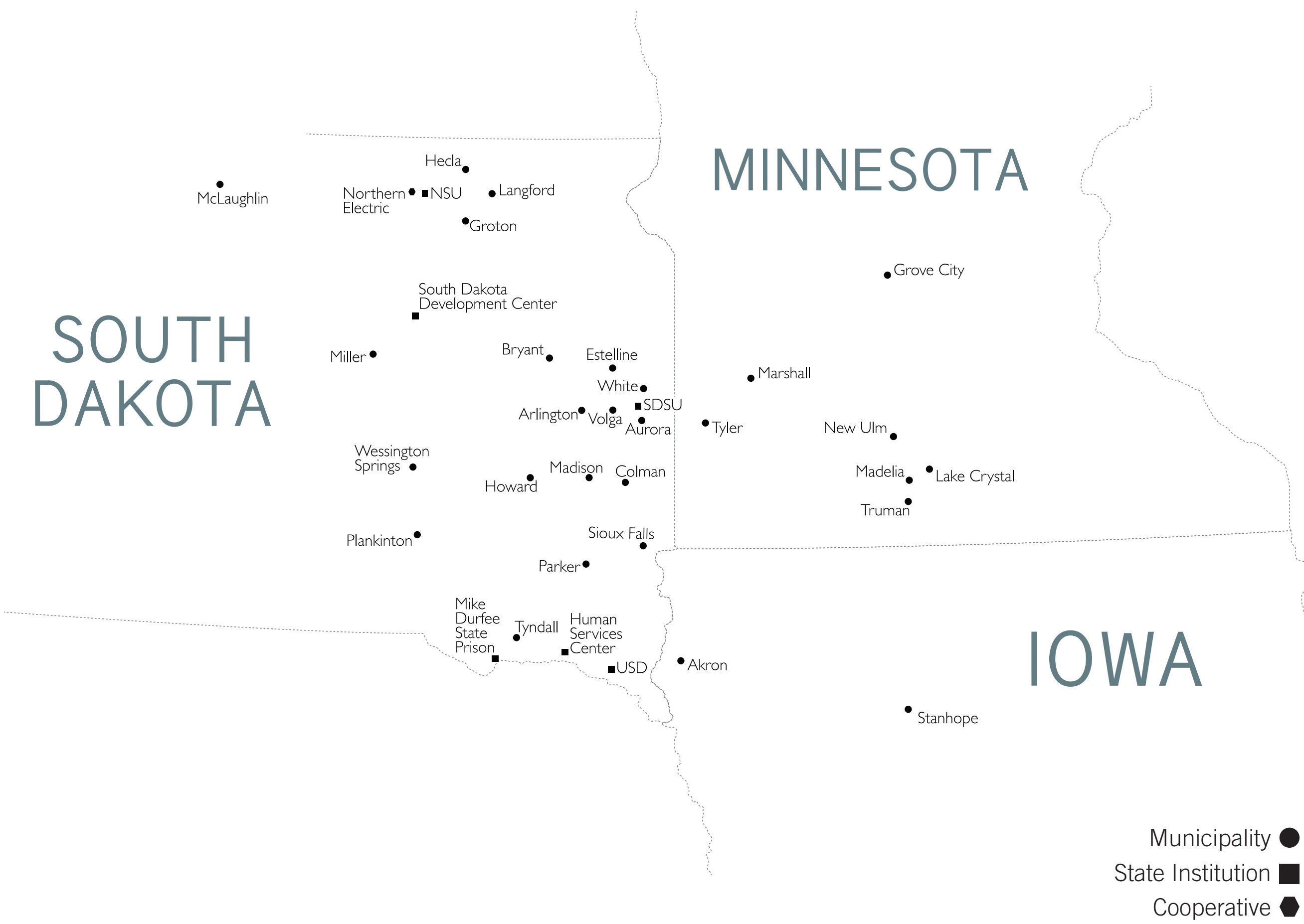
HEARTLAND
CONSUMERS POWER DISTRICT

2014 Annual Report
CUSTOMER FOCUS

Heartland CUSTOMERS



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2014 FINANCIAL HIGHLIGHTS

$82 MILLION
Total operating revenue

$73.3 MILLION
Total operating expenses

138.3 MW
Peak demand

862,805 MWh
Total customer sales

HEARTLAND

Serving customers with the Power of Forward Thinking

Heartland Consumers Power District is a public power utility providing low-cost, reliable power as well as energy services and community development programs. Our customer base includes 28 municipal electric systems, six state institutions and one cooperative, all scattered across eastern South Dakota, southwestern Minnesota and northwestern Iowa.

CUSTOMER FOCUS

Heartland started off 2014 by welcoming a new customer. Heartland began supplying power and electricity to the city of Stanhope, Iowa January 1. Primarily an agriculture-based community, Stanhope is located in North Central Iowa and is home to approximately 450 people. According to City Clerk Ron McKenzie, Stanhope chose Heartland because they were looking for stability. They were also intrigued by our ability to offer expertise and possible low-interest financing options towards building a new substation in the future. Stanhope is situated within the Midcontinent Independent System Operator (MISO) market and is connected to the ITC transmission system.

Events

Heartland hosted several customer events throughout 2014, including our Annual Meeting, Summer Conference, Budget Meetings and the inaugural Winter Conference. Each event featured different speakers presenting on a variety of topics including the push towards natural gas, advanced metering infrastructure, economic development strategies for rural communities, and the 2014 power standard updates from the Occupational Safety and Health Administration. At our annual Budget Meetings, held in three separate customer communities, staff reviewed the 2015 operating budget and explained the driving factors behind it. Customer events play a critical role in Heartland operations, providing useful information to customers and giving them the opportunity to interact with staff and board members.

In an effort to recognize the importance and value of public power, Heartland marked Public Power Week, the annual nationwide celebration organized by the American Public Power Association, by hosting a series of customer appreciation grill outs in the communities of Akron, Iowa; Tyler, Minnesota; and at our headquarters in Madison, South Dakota. Heartland CEO Russell Olson fired up the grill at each location, stating, “Public power puts customers first, and Public Power Week gives us a chance to emphasize the advantages of locally owned power.” In addition to serving lunch, Heartland gave away three electric grills as tokens of appreciation. Public Power Week is celebrated the first week of October.

Local lineman Bob Zeug, left, and Heartland CEO Russell Olson are ready to grill burgers and brats for city utility employees in Tyler, Minnesota in recognition of Public Power Week.

Customer Connections Committee

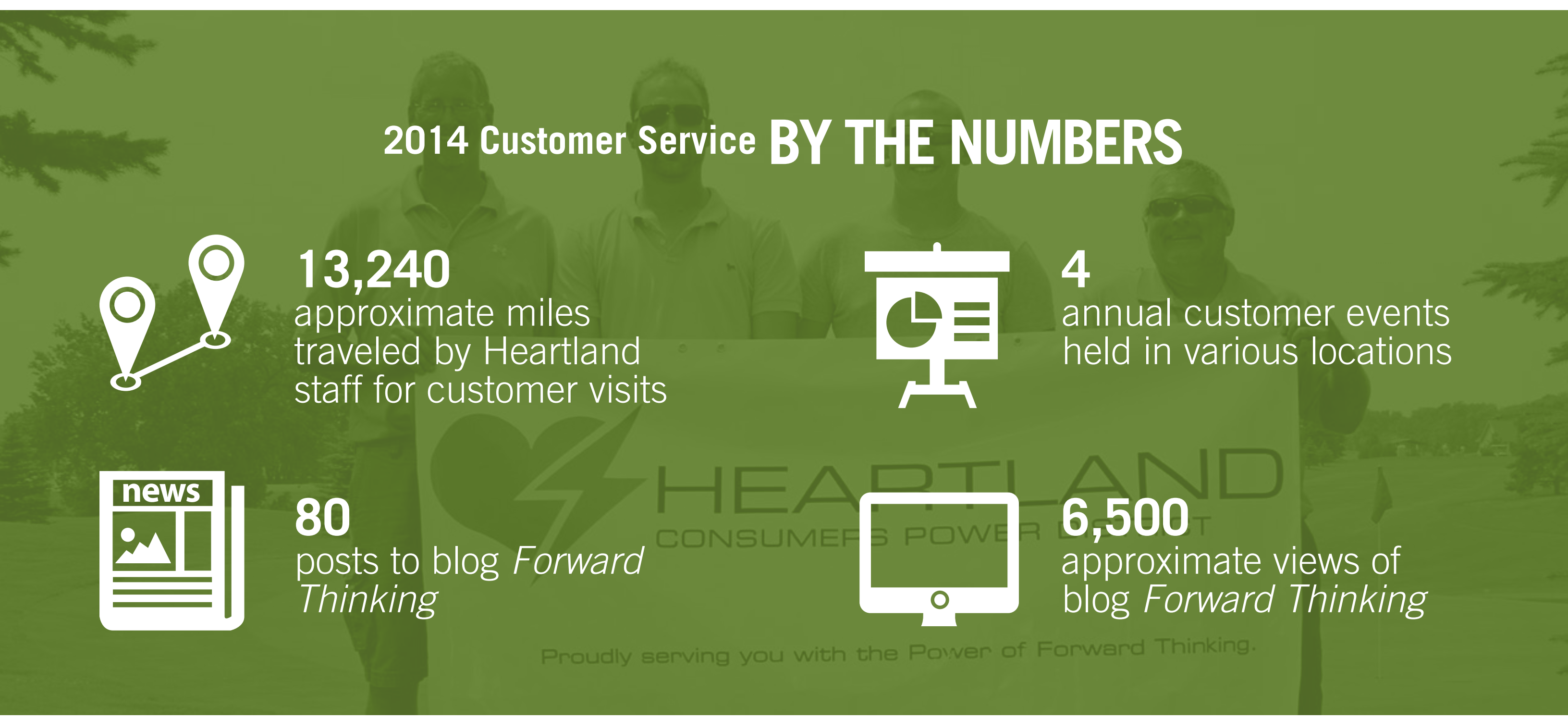
The Customer Connections Committee met four times throughout 2014. The committee welcomed new member Kris Manderfeld from New Ulm Public Utilities in New Ulm, Minnesota and elected Bill Lewellen of Miller, South Dakota as chair and Anita Lowary of Groton, South Dakota as vice chair. Heartland staff presented the group information on regulations impacting Heartland operations, our forecasted budget and gathered feedback on Heartland events and our website. Committee members were also able to discuss issues impacting their individual utilities and share ideas with each other. The committee was formed in 2011 to provide a formal channel for customers to communicate with Heartland board and staff.

Programs

Heartland remained diligent in our efforts to encourage the efficient use of electricity throughout 2014. Our energy efficiency program, Power Forward, completed its third year offering incentives to residential and commercial customers of participating Heartland customers. The program includes rebates to residents for upgrading to ENERGY STAR appliances and installing efficient heating and cooling equipment. Commercial customers may receive rebates for upgrading to more efficient lighting. Heartland also provides grants to our customers for projects that optimize electric energy use at city facilities, thereby reducing the city's energy costs.

Heartland also offers a variety of economic development incentives to attract new businesses to our customer communities and help existing businesses expand. Our growth incentive program helps customers with recruitment, retention and expansion as well as job creation by awarding rebates to new and expanding businesses on their retail electric bills as well as cash incentives for new jobs created. The Heartland Economic development Loan Program (HELP) Fund provides funds for business ownership and expansion through a revolving loan fund. Heartland also awards grants to customers and their economic development corporations to help fund projects that foster growth and development. The newly offered Energy ONE Incentive, which was officially launched January 1, provides a special, energy-only rate that is fixed for three years to new or expanding businesses with a new load of one megawatt or larger. In customer communities with a population of 3,000 or less, the incentive is offered to new loads 500 kilowatts or larger.

Heartland Board President Merlin VanWalleghen addresses the crowd during the 2014 Budget Meeting in Madison, SD.



