 16 memo, Chu outlined radical changes that would threaten to replace the foundation that has successfully governed the PMAs for decades.

Chu's memo was met with harsh criticism from Heartland, American Public Power Association (APPA) and other public power advocates for failing to acknowledge the cost impacts of these reforms and the potential loss of hydropower benefits. Because federal power customers were not given the opportunity to provide input into the development of the directives, they held a national meeting in May to discuss the issue and successfully organized a significant, bipartisan negative reaction to the memo in Congress. Heartland participated in two 'listening sessions' and expressed support of legislation to promote hydropower and block Chu's directives. By late 2012, Heartland, along with federal power customers across the country, had submitted comments to the Department of Energy opposing the proposed reforms and condemning the pro forma process used to solicit customer input.

While the directives await final recommendations from the Federal Register Notice, Heartland continues to be proactive. Heartland supports APPA's call to start the process anew with a discussion led by the PMAs and their customers, not the DOE, to form a policy based on need and transparency.

Auditor's Report and Financial Statements

December 31, 2012 and 2011

Independent Auditor's Report on Financial Statements and Supplementary Information
Management's Discussion and Analysis
Financial Statements
Balance Sheets
Statements of Revenues, Expenses and Changes in Net Position
Statements of Cash Flows
Notes to Financial Statements

Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Heartland Consumers Power District
Madison, South Dakota

Report on the Financial Statements

We have audited the accompanying basic financial statements of Heartland Consumers Power District (the District), which are comprised of the balance sheets as of December 31, 2012 and 2011, and statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

BKD, LLP

Lincoln, Nebraska
April 2, 2013

Management's Discussion and Analysis

This discussion and analysis of Heartland Consumers Power District's (Heartland or HCPD) financial statements provides the reader an overview of the financial activities for 2012, 2011 and 2010. 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 net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Heartland is improving or deteriorating with respect to the context of the entire document.

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

	Net Assets as of December 31,			Fiscal Year-to-Year Percentage Change	
	2012	2011	2010	From 2011 to 2012	From 2010 to 2011
Current assets	$ 14,803	$ 18,217	$ 19,559	(18.7)%	(6.9)%
Net capital assets	18,765	18,411	18,818	1.9%	(2.2)%
Other noncurrent assets	21,509	18,034	18,573	19.3%	(2.9)%
Total assets	$ 55,077	$ 54,662	$ 56,950	0.8%	(4.0)%
Current liabilities	$ 7,913	$ 8,863	$ 9,075	(10.7)%	(2.3)%
Noncurrent liabilities	40,138	35,239	40,005	13.9%	(11.9)%
Total liabilities	48,051	44,102	49,080	9.0%	(10.1)%
Net investment in capital assets	(1,664)	(2,132)	(1,351)	(22.0)%	57.8%
Restricted	5,058	4,365	3,058	15.9%	42.7%
Unrestricted	3,632	8,327	6,163	(56.4)%	35.1%
Total net position	7,026	10,560	7,870	(33.5)%	34.2%
Total liabilities and net position	$ 55,077	$ 54,662	$ 56,950	0.8%	(4.0)%

Heartland's overall net position decreased in 2012 by $3,534,206 and increased in 2011 by $2,690,471, respectively. The overall net position increased by $1,660,206 during 2010. The decrease in net position in 2012 was the result off-system and customer sales below budgeted expectations. The increases in net position in 2011 and 2010 were a result of increased customer revenue and other revenue.

The increased customer revenue in 2012, 2011, and 2010 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 position changed during the most recent fiscal year.