POWER SUPPLY

At Heartland, we take our responsibility to provide reliable, affordable power seriously and worked throughout 2014 to fulfill our mission to be the trusted leader and partner of choice in the delivery of power and energy services. Many of Heartland's customers receive a hydropower allocation from Western Area Power Administration. Heartland provides supplemental power to those customers and serves as a full-requirements supplier to others.

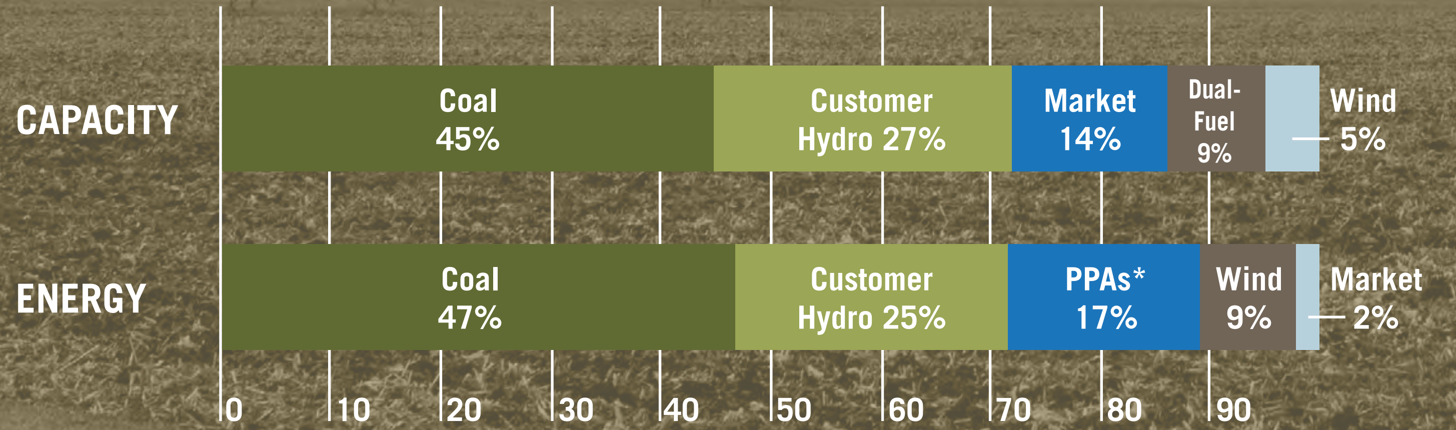
Heartland owns participation shares of low-cost, reliable, large base-load generating units including our newest and largest resource, Whelan Energy Center Unit 2 (WEC 2) near Hastings, Nebraska and Laramie River Station (LRS) near Wheatland, Wyoming. Heartland has an 80 megawatt (MW), 36 percent, entitlement share of the 220 MW WEC 2, which is operated by Hastings Utilities, and a 51 MW, three percent, undivided ownership share in the Missouri Basin Power Project (MBPP), which includes the 1,710 MW LRS, the Grayrocks Dam and Reservoir and nearly 650 miles of high-voltage transmission line. Heartland receives all of its 51 MW ownership share from LRS 1, which is interconnected to the East side transmission grid.

2014 OPERATING STATISTICS

Whelan Energy Center Unit 2
82.5% Availability
75.4% Capacity Factor
509,396 MWh Generation

Laramie River Station Unit 1
93.2% Availability
92.7% Capacity Factor
392,402 MWh Generation

Wessington Springs Wind Energy Center
96.8% Availability
50.3% Capacity Factor
217,580 MWh Generation



*Purchase Power Agreements

Both WEC 2 and LRS experienced challenges with coal deliveries throughout 2014 with the railroads blaming cold weather and staffing issues on delays. By the end of the year, stockpiles were at target levels and holding steady, with Heartland and its partners in WEC 2 and LRS continuing to monitor the situation and communicating with railroads about delivery issues.

The Environmental Protection Agency (EPA) issued their proposed final ruling for the Wyoming Regional Haze Plan in early January. Despite efforts from LRS owners and other interested parties in the state of Wyoming, the EPA disapproved Wyoming's State Implementation Plan. The alternative Federal Implementation Plan is set to require all three LRS units to install selective catalytic reduction at an estimated cost of $750 million. Under the Federal Implementation Plan, the SCRs must be installed in five years; however, MBPP and other parties' legal appeals have resulted in a stay on the ruling.

Through a purchase power agreement, Heartland procures the entire output of the 34 turbine, 51 MW Wessington Springs Wind Energy Center (WSWEC) near Wessington Springs, South Dakota. With the WSWEC, Heartland will be able to meet both the Minnesota renewable energy standard of 25 percent by 2025 and the South Dakota renewable energy objective of 10 percent by 2015 on behalf of our customers. The WSWEC experienced record production levels in 2014 with the highest monthly production on record six different months. Taking turbine availability into account, the WSWEC achieved a 50.3 percent capacity factor in 2014.

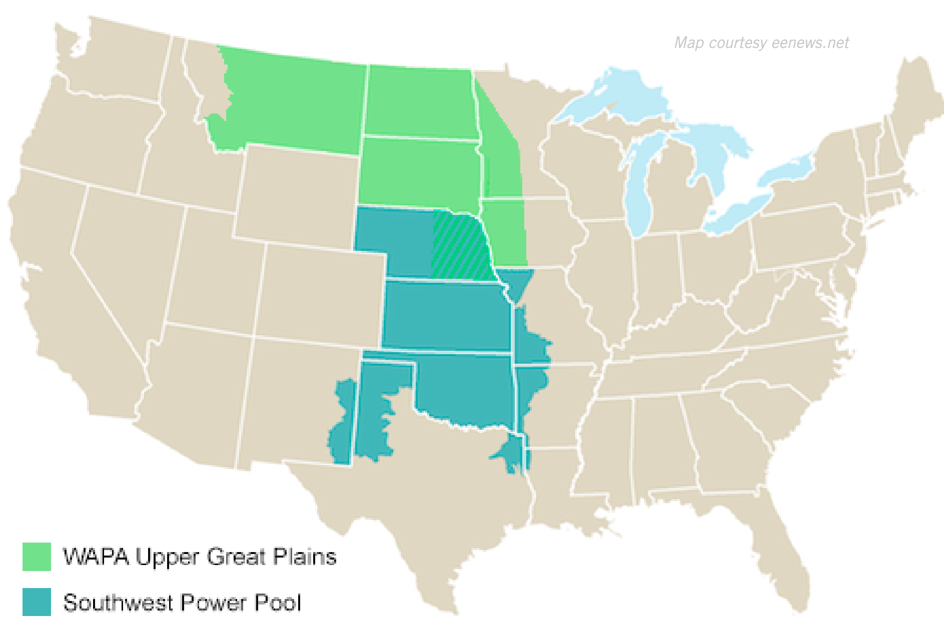
Heartland also utilizes contracts with our customers and other utilities to acquire low-cost capacity resources to meet reserve margin requirements and provide a hedge against high market prices. Several Heartland customers have dual-fuel generating plants, totaling 28.5 MW, which Heartland has secured on a long-term basis. Contracts with other utilities are used to fill short-term capacity needs.

> "It is a major shift in the way Heartland has traditionally operated, but we firmly believe **our customers will benefit**."
>
> *Heartland COO Nate Jones, on joining a Regional Transmission Organization*

Our power is delivered over the Integrated System (IS), which covers a seven-state area and consists of over 9,800 miles of high-voltage transmission line. The IS is jointly owned by Heartland, Basin Electric Power Cooperative and Western Area Power Administration. In the fall of 2015, functional control and operational authority of Heartland's transmission facilities within the IS will be turned over to the Southwest Power Pool (SPP), and Heartland's generation resource and customer load assets will be included within the SPP Integrated Marketplace.

In June 2014, the SPP Board of Directors approved tariff changes to accommodate the IS's membership in SPP. The Heartland Board of Directors approved a resolution authorizing execution of a membership agreement with SPP in July. SPP made a Federal Energy Regulatory Commission filing for IS integration in September, which was summarily accepted by FERC in November.

Heartland looks forward to working with SPP staff and members as we continue the transition.



GOVERNANCE

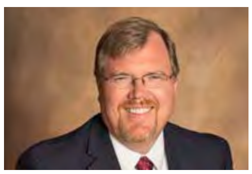
Heartland is governed by a ten-member board of directors. Directors are publicly elected on a non-partisan basis by subdivision and serve six-year, staggered terms. Heartland's board meets monthly at our headquarters with additional meetings as needed. The board includes a combination of new and long-tenured directors with President Merlin VanWalleghen having served 22 years.

Heartland welcomed new member Jerad Higman in January to represent Subdivision 2. Higman was appointed to fill the seat vacated by long-time board member Dan O'Connor, who retired at the end of 2013. Higman is the owner and president of MASABA, Inc., which designs and fabricates material handling equipment, and RED Steakhouse, both located in Vermillion, South Dakota. Olson noted Higman "is an active member of his community and his unique experiences will prove valuable."

Heartland also said good-bye to long-time board member Ed Lamers in December, who stepped down from the board after serving Subdivision 5 since 1978. VanWalleghen said Lamers would be missed as he "has always been interested in and concerned about our customers and has been vital in keeping Heartland viable throughout his tenure."

Merlin VanWalleghen
President

Subdivision 7: Aurora, Brule, Charles Mix, Davison, Miner and Sanborn Counties



Mark Joffer
Vice President

Subdivision 1: Bon Homme, Douglas, Hanson, Hutchinson, McCook and Turner Counties

Kay Anderson
Secretary

Subdivision 4: Lincoln County and Split Rock Township of Minnehaha County

Dave Westbrock
Treasurer

Subdivision 10: The municipalities of Groton, Madison and Volga, South Dakota

Roger Fritz
Assistant Secretary/Treasurer

Subdivision 9: Brookings, Codington, Deuel and Hamlin Counties

Jerad Higman

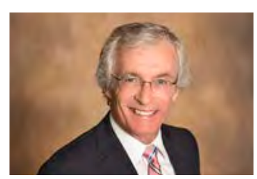
Subdivision 2: Clay, Union and Yankton Counties

Larry Nielson

Subdivision 3: Brown, Buffalo, Hand, Hyde, Jerauld and Spink Counties

Ed Lamers

Subdivision 5: Day, Grant, Marshall and Roberts Counties



Jeff Heinemeyer

Subdivision 6: Beadle, Clark, Kingsbury, Lake and Moody Counties

Lisa Rave

Subdivision 8: Minnehaha County, excluding Split Rock Township

PERSONNEL

Heartland welcomed two new employees in 2014. Ryan Brown joined our team in January as director of economic development after spending nine years in the banking industry. Olson noted Brown's strong financial background as well as experience working with a diverse customer base in making him the right candidate for the job. Heartland welcomed Theresa Schaefer in October as benefits administrator. She shared the role with Patty Foley until the end of the year when Foley retired after eleven years with our company. "Patty has been a valuable member of our team and will be missed," noted Olson, citing her good nature, humor and dependability as her strongest assets. "We wish Patty well in her retirement and also look forward to the knowledge and skills Theresa will bring to the job." Schaefer previously spent 19 years with a local cooperative as benefits specialist and served as a broker associate for a local real estate firm.

ADMINISTRATION

Russell Olson
Chief Executive Officer

FINANCE

Sharla Fedeler
Accountant

Mike Malone
Chief Financial Officer

OPERATIONS

Adam Graff
Director of Power Supply

Nate Jones
Chief Operations Officer

CUSTOMER SERVICE

Danielle Rosheim
Projects & Marketing Coordinator

Ryan Brown
Director of Economic Development

Ann Hyland
Communications Manager

Steve Moses
Customer Relations Manager

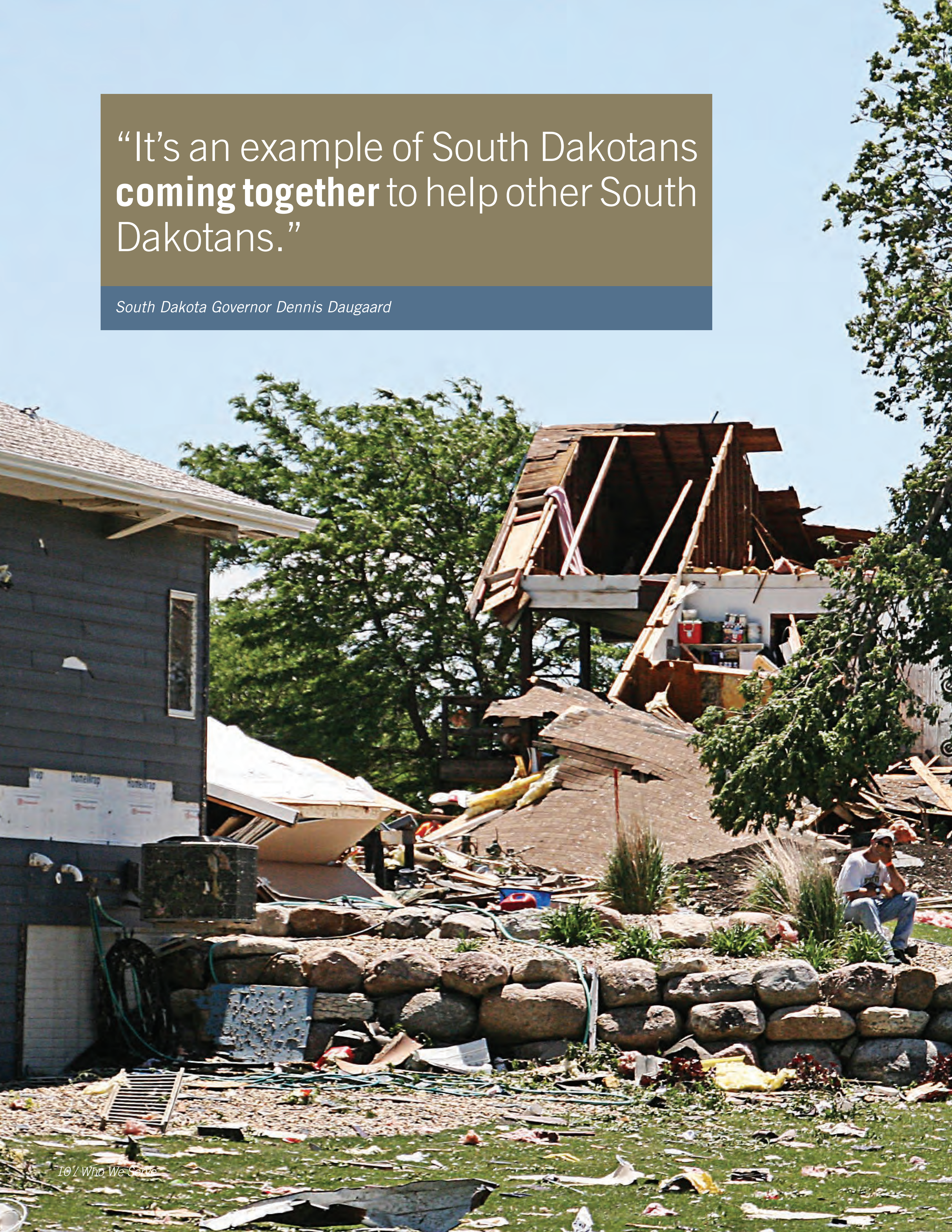
SUPPORT

Kathie Lewis
Executive Assistant

Theresa Schaefer
Benefits Administrator

> "It's an example of South Dakotans **coming together** to help other South Dakotans."

South Dakota Governor Dennis Daugaard



TOGETHER

in times of need

After spending time together over the years at customer meetings as well as industry events, Heartland customers have formed connections. They know they can count on each other whether it be to ask for advice or in times of need.

After the Storm

Wessington Springs Mayor Melissa Mebius and residents vowed to rebuild their community "better than ever" after an EF-2 tornado roared through a portion of the town June 18. Home to just over 950 people, the small South Dakota community lost more than two dozen homes and a handful of businesses to the storm. Several farms in the surrounding area also received damage, but remarkably, no serious injuries or casualties were reported, credited to the multiple advance warnings by local law enforcement.

While residents started the recovery process immediately with help from the South Dakota National Guard, Red Cross and local volunteers, nearby communities reached out to help city officials restore power to the city. Wessington Springs Electric Superintendent Roger Larson reported over $430,000 in damage to the city's electric system, but luckily

Heartland Customer Relations Manager Steve Moses, top left, takes a moment to visit with Wessington Springs Electric Superintendent Roger Larson to discuss the city's needs after a tornado ripped through a portion of the community. Nearly 50 utility poles were damaged or needed to be replaced, such as the structure pictured above.

Arlington Electric Superintendent Jason Niemann and Volga City Administrator Andrew Bremseth

the substation remained untouched. The municipal utilities of Miller, Plankinton, Groton, Sioux Falls and Madison all volunteered generators, transformers, wire, labor or other necessities to help get the city back up and running as quickly as possible. Their efforts as well as the tireless dedication of the utility crew paid off, as power was restored to much of the community within two days.

"Mother Nature is unpredictable," said Heartland Customer Relations Manager Steve Moses. "But one thing that is predictable is the willingness of people to help each other out. Disasters have a way of reminding us what is really important, and we're glad to see everyone coming together in a time of need."

Always on Call

A mutual aid agreement between the cities of Arlington and Volga, South Dakota will allow the two communities to provide reciprocal assistance for electric utility projects that otherwise exceed local resources. The agreement calls for reciprocation in the form of electric utility personnel, equipment and/or supplies during emergency situations or for other projects as needed. Officials from both cities agree the arrangement will prove beneficial for all involved and believe their great relationship will create ease in communicating needs to one another.

> "This will ensure that **help is always available**."
>
> *Volga City Administrator Andrew Bremseth*

Mutual aid agreements are common in small towns with limited resources. There are currently only three full-time electric utility employees between the two communities – Arlington employs one full-time electric superintendent while Volga employs an electric superintendent and an electrical apprentice. Although this arrangement has most often proved adequate, Volga City Administrator Andrew Bremseth and Arlington Electric Superintendent Jason Niemann can attest to situations when additional labor is needed, such as when an employee is on vacation.

Niemann believes the arrangement will also help save ratepayers money.

"This has allowed for the city of Arlington to staff a full-time superintendent, rather than contract out for service. It is more cost-effective for the city and if this arrangement works out, there may be potential to extend our reach to include other nearby communities."

Focus on
MAIN STREET

Sandra and Michael Slama first opened Sandra Rose, a full-service bridal and retail shop, in an aging, two-story building on Main Street of Tyndall, South Dakota in 1996. The small business thrived for many years, eventually becoming the region's premiere bridal shop and women's clothier. Offering wedding, bridesmaid, flower girl and prom dresses as well as other accessories and women's fashion, the retailer drew clients from a five-state region. But as business grew, so did the inventory, and the small building's lack of space and wear and tear became bigger issues.

"We would have had to consider **closing the doors**."

Sandra Slama, on how a HELP Fund loan saved her business

"We operated entirely out of 1,200 square feet, so all of our dresses were always in storage," said Sandra. "We spent so much time trying to locate items for customers, and then pressing them to get the wrinkles out. Plus the roof leaked, giving everything a slightly musty smell - we had to provide constant upkeep on our inventory."

In 2012, the Slamas began a two-year process towards building a new facility while maintaining their Main Street presence. With help from a $150,000 Heartland Economic development Loan Program (HELP) Fund loan, Sandra Rose re-opened its doors in late 2014 in a space more than four times the size of their original location.

"Our old building was not going to last much longer, and without the Heartland loan program, we would have had to consider closing the doors. Heartland's low interest rate made it feasible for us to construct a new building."

Today Sandra Rose operates in a 5,400 square-foot facility with more than 65% of the space acting as a showroom for the business's thousands of pieces of inventory.

"This layout is much more convenient for our customers, because they can actually see the items we sell. We can also accommodate more than one bridal party for viewing and changing, because we have two bridal rooms."

The two-story building also features multiple dressing rooms, an office area, restrooms and much-needed spacious storage rooms. The Slamas left the building plan fairly open to accommodate future plans for growth, which seems likely considering the retailer's continued success.

"The new building has definitely generated interest and brought in new clientele. We have also noticed clients coming from further away, and I think that's largely due to the new space."

The building offers many other advantages, including improved indoor air quality and lighting, and energy efficient features such as LED lighting and an insulated floor. The Slamas also installed a television on the showroom floor to air footage from New York bridal shows–a feature that wasn't possible in the old building.

Like many Main Street success stories, Sandra Rose will have a positive lasting impact on the entire community, improving the local business climate and drawing visitors to the area.

"It's our hope that our business will help other local businesses. Because our local client base is limited, we are bringing in people who wouldn't ordinarily visit Tyndall. While our clients are in town, we hope they also take advantage of other local establishments such as the restaurants or gas stations."

Since opening in the new location, Sandra has been contacted four times by potential business owners considering a move to Tyndall. With its proximity to larger communities and recreation on the Missouri River, Tyndall is a prime candidate for commercial growth and development.

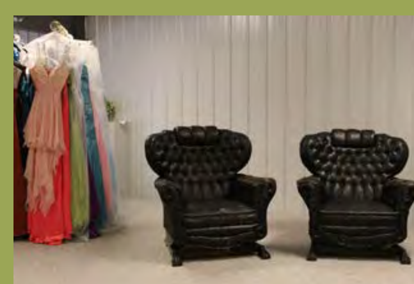
Sandra Rose's bridal department is full-service, including alteration and fitting services, and the new facility allows seamstresses to easily work in the store. Above, Nicole Kaul and Myrnoe Voigt work on clients' dresses.

Heartland Director of Economic Development Ryan Brown stresses the importance of a thriving Main Street in smaller communities. "Sandra Rose is an established, successful business with a far-reaching and growing client base. Their new store allows them to better serve those clients and contribute to Tyndall's economic well-being."

Sandra Rose owners Sandra and Michael Slama

Pieces of Tyndall

Sandra found several ways to incorporate items from her store's past as well as the community of Tyndall:



- Two chairs stuffed with horse hair were donated from the old Shriner's/Mason's building and serve as seating in a dressing area.
- Several doors from the old Sandra Rose facility were repurposed into dressing room walls.
- A decades-old clothing rack was donated, formerly of the locally renowned Post sisters' clothing store.
- Display cases from former variety and clothing stores in Tyndall were salvaged and showcase many Sandra Rose fashion items.

2014 Economic Development

BY THE NUMBERS

Heartland customers have access to an economic development toolkit to promote growth and expansion in their communities, including grants, a revolving loan fund and growth incentives.

$224,000
invested in growth and hiring incentives

2.5 million kwh
in new and expanded energy

30
businesses qualified for incentives

106
jobs created in relation to hiring incentives

Photo courtesy sinkcombs.com

1,830 kW
2014 peak load: Mayor's Open House

$51,089
saved with Energy ONE rate in first 4 months

Denny Sanford PREMIER Center
Sioux Falls, SD

The city of Sioux Falls was the first Heartland customer to participate in the Energy ONE Incentive program, utilizing the energy-only rate for the newly-constructed Denny Sanford PREMIER Center. Opened in the fall of 2014, the 64,000 square-foot facility will generate an estimated 4.5 megawatt peak electric load annually. The Energy ONE Incentive is expected to save the city of Sioux Falls about $2.5 million in electrical costs over the first few years of the center's operation.

Built adjacent to an existing arena and convention center, the PREMIER Center is a 12,000-seat capacity multipurpose events center designed to host large scale concerts and sporting events. The four-level facility consists of the event level, main concourse, suite level and upper concourse.

In its first four months of operation, the PREMIER Center hosted 43 events, including seven concerts, and generated a total gross revenue of nearly $2.58 million.