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

Results of Operations

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

							Fiscal Year-to-Year Percentage Change	
		2012 Actual		2011 Actual		2010 Actual	From 2011 to 2012	From 2010 to 2011
Power sales								
Customer energy (MWh)		868,656		870,436		866,254	(0.2)%	0.5%
Customer cumulative demand (kW)		1,448,641		1,472,567		1,440,863	(1.6)%	2.2%
Revenues								
Customer revenue	$	59,636	$	55,194	$	47,317	8.0%	16.6%
Surplus sales revenue		9,424		11,887		3,889	(20.7)%	205.7%
Other operating revenue		1,033		1,106		1,165	(6.6)%	(5.1)%
Provision for rate stabilization		586		(586)		--	100.0%	(100.0)%
Total operating revenue		70,679		67,601		52,371	4.6%	29.1%
Expenses								
LRS production and O&M		6,817		8,038		8,055	(15.2)%	(0.2)%
Cost of power		56,908		50,787		31,347	12.1%	62.0%
Settlement proceeds		--		(3,586)		--	100.0%	(100.0)%
Transmission		2,552		3,473		2,581	(26.5)%	34.6%
Depreciation		1,035		959		3,671	7.9%	(73.9)%
Taxes		270		193		165	39.9%	17.0%
Administration and general		3,600		3,220		3,219	11.8%	0.0%
Amortization		568		673		246	(15.6)%	173.6%
Total operating expenses		71,750		63,757		49,284	12.5%	29.4%
Operating income (loss)		(1,071)		3,844		3,087	(127.9)%	24.5%
Total nonoperating expenses, net		(2,463)		(1,154)		(1,426)	113.4%	(19.1)%
Change in net position		(3,534)		2,690		1,661	(231.4)%	62.0%
Net position, beginning of year		10,560		7,870		6,209		
Net position, end of year	$	7,026	$	10,560	$	7,870		

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 2012 were 1,448,641 kW and 868,656 MWh, respectively. The 2012 peak demand of 142.9 MW occurred in July. Demand and energy sales for 2011 were 1,472,567 kW and 870,436 MWh, respectively. Demand and energy sales for 2010 were 1,440,863 kW and 866,254 MWh, respectively. Heartland's peak demand for 2011 and 2010 were 140.4MW and 137.7MW, respectively.

Surplus energy sales are the sales of energy produced by Heartland's resources in excess of the energy required by Heartland's customers. These sales are considered short term and non-firm. Surplus sales decreased in 2012 primarily due to less available excess energy for sale. This reduction in energy was an effect of scheduled maintenance and refueling outages at three of Heartland's baseload resources. Surplus sales revenue increased in 2011 as a result of additional excess energy available for sale due to a new baseload resource becoming commercially operational in 2011.

The operating expenses fluctuated in some areas. Production expenses (the cost for coal, transportation, and operations and maintenance at LRS) decreased by 15.2% in 2012 due to a scheduled and unscheduled outages which resulted in less energy costs. Production costs remained constant in 2011 compared to 2010.

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

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

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

Transmission expense decreased in 2012 compared to 2011. Transmission credits for PPGA's investment in Nebraska Public Power District's transmission system were passed on to PPGA's partners. This resulted in a reduction in transmission expense compared to 2011. These credits were not available prior to commercial operation of WEC2 and therefore additional transmission expense occurred prior to May of 2011. This delay increased transmission expense in 2011. In addition, transmission expense has increased with increase in customer loads and escalating transmission rates.

The nonoperating revenues/expenses include interest on bonds, investment income, and amortization of defeasance credits from earlier bond issues. Heartland's debt service coverage (as defined in the senior bond resolution) for 2012 and 2011 was 1.90 and 3.29, respectively. The debt service coverage was 2.45 in 2010. The minimum coverage required by the bond resolutions was increased to 1.35 in 2010.

During 2012, Heartland made $1,875,000 in principal payments on its outstanding bonds. Principal payments in 2011 and 2010 were $3,535,000 and $3,330,000, respectively. Heartland issued an advanced refunding in 2011 related to the 2012, 2013, and 2014 bond maturities. Any additions to plant in service were the result of improvements to the Missouri Basin Power Project, which includes LRS and various associated transmission facilities. There were no significant additions in 2012, 2011, or 2010.

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 Baal 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. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Micheal Malone, P.O. Box 248, Madison, SD 57042.