Capitalizing on a

BRIGHT IDEA

Energy efficiency improvements are a cost-effective investment, providing savings long after initial project costs are incurred. Lighting upgrades usually offer a significant benefit, with the initial cost recovered through annual savings in a few years.

Lighting made up a significant portion of Heartland's energy efficiency program, Power Forward, in 2014. Heartland awarded nearly $57,000 in energy efficiency grants and incentives in 2014 for lighting projects in 16 communities. Projects included upgrades to lighting in retail establishments, small businesses and large operations as well as to street lights.

South Dakota Soybean Processors in Volga, SD improved the lighting efficiency of their plant by replacing high pressure sodium lamps with LED fixtures, pictured. The project qualified for Heartland's Commercial Lighting Incentive program.

Commercial Lighting

Lighting is a critical component of every business, but it also accounts for a substantial portion of electricity consumption. Upgrading to more efficient lighting can have a huge impact on a business's bottom line.

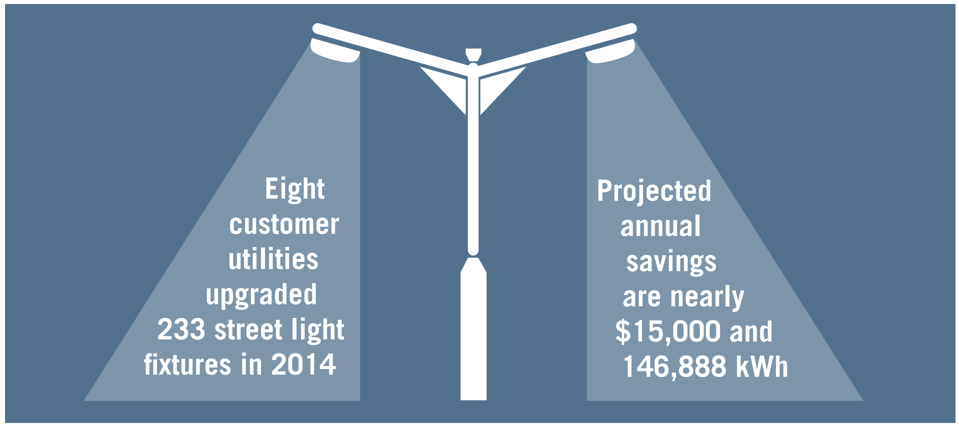
As part of their overall plant improvement strategy, officials at South Dakota Soybean Processors (SDSP) in Volga, South Dakota hoped to capitalize on cost savings by undertaking a major lighting upgrade in 2014. The company replaced 150 high pressure sodium lamps, 150 watts each, with 45 watt LED lamps throughout the plant in their process operation, where lights are on 24 hours per day, 365 days per year. Heartland awarded the plant $4,800 in commercial lighting incentives to assist with the project. In just six months, SDSP saw energy savings of 69 megawatt hours.

According to SDSP Process Engineer Andy Carlson, the plant operators have been very complimentary about the light the new fixtures generate and rate it far better than the light created by the high pressure sodium fixtures. "As LED fixtures continue to drop in price, we look to increase the number we replace each year until we have replaced all the lights in the facility."

Street Lighting

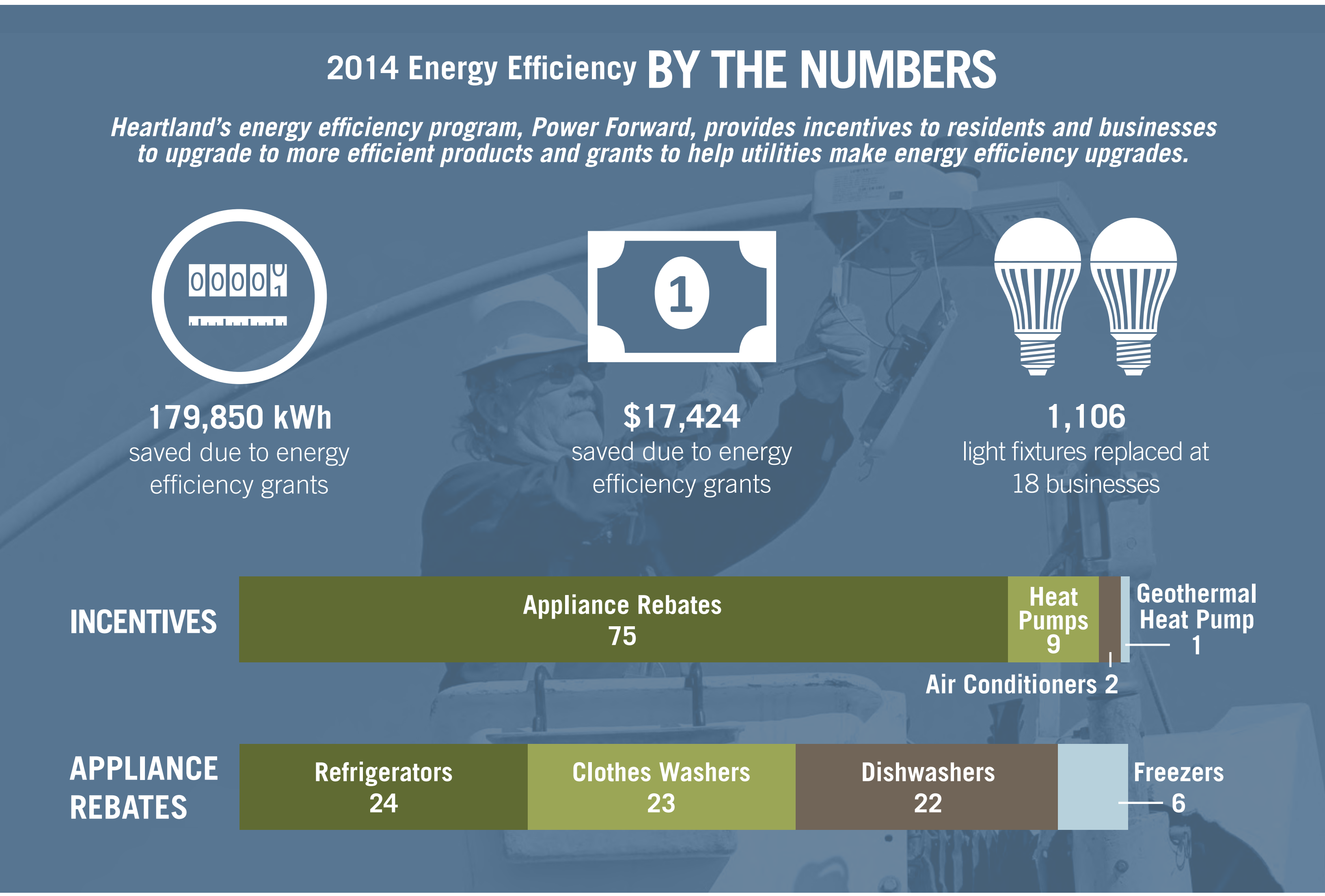
LED lighting technology continues to prove itself as a viable alternative to other forms of traditional street lighting such as high pressure sodium. By modernizing aging systems, municipalities can realize multiple benefits, including reduced energy consumption and maintenance costs, as well as wasted energy associated with light pollution. Additionally, LED street lighting offers an improved light quality, providing a whiter, brighter light.

According to Heartland Communications Manager Ann Hyland, LED street lights have become increasingly popular in Heartland's customer communities. "In addition to the significant energy savings, customers cite many other benefits of making the upgrade, including less time spent changing out bulbs."



LED street lights can last up to 100,000 hours. In comparison, a typical high pressure sodium light lasts around 24,000 hours. LEDs are also better designed to withstand changing environmental conditions.

Multiple Heartland customers upgraded their city street lights to LED in 2014 and Heartland awarded over $29,000 in energy efficiency grants to help with the projects. Overall, 233 fixtures were replaced throughout eight communities with a total projected savings of 146,888 kilowatt hours and $14,677 annually.



Giving

PUBLIC POWER

a voice

Education and engagement at the state and federal levels are important to ensuring long-term success of the communities we serve. Heartland maintains a proactive relationship with policymakers at different levels. Whether meeting with legislators at national and state conferences, or making appeals through grassroots efforts and personal visits, Heartland is committed to public power advocacy. Heartland also aligns with organizations dedicated to ensuring the future of the public power industry.

Public Power Risk Management Act

A trip to Washington, D.C. in March proved successful as meetings with two senators resulted in notable actions in favor of public power utilities. Members of Heartland's board and staff traveled to the nation's capital as part of the annual American Public Power Association Legislative Rally, where they met with United States Senators John Thune and Tim Johnson to discuss S. 1802, the Public Power Risk Management Act.

S. 1802 addresses a problem created by new rules from the Commodity Futures Trading Commission (CFTC) under the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new rules require entities to register as swap dealers if they engage in more than $25 million in swap dealing activity with a "special entity." The CFTC definition of "special entity" includes government bodies, such as public power utilities. As a result of this rule, independent power producers, natural gas distributors, investor-owned utilities and other non-financial entities have been reluctant to enter swap transactions with public power utilities.

After meeting with Heartland and at our urging, Senator Thune (R-S.D.) signed on as a co-sponsor of the bill. Senator Johnson (D-S.D.), who served as chairman of the Senate Banking, Housing and Urban Affairs Committee, played an integral role in the issuance of a "no-action" letter by the CFTC.

"The ability of public power utilities to hedge power and fuel prices with swaps was caught up in regulations intended to prevent another financial meltdown like the one that occurred in 2008," said Heartland CEO Russell Olson. "This has inadvertently hurt public power utilities, many of which rely on non-financial entities to hedge against power and fuel price risks."

S. 1802 provides that a utility operations-related swap transaction with a public power utility cannot be treated differently than a utility operations-related swap with any other entity. As a result, these transactions would not count toward the $25 million threshold. Under this narrowly crafted bill, these transactions would still be subject to

"Congress should do everything in its power to help **keep energy rates affordable** for families."

U.S. Senator John Thune, left, in blue tie, who played an integral role in the passage of the Public Power Risk Management Act after meeting with Heartland.

Brad Roos, general manager of Marshall Municipal Utilities, discussed concerns in regards to third-party electric sales during visits with legislative leaders at the Minnesota State Capitol during the Minnesota Municipal Utilities Assocation Legislative Conference. Also pictured is Jim Maras, general manager of Madelia Municipal Light & Power, far left. Both Marshall and Madelia are served by Heartland, who also participated in the conference. Photo courtesy Steve Downer, MMUA.

reporting requirements and count toward the $8 billion threshold applying to swap transactions with investor-owned utilities and rural electric cooperatives.

The "no-action" letter issued by the CFTC provided temporary relief from certain requirements on its new rules on swap dealers. The letter allowed an entity "to deal in utility operations-related swaps, as that term is defined in the letter, and not be required to register as a swap dealer, provided that the aggregate gross notional amount of swap dealing activity does not exceed $8 billion per year." The letter was issued in response to a request from APPA and other organizations.

Clean Power Plan

On June 2, 2014, the Environmental Protection Agency (EPA) published a proposed rule aimed at reducing carbon dioxide (CO2) emissions from existing power plants called the Clean Power Plan. The proposed rule would set state-specific, rate-based goals for carbon dioxide emissions from the power sector, as well as guidelines for states to follow in developing plans to achieve the goals.

Although the EPA claimed their plan was "flexible," the proposed rule drew immediate criticism from electric utilities, states and trade organizations, because of its potential to dramatically raise energy prices while eliminating jobs. In order for our concerns to be heard, Heartland encouraged customers to visit ***TellEPA.com*** and submit comments against the Clean Power Plan. We also collected comments from customers and submitted them to EPA on their behalf.

Heartland, along with several other regional utilities, participated in a July forum hosted by the South Dakota Public Utilities Commission examining ratepayer impacts, grid reliability and other implications of the Clean Power Plan. Heartland also partnered with two electric cooperatives in the Madison area to issue a letter to the editor urging citizens to speak out against the EPA regulations. Olson also submitted a letter to all newspapers in our customer communities outlining our concerns with the plan.