Balance Sheets
December 31, 2012 and 2011

See Notes to Financial Statements

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	$ 1,997,510	$ 960,028
Restricted cash and cash equivalents	1,003,750	2,873,949
Short-term investments	1,275,349	4,030,179
Accounts receivable	6,524,653	6,382,552
Notes receivable, current portion	365,709	283,453
Plant operation assets	3,554,625	3,605,853
Prepaid expenses and other current assets	81,182	80,825
Total current assets	14,802,778	18,216,839
Noncurrent assets		
Notes receivable, net allowance of $814,526 for 2012 and $45,00 for 2011	1,821,451	2,797,107
Restricted deposits and investments	12,187,613	11,647,439
Long-term investments	4,655,432	--
Unamortized financing costs, net	755,110	982,515
Capital assets, net	18,764,511	18,411,614
Other noncurrent assets	2,089,370	2,606,733
Total noncurrent assets	40,273,487	36,445,408
Total assets	$ 55,076,265	$ 54,662,247

Liabilities and Net Position

	2012	2011
Current Liabilities		
Current maturities of long-term debt	$ 866,116	$ 2,627,923
Accounts payable	5,970,688	5,096,512
Accrued expenses	297,870	296,892
Accrued interest payable	777,746	842,031
Total current liabilities	7,912,420	8,863,358
Deferred Credits and Other Liabilities	7,212,669	1,993,892
Noncurrent Liabilities		
Long-term debt, net	32,711,945	33,055,798
Other noncurrent liabilities	213,273	189,035
Total noncurrent liabilities	$ 32,925,218	$ 33,244,833
Net Position		
Net investment in capital assets	(1,664,294)	(2,131,926)
Restricted for debt service	5,057,578	4,365,087
Unrestricted	3,632,674	8,327,003
Total net position	7,025,958	10,560,164
Total liabilities and net position	$ 55,076,265	$ 54,662,247

Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

See Notes to Financial Statements

		2012		2011
Operating Revenues				
Customer requirements	$	59,636,418	$	55,194,391
Surplus sales revenue		9,424,316		11,886,782
Other operating revenue		1,032,866		1,105,924
Transfer (provision) for rate stabilization		585,693		(585,693)
Total operating revenues		70,679,293		67,601,404
Operating Expenses				
Cost of power		63,725,677		58,825,011
Settlement proceeds		--		(3,585,693)
Depreciation and amortization		1,603,085		1,631,844
Transmission		2,552,141		3,472,874
Other		3,869,989		3,412,895
Total operating expenses		71,750,892		63,756,931
Operating Income		(1,071,599)		3,844,473
Nonoperating Revenues (Expenses)				
Investment income		266,125		728,073
Net costs to be billed (refunded) in future periods		195,530		(187,915)
Interest expense		(2,154,736)		(1,994,160)
Grant revenue		--		300,000
Bad debt expense		(769,526)		--
Net nonoperating expenses		(2,462,607)		(1,154,002)
Increase (Decrease) in Net Position		(3,534,206)		2,690,471
Net Position, Beginning of Year		10,560,164		7,869,693
Net Position, End of Year	$	7,025,958	$	10,560,164

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

See Notes to Financial Statements

	2012	2011
Operating Activities		
Receipts from customers	$ 58,979,619	$ 54,689,489
Receipts from others	10,971,880	12,067,056
Payments to suppliers	(67,988,564)	(62,905,343)
Payments to employees	(1,312,093)	(1,230,584)
Net cash provided by operating activities	650,842	2,620,618
Noncapital Financing Activities		
Advances on revolving line of credit	6,785,820	3,539,573
Payments on revolving line of credit	(6,785,820)	(3,539,573)
Federal grants received	--	300,000
Proceeds from issuance of promissory notes	112,500	740,000
Payments on promissory notes	(107,061)	(106,822)
Advance payment received under energy purchase contract	6,000,000	--
Net cash provided by noncapital financing activities	6,005,439	933,178
Capital and Related Financing Activities		
Purchase of capital assets	(1,296,675)	(486,479)
Principal payments on long-term debt	(1,875,000)	(3,535,000)
Payments on promissory notes	(645,861)	(618,882)
Interest paid	(1,809,259)	(1,686,057)
Return of capital (payments) for future power projects	188,142	(2,155)
Debt issuance costs	--	(150,264)
Net cash used in capital and related financing activities	(5,438,653)	(6,478,837)
Investing Activities		
Proceeds from sales and maturities of investment securities	5,703,953	12,727,479
Purchases of investment securities	(8,397,520)	(12,088,241)
Issuance of notes receivable	(302,250)	(1,078,000)
Repayments of notes receivable	426,124	393,525
Investment income received	245,163	338,545
Net cash provided by (used in) investing activities	(2,324,530)	293,308
Decrease in Cash and Cash Equivalents	(1,106,902)	(2,631,733)
Cash and Cash Equivalents, Beginning of Year	4,447,458	7,079,191
Cash and Cash Equivalents, End of Year	$ 3,340,556	$ 4,447,458