Heartland submitted official comments to the EPA by their December 1 deadline, detailing our opposition to the plan. We believe the proposed rule represents an overreach of EPA's statutory authority under the Clean Air Act, and the best outcome would be for EPA to withdraw the proposed rule in its entirety. Because withdrawal is unlikely, Heartland outlined numerous revisions to help make the plan workable and affordable for states, utilities and customers. These revisions include redefining the baseline year from which to measure goals, which unfairly penalizes utilities who were "ahead of the curve," reformulating unreasonably optimistic assumption used in developing the Building Blocks for states to follow in developing their plans, and considering hydropower as a renewable resource.

Advocacy at the State Level

Although the geography differs across Heartland's three-state service territory, many of the challenges faced by our customer utilities are the same. To help address these concerns as well as inform lawmakers, Heartland staff attended state municipal leadership conferences, as well as took an active role in the state legislative process.

The focus of the Minnesota Municipal Utilities Association's (MMUA) 2014 Legislative Conference was the benefits of public power and why municipal utilities deserve legislative support and trust to serve their cities. Heartland joined officials from multiple Minnesota customer communities to meet with state legislators and discuss pending EPA regulations and other industry topics, such as distributed generation.

Similar hot-button issues were discussed in detail at the Iowa Association of Municipal Utilities (IAMU) 2014 Leadership Conference. While attending, Heartland participated in workshops and met with state lobbyists on behalf of our Iowa customers. With an expanding customer base in the state, we felt it pertinent to take an active role in their political process.

In South Dakota, Heartland works with Dennis Duncan and Drew Duncan to lobby on our behalf and follow issues that will have an effect on Heartland and our customers. They followed a few bills in 2014, including one related to net metering, an issue that has come up in one form or another over the last several years. A bill was introduced in 2014 to provide for producer payback for distributed generation to small-scale renewable energy systems. The bill failed to account for the economic and safety concerns of electric utilities and was defeated in committee.

Heartland CEO Russell Olson, far left, and staff listen to Minnesota Rural Electric Association Legislative Director Joel Johnson, far right, during the MMUA Legislative Conference. Photo courtesy Steve Downer, MMUA.

Heartland's
LEGISLATIVE PRIORITIES

Clean Power Plan
An aggressive regulatory agenda aimed at coal puts reliable, affordable electric service at risk

Grid Security
Cybersecurity legislation should enhance information sharing between the government and electric sector

Tax-Exempt Financing
Limiting or eliminating tax-exempt interest on municipal bonds could increase the cost of electricity

Rail Regulation
Increased oversight by the Surface Transportation Board could control exorbitant rail rates for moving coal

Saving Pick-Sloan Power
Available federal funding does not provide the support necessary to meet the operating needs of the Pick-Sloan Missouri Basin Power Project

FERC Overreach
Continued Congressional review and oversight of the FERC's administration of the Regional Transmission Organiztion markets is required

A Vision for the **FUTURE**

At Heartland Consumers Power District, we are living by our tagline, the Power of Forward Thinking. We are always looking to the future, making decisions and pursuing opportunities that will strengthen our company and benefit our customers. We are also focused on providing top-notch customer service and educational tools, while championing for affordable, reliable power.

Education was a top priority in 2014. We hosted a variety of events to inform customers about issues affecting the electric industry and provide them resources to help make their communities successful. We also provided important advice to keep workers safe. 2014 marked a milestone for information as we celebrated 20 years of delivering company and industry news via our monthly newsletter.

Heartland provided an active voice in 2014, pushing back against costly regulations for existing power plants proposed by the Environmental Protection Agency. Through letters to the editor in local newspapers and comments submitted to the agency, we raised awareness of the impacts regulations will have, including higher than expected rate increases and reliability concerns. We also questioned EPA's legal authority to implement such regulations and anticipate the agency's final ruling in the summer of 2015.

One of the most vital customer services Heartland provided in 2014 was the cooperative Integrated Resource Plan (IRP) filing. Western Area Power Administration (WAPA) long-term firm power customers are required to prepare and submit IRPs every five years, along with annual updates and reports. As a service to our customers, Heartland created a cooperative to facilitate the submittal. Heartland performs all the necessary work for the data collection and completion of the reports to ensure our customers retain their federal hydropower allocation. Heartland submitted IRPs by the June deadline, and later received approval.

In 2014 Heartland officially launched the Energy ONE Incentive, an economic development tool that provides a special energy only rate to new or expanding businesses with a new load of at least one megawatt. The first participant, the Denny Sanford PREMIER Center, a multipurpose events center in Sioux Falls, South Dakota, began operation in the fall. After listening to feedback from our customers, Heartland also modified the incentive program in 2014, making it available for new loads of 500 kilowatts or larger in communities with a population of 3,000 or less. We feel this program could be the extra push some companies need to locate in one of our customer communities.

Stabilizing rates has been a long-term goal at Heartland and throughout 2014, we worked diligently to make certain external drivers had the least possible effect on rates. We have also set goals of strengthening our credit rating in order to benefit customers in the long run. We have taken an approach of limiting rate increases to those necessary for operation and providing as much consistency and predictability as possible. However, we must balance absorbing costs with the need to build a stronger financial foundation.

Heartland implemented a 5 percent rate increase for 2015, which is the result of a few factors. Heartland receives 51 MW from Unit 1 of Laramie River Station (LRS). Unit 3 of LRS recently underwent its triennial outage where the low pressure turbine was inspected. The investigation revealed corrosion induced stress cracks and the outage was extended by eight weeks. Units 1 and 2 will now need similar repairs. Unit 1 is scheduled for its triennial outage in 2015 and the normally scheduled four to six week outage is now estimated to be 13 weeks. The 2015 budget provided by Basin Electric Power Cooperative, the plant operator, has a total increase of 19 percent compared to the 2014 budget, which includes a 46 percent increase in operations and maintenance costs. Most of the increase is a direct result of the major outage. In addition, Heartland will have to buy power on the market to meet our load needs during the outage.

Heartland, along with the other owners of the Integrated System, continues to work on the transition into an integrated marketplace. The transition into the Southwest Power Pool is expected to be complete in October, 2015. Heartland is required to make various filings with the Federal Energy Regulatory Commission regarding cost recovery and also one time application filings. Outside experts will be hired to assist in maximizing Heartland's return and to alleviate potential disputes. Therefore, there is an increase in outside services due to this transition. These costs are recoverable in the SPP tariff, but will not be recovered immediately. Heartland is evaluating unbundling transmission costs in October 2015 and will continue to assess the situation.

At Heartland, we are constantly looking to the future. We are making decisions today that will affect our company, and more importantly, our customers, years down the road. The electric industry is constantly changing, but we will continue building on a solid foundation and weather any challenges that come our way. We will continue to provide reliable energy and valuable services to our customers, while pursuing opportunities to ensure a strong and stable future.

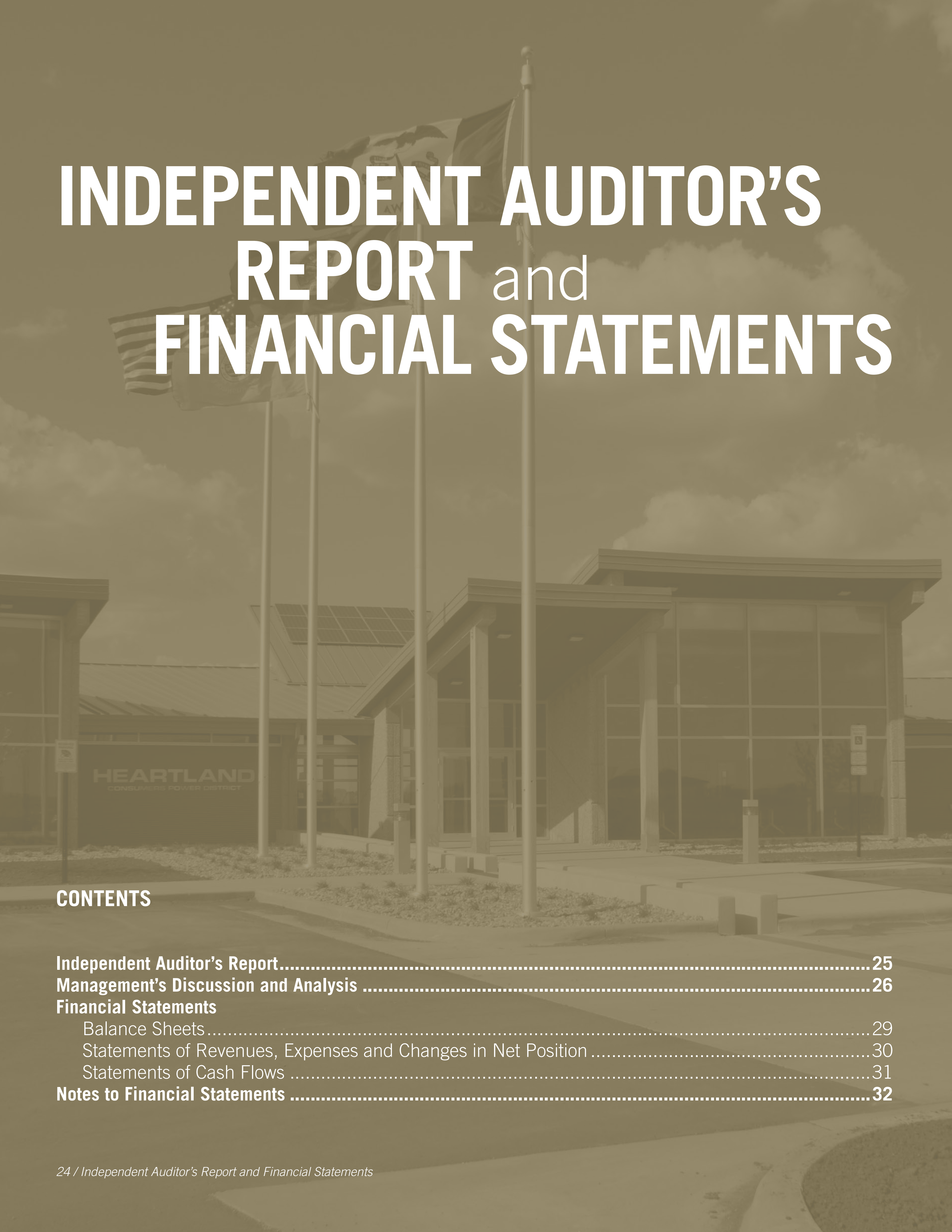
Russell Olson
CEO

Merlin VanWalleghen
Board President

"We are **making decisions** and **pursuing opportunities** that will **strengthen our company** and **benefit our customers**."

Heartland CEO Russell Olson

Heartland CEO Russell Olson and Board President Merlin VanWalleghen



INDEPENDENT AUDITOR'S REPORT and FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

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 balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heartland Consumers Power District as of December 31, 2014 and 2013, 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.

Other Matter

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 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 merica, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistsency 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 3, 2015

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 2014, 2013 and 2012. Heartland's financial statements are comprised of three components: (1) Management's Discussion and Analysis, (2) financial statements, and (3) notes to the financial statements. Please read this in conjunction with the audited financial statements and footnotes contained herein.

Overview of Financial Statements

The balance sheets present information on Heartland's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Heartland is improving or deteriorating with respect to the context of the entire document.

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

	Net Position as of December 31,			Fiscal Year-to-Year Percentage Change	
	2014	2013	2012	From 2013 to 2014	From 2012 to 2013
Current assets	$ 19,254	$ 19,180	$ 14,803	0.4%	29.6%
Capital assets, net	19,862	19,481	18,765	2.0%	3.8%
Other noncurrent assets	22,135	18,619	21,509	18.9%	(13.4)%
Total assets	61,251	57,280	55,301	6.9%	4.0%
Deferred outflows of resources	-	-	224	–%	(100.0)%
Total assets and deferred outflows of resources	$ 61,251	$ 57,280	$ 55,301	6.9%	3.6%
Current liabilities	$ 16,344	$ 11,715	$ 7,912	39.5%	48.1%
Noncurrent liabilities	28,980	36,159	39,150	(19.9)%	(7.6)%
Total liabilities	45,324	47,874	47,062	(5.3)%	1.7%
Deferred inflows of resources	738	1,089	1,213	(32.2)%	(10.2)%
Net investment in capital assets	(969)	(1,769)	(1,664)	(45.2)%	6.3%
Restricted	10,659	4,707	5,058	126.4%	(6.9)%
Unrestricted	5,499	5,379	3,632	2.2%	48.1%
Total net position	15,189	8,317	7,026	82.6%	18.4%
Total liabilities, deferred inflows of resources and net position	$ 61,251	$ 57,280	$ 55,301	6.9%	3.6%

Heartland's overall net position increased in 2014 and 2013 by $6,871,135 and $1,291,439, respectively. The overall net position decreased by $3,534,206 in 2012. The increase in net position in 2014 was the result of increased customer revenues and decreased expenses. The increase in net position in 2013 was the result of increased customer and off-system sales revenue. The decrease in net position in 2012 was the result of off-system and customer sales below budgeted expectations.

The increased customer revenue in 2014, 2013, and 2012 is attributed to an increase in customer sales and an increase in the demand and energy rates. The demand and energy rates were increased to meet the increasing costs of power supply generation and maintenance and other operating expenses. Generation and transmission facilities represent 95% of Heartland's total capital assets. The remaining 5% of capital assets includes Heartland's headquarters building, transportation equipment, and office equipment. The level of assets should remain reasonably stable until such time as Laramie River Station (LRS) requires substantial capital improvements.

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

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

Results of Operations

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

	2014 Actual	2013 Actual	2012 Actual	Fiscal Year-to-Year Percentage Change From 2013 to 2014	Fiscal Year-to-Year Percentage Change From 2012 to 2013
Power sales					
Customer energy (MWh)	862,805	869,871	868,656	(0.8)%	0.1%
Customer cumulative demand (kW)	1,452,937	1,457,163	1,448,641	(0.3)%	0.6%
Revenues					
Customer revenue	$ 60,953	$ 60,018	$ 59,636	1.6%	0.6%
Contracted requirements revenue	16,462	15,724	1,592	4.7%	887.7%
Surplus sales revenue	3,588	6,974	7,832	(48.6)%	(11.0)%
Other operating revenue	1,079	1,157	1,033	(6.7)%	12.0%
Transfer (Provision) for rate stabilization	-	-	586	100.0%	(100.0)%
Total operating revenue	82,082	83,873	70,679	(2.1)%	18.7%
Expenses					
LRS production and O&M	9,230	8,576	6,817	7.6%	25.8%
Cost of power	53,153	62,696	56,908	(15.2)%	10.2%
Transmission	5,254	4,372	2,552	20.2%	71.3%
Depreciation	1,188	1,110	1,035	7.0%	7.2%
Taxes	185	192	270	(3.6)%	(28.9)%
Administration and general	4,147	3,864	3,600	7.3%	7.3%
Amortization	195	324	341	(39.8)%	(5.0%)
Total operating expenses	73,352	81,134	71,523	(9.6)%	13.4%
Operating income (loss)	8,730	2,739	(844)	218.7%	(424.5)%
Total nonoperating expenses, net	(1,858)	(1,448)	(2,690)	28.3%	(46.2)%
Change in net position	6,872	1,291	(3,534)	432.3%	(136.5)%
Net position, beginning of year	8,317	7,026	10,560		
Net position, end of year	$ 15,189	$ 8,317	$ 7,026		

Operating revenues include firm power sales to Heartland's wholesale rate customers, other contracted sales, short term energy sales on the surplus market, and other revenues. Heartland's wholesale customer demand and energy sales for 2014 were 1,453 MW and 862,805 MWh. The 2014 wholesale customer peak demand of 138.3MW occurred in January. Heartland's customer demand and energy sales for 2013 were 1,457 MW and 869,871 MWh, respectively. Demand and energy sales for 2012 were 1,449MW and 868,656 MWh, respectively. Heartland's peak demand for 2013 and 2012 were 141.9 MW and 142.9 MW, respectively.

Heartland has other energy sales contracts, in addition to its wholesale customers. The contracted requirements revenue mitigates exposure to the surplus market for excess power and the contracts typically contain fix pricing and quantities. Contracted requirements revenue increased in 2014 due to additional energy available for a unit contingent contract and increased pricing. Contracted requirements revenue increased in 2013 due to an additional contract.

Surplus energy sales are the sales of energy produced by Heartland's resources in excess of the energy required by Heartland's customers and other contracts. These sales are considered short term and non-firm. The quantity of surplus energy and revenue is dependent upon multiple factors including availability of resources, customer and other contract requirements, and market and contractual pricing. The decrease in 2014 is due to less excess energy being available for sale due to a contract with Nebraska Public Power District for Cooper Nuclear Station ending in 2013. The large increase in 2013 surplus sales revenue compared to 2012 is the result of two primary reasons. First, none of Heartland's baseload generation had significant scheduled outages in 2013, and in 2012 all three of Heartland's baseload resources had scheduled maintenance or refueling outages. This resulted in an increased amount of excess energy to sell both contractually and in the short-term markets. Secondly, the average price Heartland was paid both contractually and in the short-term market was greater in 2013 than in 2012.

The operating expenses fluctuated in some areas. Production expenses (the cost for coal, transportation, and operations and maintenance at Laramie River Station (LRS) increased 7.6% in 2014, primarily due to increased operations and maintenance at LRS. Units 2 and 3 had unscheduled preventative maintenance to repair their low pressure turbines. The production expense increased by 25.8% in 2013 due to no scheduled outage and fewer unscheduled outages than occurred in 2012. The scheduled outage and unscheduled outages in 2012 resulted in less energy produced and therefore reduced costs.

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

The contract for Cooper Nuclear Station expiring significantly contributed to the cost of power reducing by 15% in 2014 compared to 2013. Whelan Energy Center 2 (WEC2) had fewer scheduled and unscheduled outages in 2013 compared to 2012 which resulted in higher total energy production. Heartland is a member of Public Power Generation Agency (PPGA), an interlocal agency created under Nebraska statute to build WEC2, a 220 megawatt coal-fired project near Hastings, Nebraska. Heartland's participation in PPGA is for 80 megawatts and WEC2 became commercial in May of 2011. PPGA financed construction of WEC2 directly, rather than obtaining funding from its members.

Transmission credits for PPGA's investment in Nebraska Public Power District's transmission system were passed on to PPGA's partners. These credits started on the commercial operation of WEC2 and were fully utilized in 2013. This resulted in increased 2014 transmission expense compared to 2013. The full utilization of credits resulted in higher transmission costs in 2013 compared to 2012.

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 2014 and 2013 was 5.22 and 2.80, respectively. The debt service coverage was 1.90 in 2012. The minimum coverage required by the bond resolutions was increased to 1.35 in 2010.

During 2014, Heartland made $703,401 in principal payments on its outstanding bonds. Principal payments in 2013 and 2012 were $674,017 and $1,875,000, respectively. Heartland issued an advanced refunding in 2011 related to the 2012, 2013, and 2014 bond maturities. Additions to plant in service were primarily the result of improvements to the Missouri Basin Power Project, which includes LRS and various associated transmission facilities. There were no significant additions in 2014, 2013, or 2012.

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

Contact Information

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

BALANCE SHEETS
December 31, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash and cash equivalents	$ 2,152,093	$ 3,640,986
Restricted cash and cash equivalents	2,648,430	1,003,756
Short-term investments	2,735,488	2,774,213
Accounts receivable	7,663,980	7,879,881
Notes receivable, current portion	354,769	374,778
Plant operation assets	3,596,365	3,402,289
Prepaid expenses and other current assets	102,953	104,210
Total current assets	19,254,078	19,180,113
Noncurrent Assets		
Notes receivable, net of allowance of $316,414 for 2014 and $350,850 for 2013	1,846,569	2,043,497
Restricted deposits and investments	16,124,350	11,824,529
Long-term investments	834,155	1,935,363
Capital assets, net	19,861,910	19,481,380
Costs recovered from future billings	3,035,209	2,370,786
Other noncurrent assets	295,000	445,000
Total noncurrent assets	41,997,193	38,100,555
Total assets	$ 61,251,271	$ 57,280,668

Liabilities, Deferred Inflows of Resources and Net Position

	2014	2013
Current Liabilities		
Current maturities of long-term debt	$ 5,374,224	$ 864,705
Line of credit	448,826	-
Accounts payable	6,964,321	7,200,962
Accrued expenses	389,032	474,509
Accrued interest payable	763,996	771,180
Unearned revenue	2,404,062	2,404,062
Total current liabilities	16,344,461	11,715,418
Noncurrent Liabilities		
Long-term debt, net	26,939,540	32,327,594
Unearned revenue	1,191,877	3,595,938
Other noncurrent liabilities	848,859	235,421
Total noncurrent liabilities	28,980,276	36,158,953
Total liabilities	45,324,737	47,874,371
Deferred Inflows of Resources		
Deferred gain on refunding	156,513	239,315
Reductions of future billings	581,489	849,585
Total deferred inflows of resources	738,002	1,088,900
Net Position		
Net investment in capital assets	(969,109)	(1,769,278)
Restricted for debt service	10,659,211	4,707,171
Unrestricted	5,498,430	5,379,504
Total net position	15,188,532	8,317,397
Total liabilities, deferred inflows of resources and net position	$ 61,251,271	$ 57,280,668

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2014 and 2013

		2014	2013
Operating Revenues			
Customer requirements		$ 60,952,730	$ 60,017,772
Other contracted requirements		16,461,543	15,724,217
Surplus sales revenue		3,588,241	6,974,300
Other operating revenue		1,079,019	1,157,304
	Total operating revenues	82,081,533	83,873,593
Operating Expenses			
Cost of power		62,383,290	71,271,900
Depreciation and amortization		1,382,110	1,434,322
Transmission		5,254,002	4,371,616
Other		4,332,485	4,056,262
	Total operating expenses	73,351,887	81,134,100
Operating Income		8,729,646	2,739,493
Nonoperating Revenues (Expenses)			
Investment income		443,496	446,031
Interest expense		(1,561,793)	(2,136,451)
Amortization expense		(169,186)	(233,793)
Bad debt recovery		34,434	476,159
BNSF settlement (See Note 4)		(605,462)	-
	Net nonoperating expenses	(1,858,511)	(1,448,054)
Change in Net Position		6,871,135	1,291,439
Net Position, Beginning of Year		8,317,397	7,025,958
Net Position, End of Year		$ 15,188,532	$ 8,317,397