See Notes to Financial Statements

	2012	2011
Composition of Cash and Cash Equivalents		
Cash and cash equivalents	$ 1,997,510	$ 960,028
Restricted cash and cash equivalents	1,003,750	2,873,949
Restricted deposits and investments	12,187,613	11,647,439
Total	15,188,873	15,481,416
Less investments not defined as cash equivalents	11,848,317	11,033,958
Total cash and cash equivalents	$ 3,340,556	$ 4,447,458
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (1,071,599)	$ 3,844,473
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,603,085	1,631,844
Provision (transfer) for rate stabilization	(585,693)	585,693
Recognition of settlement proceeds	--	(3,585,693)
Changes in operating assets and liabilities		
Accounts receivable	(142,101)	(1,430,552)
Plant operation assets	51,228	34,498
Prepaid expenses and other assets	(12,221)	7,988
Accounts payable	782,927	1,518,516
Accrued liabilities	25,216	13,851
Net Cash Provided by Operating Activities	$ 650,842	$ 2,620,618
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ 66,715	$ 65,557
Increase in allowance for notes receivable	$ 769,526	$ --

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

Nature of Operations

Heartland Consumers Power District (Heartland) is a public corporation and a political subdivision of the state of South Dakota created under the Consumers Power District Law for the purpose of supplying electric energy. Heartland is empowered by the Consumers Power District Law to finance, own, and operate, either singly or jointly with others and anywhere within or without the boundaries of Heartland or the state of South Dakota, any electric light and power plants, lines, and systems or interest therein for the generation and transmission of electric power and energy. Heartland has firm power customers in the three-state region of Minnesota, Iowa and South Dakota.

Rates for wholesale electric service are set by the Heartland Board of Directors. Neither the South Dakota Public Utilities Commission nor any other commission has jurisdiction over Heartland with respect to Heartland's rates and charges for power sales to its customers.

Reporting Entity

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the District's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the District and (3) the entity's fiscal dependency on the District. Based upon the above criteria, Heartland has determined that it has no reportable component units.

Basis of Accounting

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

Heartland's accounting policies also follow the regulated operations provisions of GASB Statement No. 62, which permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to its customers. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate making purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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 position during the reporting period. Actual results may differ from those estimates.

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

Cash Equivalents

Heartland considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. At December 31, 2012 and 2011, 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 and Notes Receivable

Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 20 days after the issuance of the invoice. Delinquent receivables are charged off as they are deemed uncollectible. Management does not believe an allowance for doubtful accounts is necessary for accounts receivable at December 31, 2012 and 2011, as there were no delinquent accounts. Notes receivable relate to Heartland's economic development program (see Note 3), and amounts due generally follow amortization schedules contained within the related note agreements. Management has established an allowance for doubtful accounts for notes receivable of $814,526 and $45,000 at December 31, 2012 and 2011, respectively.

Plant Operation Assets

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

Unamortized Financing Costs

Bond issue costs incurred on the revenue bond issues have been capitalized 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 position totaled $227,405 and $227,303 for 2012 and 2011, respectively.

Capital Assets

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

Compensated Absences

Employees earn vacation days at varying rates depending on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 40 days. Expense and the related liability are recognized when earned and vacation benefits are redeemable as time off or in cash. Employees earn sick leave at the rate of approximately one day per month. Upon normal retirement, an employee can use any accumulated sick time to pay for certain qualified medical expenses. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensated absences expected to be used during the next fiscal year are classified as a current liability in accrued expenses. The remaining balance is reflected as a noncurrent liability.

Regulated Operations

Rates for the District's regulated operations are established and approved by the Board of Directors. The District applies the regulated operations provisions of GASB Statement No. 62, which provide for the deferral of expenses which are expected to be recovered through customer rates over some future period (regulatory assets) and reductions in earnings to cover future expenditures (regulatory liabilities).

Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets- This component of net position consists of capital assets, net of accumulated depreciation, 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 net investment in capital assets.

Restricted- This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, or law or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted- This component of net position consists of the net amount of the assets and liabilities that do not meet the definition of "restricted" or "net investment in capital assets."

When both restricted and unrestricted resources are available for use, it is Heartland's policy to use restricted resources first, then unrestricted as they are needed.

Classification of Revenues

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

Income Taxes

Heartland is exempt from federal income taxes as it is a political subdivision of the state of South Dakota. Heartland may be subject to franchise taxes in states in which it operates. Tax expense was $5,000 in both 2012 and 2011, respectively.

Note 2: Deposits, Investments and Investment Return

Heartland's investing is performed in accordance with the investment policy adopted by its Board of Directors and applicable state statutes. Heartland may invest in certificates of deposit, time deposits, repurchase agreements, and various U.S. Treasury securities and U.S. agency obligations.

Deposits

State statutes require banks either to give bond or to pledge government securities to Heartland in the amount of Heartland's deposits. Pursuant to legislation enacted in 2010, the Federal Deposit Insurance Corporation (FDIC) fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution.

Investments

At December 31, 2012 and 2011, 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, 2012						
Money market mutual funds	$ 2,782,113	$ 2,782,113	$ --	$ --	$ --	AAA
U.S. Treasury strips	9,140,480	1,270,208	7,870,272	--	--	N/A
U.S. agency obligations	6,166,299	1,015,983	4,264,334	117,364	768,618	AAA
	$ 18,088,892	$ 5,068,304	$ 12,134,606	$ 117,364	$ 768,618	
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	$ --	

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,	
	2012	2011
U.S. sponsored agency obligations		
Federal National Mortgage Association	10.19 %	12.19 %
Federal Home Loan Bank	8.94	16.78
Federal Home Loan Mortgage Corporation	6.18	**

**Issuer did not exceed 5% of the District's total investments

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2012 and 2011 as follows:

	2012	2011
Carrying value		
Deposits	$ 3,030,762	$ 2,974,396
Investments	18,088,892	16,537,199
	$ 21,119,654	$ 19,511,595

Included in the deposits shown above are $2,475,000 and $2,472,000 of certificates of deposits as of December 31, 2012 and 2011, respectively.

Included in the following balance sheet captions:

	2012	2011
Current Assets		
Cash and cash equivalents	$ 1,997,510	$ 960,028
Restricted cash and cash equivalents	1,003,750	2,873,949
Short-term investments	1,275,349	4,030,179
Noncurrent Assets		
Restricted deposits and investments	12,187,613	11,647,439
Long-term investments	4,655,432	--
	$ 21,119,654	$ 19,511,595

Note 2: Deposits, Investments and Investment Return, continued

Investment Return

Investment return for the years ended December 31, 2012 and 2011 consisted of interest income and realized and unrealized gains of $461,655 and $728,073, respectively. Unrealized gains and losses on restricted investments are deferred in accordance with GASB Statement No. 62.

Note 3: Notes Receivable

	2012				
Type of Notes	January 1,	Additions	Reductions	December 31,	Due Within One Year
4.0% to 4.5% notes in connection with Heartland's economic development program, payable in annual installments through October 2016	$ 458,893	$ --	$ 119,433	$ 339,460	$ 61,251
3.0% to 6.25% notes in connection with the Intermediary Relending Program Promissory Note (see Note 15), due in monthly installments through September 2020	733,050	302,250	190,303	844,997	146,568
Interest-free notes in connection with the Rural Economic Development Loan Agreement and Rural Economic Development Grant Agreement (see Note 15), due in monthly installments of $9,699 and $3,458 through July 2019 and January 2023, respectively	1,933,617	--	116,388	1,817,229	157,890
Allowance for notes receivable	(45,000)	(769,526)	--	(814,526)	--
Total notes receivable, net	$ 3,080,560	$ (467,276)	$ 426,124	$ 2,187,160	$ 365,709

	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 $10,948 through July 2019 and December 2020, respectively	999,005	1,051,000	116,388	1,933,617	116,389
Allowance for notes receivable	(45,000)	--	--	(45,000)	--
Total notes receivable, net	$ 2,396,085	$ 1,078,000	$ 393,525	$ 3,080,560	$ 283,453

Interest income on these notes totaled $44,935 and $53,357 for 2012 and 2011, respectively.