See Notes to Financial Statements

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from customers	$ 60,926,942	$ 59,727,449
Receipts from others	21,370,492	22,790,916
Payments to suppliers	(74,496,249)	(77,413,120)
Payments to employees	(1,209,946)	(1,410,193)
Net cash provided by operating activities	6,591,239	3,695,052
Noncapital Financing Activities		
Advances on revolving line of credit	6,689,731	2,310,061
Payments on revolving line of credit	(6,240,905)	(2,310,061)
Proceeds from issuance of promissory notes	-	225,000
Payments on promissory notes	(175,134)	(161,240)
Net cash provided by noncapital financing activities	273,692	63,760
Capital and Related Financing Activities		
Purchase of capital assets	(1,450,666)	(1,685,295)
Payments on promissory notes	(703,401)	(674,017)
Interest paid	(1,651,780)	(1,679,207)
Payments for future power projects	(190,127)	-
Net cash used in capital and related financing activities	(3,995,974)	(4,038,519)
Investing Activities		
Proceeds from sales and maturities of investment securities	9,169,189	2,652,021
Purchases of investment securities	(7,585,729)	(996,863)
Issuance of notes receivable	(150,000)	(150,000)
Repayments of notes receivable	401,371	395,044
Investment income received	195,340	243,451
Net cash provided by investing activities	2,030,171	2,143,653
Increase in Cash and Cash Equivalents	4,899,128	1,863,946
Cash and Cash Equivalents, Beginning of Year	5,204,502	3,340,556
Cash and Cash Equivalents, End of Year	$ 10,103,630	$ 5,204,502
Composition of Cash and Cash Equivalents		
Cash and cash equivalents	$ 2,152,093	$ 3,640,986
Restricted cash and cash equivalents	2,648,430	1,003,756
Restricted deposits and investments	16,124,350	11,824,529
Total	20,924,873	16,469,271
Less investments not defined as cash equivalents	10,821,243	11,264,769
Total cash and cash equivalents	$ 10,103,630	$ 5,204,502
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 8,729,646	$ 2,739,493
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,382,110	1,434,322
Amortization of advance payment received under energy purchase contract	(2,404,061)	-
Changes in operating assets and liabilities		
Accounts receivable	215,901	(1,355,228)
Plant operation assets	(1,032,097)	(100,877)
Prepaid expenses and other assets	131,317	(308,937)
Accounts payable	(354,076)	1,087,492
Accrued liabilities	(77,501)	198,787
Net Cash Provided by Operating Activities	$ 6,591,239	$ 3,695,052
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ 117,435	$ 142,782
Change in allowance for notes receivable	$ 9,434	$ (14,949)
Recovery of bad debt	$ 25,000	$ 491,108

NOTES TO FINANCIAL STATEMENTS
December 31, 2014 and 2013

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

Nature of Operations

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

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

Reporting Entity

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

Basis of Accounting

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results may differ from those estimates.

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, 2014 and 2013, cash equivalents consisted of money market funds.

Investments and Investment Income

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

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

Accounts and Notes Receivable

Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 20 days after the issuance of the invoice. Delinquent receivables are charged off as they are deemed uncollectible. Management does not believe an allowance for doubtful accounts is necessary for accounts receivable at December 31, 2014 and 2013, 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 $316,414 and $350,850 at December 31, 2014 and 2013, respectively.

Plant Operation Assets

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

Capital Assets

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

Compensated Absences

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

Regulated Operations

Rates for the District's regulated operations are established and approved by the Board of Directors. The District applies the regulated operations provisions of GASB Statement No. 62, which provide for the deferral of expenses which are expected to be recovered through customer rates over some future period (costs recoverable from future billings) and reductions in earnings to cover future expenditures (reductions of future billings). Costs recoverable from future billings are primarily comprised of charges incurred in relation to the District's bond issuances and costs incurred by the District for initial payments made on long-term capacity contracts. These costs are being amortized in future rate periods when such costs are included in the revenue requirements to establish electric rates. Reductions of future billings are comprised of the unrealized net gains on investments.

Net Position Classification

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

Net investment in capital assets- This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable

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

to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

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

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

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

Classification of Revenues

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

Income Taxes

Heartland is exempt from federal income taxes as it is a political subdivision of the state of South Dakota. Heartland may be subject to franchise taxes in states in which it operates. Tax expense was $13,680 and $9,340 in 2014 and 2013, 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. The District's cash deposits, including certificates of deposit, are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). Any cash deposits or certificates of deposit in excess of the $250,000 FDIC limits are covered by collateral held in a Federal Reserve Bank pledge account or by an agent for the District and thus, no custodial risk exists. No legal opinion has been obtained regarding the enforceability of any collateral arrangements.

Investments

At December 31, 2014 and 2013, Heartland had the following investments and maturities:

	Fair value	Maturities in Years: Less than 1	1-5	6-10	More than 10	Credit Ratings (Moody's)
December 31, 2014						
Money market mutual funds	$ 9,145,772	$ 9,145,772	$ -	$ -	$ -	Aaa-mf
U.S. Treasury securities	9,151,931	2,642,543	6,509,388	-	-	N/A
U.S. agency obligations	2,761,275	1,151,325	1,110,402	60,660	438,888	Aaa
	$ 21,058,978	$ 12,939,640	$ 7,619,790	$ 60,660	$ 438,888	
December 31, 2013						
Money market mutual funds	$ 4,310,845	$ 4,310,845	$ -	$ -	$ -	Aaa-mf
U.S. Treasury securities	8,708,011	1,251,025	7,456,986	-	-	N/A
U.S. agency obligations	4,787,182	1,869,754	2,295,977	80,599	540,852	Aaa
	$ 17,806,038	$ 7,431,624	$ 9,752,963	$ 80,599	$ 540,852	

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%. No investments at December 31, 2014 exceeded the 5% threshold. See the table below for concentrations at December 31, 2013.

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

Note 2: Deposits, Investments and Investment Return, continued

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets at December 31, 2014 and 2013 as follows:

	2014	2013
Carrying value		
Deposits	$ 3,435,538	$ 3,372,809
Investments	21,058,978	17,806,038
	$ 24,494,516	$ 21,178,847

Included in the deposits shown above are $2,475,000 and $2,476,742 of certificates of deposits as of December 31, 2014 and 2013, respectively.

Included in the following balance sheet captions:

	2014	2013
Current Assets		
Cash and cash equivalents	$ 2,152,093	$ 3,640,986
Restricted cash and cash equivalents	2,648,430	1,003,756
Short-term investments	2,735,488	2,774,213
Noncurrent Assets		
Restricted deposits and investments	16,124,350	11,824,529
Long-term investments	8,314,155	1,935,363
	$ 24,494,516	$ 21,178,847

Investment Return

Investment return for the years ended December 31, 2014 and 2013 consisted of interest income and realized gains of $403,931 and $408,110, respectively. Unrealized gains and losses on restricted investments are deferred and reported as reductions of future billings shown as a deferred inflow of resources in accordance with the regulated operations provisions of GASB Statement No. 62.

Note 3: Notes Receivable

Type of Notes	2014 January 1,	Additions	Reductions	December 31,	Due Within One Year
4.0% to 4.5% notes in connection with Heartland's economic development program, payable in annual installments through December 2018	$ 292,512	$ -	$ 68,434	$ 224,078	$ 63,411
3.0% to 6.25% notes in connection with the Intermediary Relending Program Promissory Note (see Note 13), due in monthly installments through January 2024	827,211	150,000	130,187	847,024	111,801
Interest-free notes in connection with the Rural Economic Development Loan Agreement and Rural Economic Development Grant Agreement (see Note 13), due in monthly installments through November 2028	1,649,402	-	202,750	1,446,652	179,557
Allowance for notes receivable	(350,850)	-	(34,434)	(316,416)	-
Total notes receivable, net	$ 2,418,275	$ 150,000	$ 366,937	$ 2,201,338	$ 354,769

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

Interest income on these notes totaled $39,565 and $37,921 for 2014 and 2013, respectively, and is included within investment income on the statements of revenues, expenses and changes in net position.

Note 4: Capital Assets

Capital assets at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Depreciable assets		
Missouri Basin Power Project	$ 54,566,157	$ 53,004,721
Transmission Project I (TP I)	1,085,293	907,635
Transmission Project II (TP II)	6,752,305	6,752,305
Groton substation (TP III)	408,641	400,608
Heartland headquarters building	2,837,333	2,837,333
General plant	752,277	731,477
Total depreciable assets	66,402,006	64,634,079
Nondepreciable assets		
Land	80,402	80,402
Construction in progress	412,892	741,711
Total nondepreciable assets	493,294	822,113
	$ 66,895,300	$ 65,456,192

Capital assets activity for 2014 and 2013 was:

2014	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Missouri Basin Power Project	$ 53,004,721	$ 25,546	$ (128,993)	$ 1,664,883	$ 54,566,157
Transmission Project I (TP I)	907,635	-	-	177,658	1,085,293
Transmission Project II (TP II)	6,752,305	-	-	-	6,752,305
Groton substation (TP III)	400,608	8,033	-	-	408,641
Heartland headquarters building	2,837,333	-	-	-	2,837,333
General plant	731,477	20,800	-	-	752,277
Land	80,402	-	-	-	80,402
Construction in progress	741,711	1,643,887	(130,165)	(1,842,541)	412,892
Total capital assets	65,456,192	1,698,266	(259,158)	-	66,895,300
Less accumulated depreciation	(45,974,812)	(1,187,571)	128,993	-	(47,033,390)
Capital assets, net	$ 19,481,380	$ 510,695	$ (130,165)	$ -	$ 19,861,910

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

Heartland is a 24% of 75% (total of 18%) owner of TP I, which consists of approximately eight miles of 115 kv transmission line and associated switching equipment.

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

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

Heartland is also 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.

LRS project participants, including Heartland, filed a rate case in 2004 with the federal Surface Transportation Board (STB) challenging the reasonableness of the freight rates charged by the Burlington Northern Santa Fe (BNSF) railroad for coal deliveries to LRS.

In early 2009, the STB issued its decision and awarded the LRS project participants a favorable decision estimated by the STB at approximately $345 million in rate relief. The STB awarded $119 million to the LRS participants for past freight overcharges plus an expectation of present value rate benefits of approximately $245 million due to a new tariff the STB ordered to be charged through 2024. Of this total award, BNSF remitted approximately $3.6 million to Heartland.

On January 28, 2015, Western Fuels and Burlington Northern Santa Fe (BNSF) filed a joint petition with the Surface Transportation Board (STB) asking the STB to hold the rate proceeding in abeyance due to the fact that the parties have reached a preliminary settlement that calls for dismissal of the case and vacation of the rate prescription ordered by STB. The agreement is contingent upon the parties' development and execution of a new rail transportation contract. Heartland has recorded an estimated liability of approximately $600,000 at December 31, 2014 for the estimated remittance back to BNSF, in accordance with the proposed settlement terms. This liability is included within other noncurrent liabilities on the balance sheets.

Note 5: Credit Facilities

Line of Credit

Heartland finances certain operating payments through a revolving line of credit with a financial institution that provides for borrowings up to $4,500,000; secured by a subordinate lien on the revenues of Heartland's electric system and certain productive capacity assets. The line of credit expires in September 2015 and borrowings under the line of credit bear interest at a variable rate, but not less than 4.0% (4.0% at December 31, 2014 and 2013). Heartland had $448,826 of outstanding borrowings on this line at December 31, 2014. There were no outstanding borrowings on this line at December 31, 2013. This line of credit was cancelled in March 2015, upon inception of the revolving credit agreement discussed below.

In March 2015, Heartland entered into a new revolving credit agreement with a financial institution that provides for borrowings up to $25,000,000; secured by a subordinate lien on the revenues of Heartland's electric system. The agreement expires on March 23, 2018, and can be extended at the option of Heartland. Borrowings under the credit agreement bear interest at varying rates, and cannot exceed a maximum rate, as defined in the agreement. The agreement also provides for standby letters of credit, not to exceed $5,000,000 in the aggregate. The amount available under Heartland's revolving credit agreement is reduced by the amount of any issued standby letters of credit.

Letter of Credit

As financial security for Heartland's performance under certain financial transmission rights and transmission congestion rights in regional transmission organizations in which Heartland participates, Heartland has obtained a standby letter of credit for $1.5 million at December 31, 2014. The letter of credit expires September 30, 2015, and can be renewed for an additional one-year term.

Note 6: Long-term Liabilities

Long-term liabilities at December 31, 2014 consisted of the following:

	2014				
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, 2015 with a final payment due January 1, 2017	$ 14,225,000	$ -	$ -	$ 14,225,000	$ 4,465,000
4.29% Electric System Second Lien Revenue Note, Series 2010, due quarterly on January 1, April 1, July 1 and October 1 with final payment due on July 1, 2020. Callable at Heartland's option on June 1, 2013	5,385,844	-	703,401	4,682,443	734,066
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	650,085	-	25,337	624,721	25,591
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 beginning in 2014 with a final payment due June 25, 2040	436,258	-	27,985	408,273	27,755
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $6,852 through July 31, 2019	459,068	-	82,224	376,844	82,224
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,299 through February 28, 2031	686,071	-	39,588	646,483	39,588
Total bonds and notes payable	33,192,299	-	878,535	32,313,764	5,374,224
Compensated absences	345,319	170,206	207,752	307,773	87,294
Total long-term liabilities	$ 33,537,618	$ 170,206	$ 1,086,287	$ 32,621,537	$ 5,461,518

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

Type of Debt	2013 January 1,	Additions	Reductions	December 31,	Due Within One Year
6.0% Electric System Revenue Bonds, Series 1992, due annually on January 1 with a final payment due January 1, 2017	$ 14,225,000	$ -	$ -	$ 14,225,000	$ -
4.29% Electric System Second Lien Revenue Note, Series 2010, due quarterly on January 1, April 1, July 1 and October 1 with final payment due on July 1, 2020. Callable at Heartland's option on June 1, 2013	6,059,861	-	674,017	5,385,844	703,401
4.75-5.25% Electric System Second Lien Revenue Bonds, Series 2011, with interest payments due semi-annually and principal payments due on January 1, 2016 and 2017	11,350,000	-	-	11,350,000	-
1.0% Intermediary Relending Program Promissory Note, due annually on October 16 with a final payment due October 16, 2036	675,145	-	25,087	650,058	25,337
1.0% Intermediary Relending Program Promissory Note, due annually on June 25 beginning in 2014 with a final payment due June 25, 2040	211,258	225,000	-	436,258	14,155
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $6,852 through July 31, 2019	541,292	-	82,224	459,068	82,224
0% Rural Economic Development Promissory Note, with principal payments due in monthly installments of $3,299 through February 28, 2031	740,000	-	53,929	686,071	39,588
Total bonds and notes payable	33,802,556	225,000	835,257	33,192,299	864,705
Compensated absences	314,029	153,440	122,150	345,319	109,898
Total long-term liabilities	$ 34,116,585	$ 378,440	$ 957,407	$ 33,537,618	$ 974,603

Debt-service requirements at December 31, 2014 are as follows:

	Principal	Interest	Total
2015	$ 5,374,224	$ 1,650,847	$ 7,025,071
2016	11,421,760	1,486,342	12,908,102
2017	11,605,695	1,041,529	12,647,224
2018	1,011,092	431,365	1,442,457
2019	1,013,737	98,205	1,111,942
2020-2024	1,161,777	107,301	1,269,078
2025-2029	460,028	29,345	489,373
2030-2034	204,214	17,973	222,187
2035-2036	61,237	6,339	65,576
	$ 32,313,764	$ 4,869,246	$ 37,183,010

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, 2014 and 2013.

Note 6: Long-term Liabilities, continued

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 $33,340,000, with annual payments expected to require 9-16% of net revenues in 2015 through 2017. Principal and interest for the current year and total operating revenues were $2,343,863 and $82,081,533, respectively.

Debt Defeasance

In March 2015, Heartland completed a transaction to defease the remaining outstanding balance of the Electric System Revenue Bonds, Series 1992 ("defeased bonds"). Under this transaction, Heartland used a total of $10,638,621 to purchase U.S. government securities, which were then deposited with an escrow agent to provide for the future principal and interest payments on the defeased bonds. At the time of the transaction, the outstanding balance of the defeased bonds was $9,760,000.

Note 7: Power Sales Agreements

Heartland is a party to electric power sales agreements with municipalities in South Dakota, Minnesota, and Iowa, whereby Heartland has undertaken to provide primary power to and to supplement existing power sources of the parties. Rates are established annually by the Board of Directors. The majority of these agreements expire in 2040.

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

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

Heartland entered into power sales agreements with Basin Electric Power Cooperative (Basin) whereby Heartland will sell and deliver approximately 50 MW of power to Basin through May 31, 2021. The agreements provide for a fixed energy rate throughout the term of the contracts.

Note 8: Commitments

Western Area Power Administration (WAPA)

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

Public Power Generation Agency (PPGA)

Heartland has entered into an agreement with other utilities, creating an interlocal, PPGA. In connection with PPGA, Heartland has also entered into a long-term participation power agreement whereby the District has agreed to share in the energy output of the

Whelan Energy Center Unit 2, a 220 MW coal-fired power plant, which became commercially operational in May 2011. Heartland's commitment is for 36.36%, or 80 MW, of the output of the project, which extends to the later of the life of the project or January 2041, which represents the date of final maturity on the bonds issued by PPGA for the project.

Energy Purchase Contracts

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

Note 9: Retirement Plans

Defined Benefit Plan

Plan Description

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

Funding Policy

Covered employees are required by state statute to contribute a percentage of their salary (6%) to the Plan, and Heartland is required to match the employee contribution. Benefits vest upon completing three years of service. The contribution requirements of plan members and Heartland are established and may be amended by the Plan's board of trustees. Employer contributions were $97,153, $101,920, and $94,045 during 2014, 2013 and 2012, respectively. The employees' contributions during 2014, 2013 and 2012, were $82,923, $83,855, and $78,574, 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, 2014 and 2013 were $54,674 and $54,814, respectively. The contributions made by Heartland employees for the years ended December 31, 2014 and 2013 were $91,560 and $98,136, respectively.

Note 10: Significant Estimates and Concentrations

Major Customers

Sales to two customers were approximately 47% and 45% of total operating revenues for the years ended December 31, 2014 and 2013, respectively. Approximately 59% of total accounts receivable were owed from three customers at December 31, 2014 and 2013.

Proposed Environmental Standards

In June 1999, the Environmental Protection Agency (EPA) issued final regulations for a Regional Haze Program. The purpose of the regulations is to improve visibility in the form of reduced regional haze in 156 national parks and wilderness areas across the

Note 10: Significant Estimates and Concentrations, continued

country. The EPA's claim is that haze is formed, in part, from emissions of SO2 (sulfur dioxide) and NOx (nitrogen dioxide). Heartland is impacted by these regulations through its co-ownership of Laramie River Station (LRS) in Wyoming.

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

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

Note 11: Risk Management

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

Note 12: Statutory Reporting Requirement

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

	2014	2013
Employees (unaudited)	12	12
Total salaries	$ 1,414,132	$ 1,410,193
Maintenance expense	$ 174,966	$ 168,741
Total kilowatt hours sold (unaudited)	1,475,383,678	1,606,961,737

Note 13: Segment Information

In accordance with the provisions of the Intermediary Relending Program Loan Agreements, Rural Economic Development Loan Agreement and Rural Economic Development Grant Agreement, Heartland is required to create and maintain a revolving loan fund. Heartland administers this revolving loan fund as a division within its District operations. Condensed 2014 and 2013 financial information for the revolving loan fund is presented below:

Condensed Balance Sheet

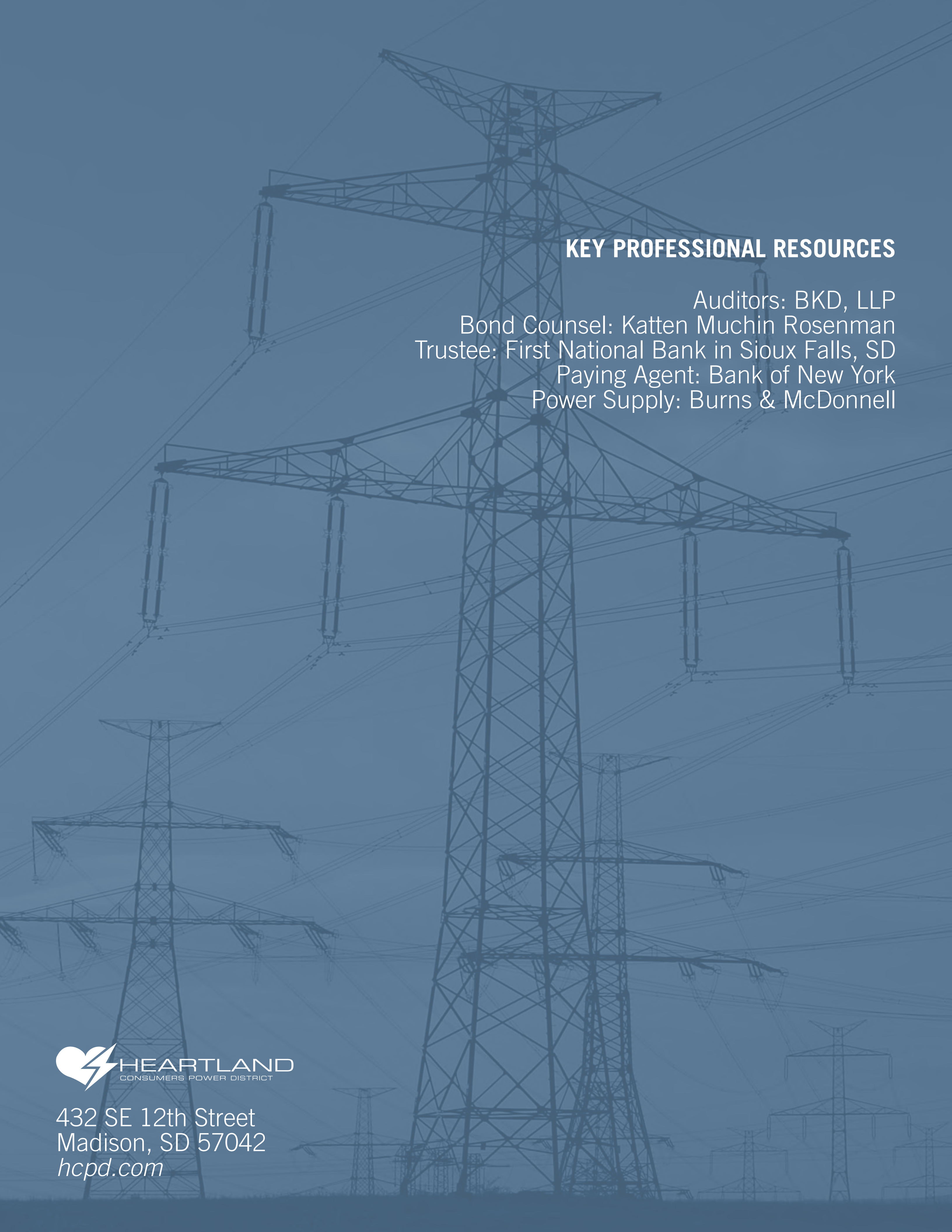
		2014		2013
Current assets	$	1,114,249	$	1,087,971
Other assets		1,685,905		1,814,003
Total assets	$	2,800,154	$	2,901,974
Liabilities				
Current liabilities	$	178,573	$	164,408
Noncurrent liabilities		1,881,163		2,070,151
Total liabilities		2,059,736		2,234,559
Net Position		740,418		667,415
Total liabilities and net position	$	2,800,154	$	2,901,974

Condensed Statement of Revenues, Expenses and Changes in Net Position

		2014		2013
Nonoperating revenues (expenses)				
Investment income	$	31,857	$	30,608
Interest expense		(10,666)		(9,715)
Bad debt recoveries		34,434		334,784
Other		(20,122)		(50,000)
Capital contributions		37,500		37,500
Increase in Net Position		73,003		343,177
Net Position, Beginning of Year		667,415		324,238
Net Position, End of Year	$	740,418	$	667,415

Condensed Statement of Cash Flows

		2014		2013
Net cash provided by (used in)				
Noncapital financing activities	$	(205,613)	$	13,277
Investing activities		252,843		260,220
Increase in Cash		47,230		273,497
Beginning of year		774,465		500,968
End of year	$	821,695	$	774,465



KEY PROFESSIONAL RESOURCES

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

HEARTLAND
CONSUMERS POWER DISTRICT

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