Note 4: Capital Assets

Capital assets at December 31, 2012 and 2011 consisted of the following:

		2012		2011
Depreciable assets				
Missouri Basin Power Project	$	51,749,562	$	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)		393,104		384,975
Heartland headquarters building		2,837,333		2,836,288
General plant		707,637		636,847
Total depreciable assets		63,347,576		62,869,813
Nondepreciable assets				
Land		80,402		80,402
Construction in progress		824,242		547,371
Total nondepreciable assets		904,644		627,773
	$	64,252,220	$	63,497,586

Capital assets activity for 2012 and 2011 was:

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

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

Note 4: Capital Assets, continued

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 other noncurrent assets and totaled $1,866,494 and $2,395,289 at December 31, 2012 and 2011, respectively, 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 included in unearned revenues, consist of unrealized gains on investments of $1,212,669 and $1,408,199 at December 31, 2012 and 2011, respectively, and revenues reserved for rate stabilization of $0 and $585,693 at December 31, 2012 and 2011, respectively.

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 $6,000,000; secured by a subordinate lien on the revenues of Heartland's electric system and certain productive capacity assets. The line of credit expires in June 2013 and borrowings under the line of credit bear interest at 4.0%. There were no outstanding borrowings on this line at December 31, 2012 and 2011.

Note 7: Long-term Liabilities

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

	2012				
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	$ 16,100,000	$ --	$ 1,875,000	$ 14,225,000	$ --
4.29% Electric System Second Lien Revenue Note, Series 2010, due quarterly on January 1, April 1, July 1, and October 1 with final payment due on July 1, 2020	6,705,722	--	645,861	6,059,861	674,017
4.75-5.25% Electric System Second Lien Revenue Bonds, Series 2011, with interest payments due semi-annually and principal payments due on January 1, 2016 and 2017	11,350,000	--	--	11,350,000	--
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036	699,982	--	24,837	675,145	25,087
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 beginning in 2014 with a final payment due June 25, 2040	98,758	112,500	--	211,258	--
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $6,852 beginning July 31, 2010 with a final payment due July 31, 2019	623,516	--	82,224	541,292	82,224
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $7,709 beginning February 1, 2013 with a final payment due January 31, 2021	740,000	--	--	740,000	84,788
Total bonds and notes payable	36,317,978	112,500	2,627,922	33,802,556	866,116
Deferred bond refunding loss	(634,257)	--	(409,762)	(224,495)	--
Compensated absences	289,717	125,071	100,759	314,029	100,756
Total long-term liabilities	$ 35,973,438	$ 237,571	$ 2,318,919	$ 33,892,090	$ 966,872

Note 7: Long-term Liabilities, continued

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, with interest payments due semi-annually and principal payments due on January 1, 2016 and 2017	--	11,350,000	--	11,350,000	--
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036	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 1, 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

Debt service requirements at December 31, 2012 are as follows:

	Principal	Interest	Total
2013	$ 866,116	$ 1,678,681	$ 2,544,797
2014	910,260	1,649,107	2,559,367
2015	5,406,247	1,484,170	6,890,417
2016	11,453,575	1,039,431	12,493,006
2017	11,637,301	429,342	12,066,643
2018-2022	2,968,757	189,349	3,158,106
2023-2027	179,306	24,555	203,861
2028-2032	188,486	15,375	203,861
2033-2037	166,329	5,727	172,056
2038-2040	26,179	530	26,709
	$ 33,802,556	$ 6,516,267	$ 40,318,823

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, 2012 and 2011.

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 $38,030,000, with annual payments expected to require 3-4% of net revenues in 2013 through 2014 and 9-18% of net revenues in 2015 through 2017. Principal and interest for the current year and total operating revenues were $4,276,688 and $70,679,293, respectively.

Prior Year Bond Refunding

In 2011, the District issued $11,345,000 of Electric System Revenue Bonds, Series 2011, to advance refund $10,045,000 of Electric System Revenue Bonds, Series, 1992. The refunded bonds are considered defeased under applicable accounting guidance, as the proceeds from the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At December 31, 2012, $8,175,000 of bonds are considered defeased.

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. 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. Rates are established annually by the Board of Directors. The majority of these agreements expire in 2040, while the remainder expire 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.

Heartland entered into power sales agreements with Basin Electric Power Cooperative (Basin) whereby Heartland will sell and deliver 50 MW of power to Basin during the period of January 1, 2013 through December 31, 2017. The agreements provide for a fixed energy rate throughout the term of the contracts.

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.

Public Power Generation Agency (PPGA)

Heartland has entered into an agreement with other utilities, creating an interlocal, PPGA. In connection with PPGA, Heartland has also entered into a long-term participation power agreement whereby the District has agreed to share in the energy output of the Whelan Energy Center Unit 2, a 220 MW coal-fired power plant, which became commercially operational in May 2011. Heartland's commitment is for 36.36%, or 80 MW, of the output of the project, which extends to the later of the life of the project or January 2041, which represents the date of final maturity on the bonds issued by PPGA for the project.

Energy Purchase Contracts

Heartland entered into 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.

Heartland entered into an energy purchase contract with a national energy company to purchase 30 MW of energy at a fixed price during the period of January 1, 2014 through

June 30, 2016. In connection with the agreement, Heartland received a $6,000,000 advance payment from the energy company in 2012. This advance payment is recorded as unearned revenue and will be recognized over the term of the contract as a reduction of the cost of the power purchased under the agreement.

Note 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 $94,045, $86,668, and $80,019 2012, 2011 and 2010, respectively. The employees' contributions during 2012, 2011 and 2010, were $78,574, $73,604, and $69,072, 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, 2012 and 2011 were $13,122 and $14,426, respectively. The contributions made by Heartland employees for the years ended December 31, 2012 and 2011 were $41,610 and $47,346, respectively.

Note 12: Significant Estimates and Concentrations

Major Customers

Sales to two customers were approximately 55% and 51% of total revenue for the years ended December 31, 2012 and 2011, respectively. Approximately 52% of total accounts receivable were owed from two customers at December 31, 2012. Approximately 61% of total accounts receivable were owed from three customers at December 31, 2011.

Proposed 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 utility boilers. The proposed rule was finalized in late 2012. Specifically, the proposed rule requires reductions in emissions from new and existing coal and oil-fired steam utility electric generating units. The rule and its impacts are being analyzed by the District.

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:

	2012		2011
Employees (unaudited)		12		12
Total salaries	$	1,312,093	$	1,230,584
Maintenance expense	$	154,168	$	162,435
Total kilowatt hours sold (unaudited)		1,261,649,712		1,382,645,889

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 2012 and 2011 financial information for the revolving loan fund is presented below:

		2012		2011
Condensed Balance Sheet				
Current assets	$	807,291	$	685,704
Other assets		1,687,083		2,390,057
Total assets	$	2,494,374	$	3,075,761
Liabilities				
Current liabilities	$	194,540	$	109,036
Noncurrent liabilities		1,975,596		2,055,195
Total liabilities	$	2,170,136	$	2,164,231
Net Position		324,238		911,530
Total liabilities and net position	$	2,494,374	$	3,075,761

	2012	2011
Condensed Statement of Revenues, Expenses and Changes in Net Position		
Nonoperating revenues (expenses)		
Investment income	$ 28,532	$ 32,559
Interest expense	(8,453)	(8,640)
Bad debt expense	(625,685)	--
Other	(19,186)	292,853
Capital contributions	37,500	--
Increase (Decrease) in Net Position	(587,292)	316,772
Net Position, Beginning of Year	911,530	594,758
Net Position, End of Year	$ 324,238	$ 911,530
Condensed Statement of Cash Flows		
Net cash provided by (used in)		
Noncapital financing activities	$ (21,736)	$ 916,408
Investing activities	70,454	(720,276)
Increase in Cash	48,718	196,132
Beginning of year	452,250	256,118
End of year	$ 500,968	$ 452,250

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

Heartland Consumers Power District
PO Box 248
432 SE 12th Street
Madison, S.D. 57042
(800) 520-4746
www.hcpd.com

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