Dixie Electric Membership Corporation
and Subsidiaries
Baton Rouge, Louisiana
December 31, 2011

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May 8, 2012

Independent Auditor's Report

The Officers and Board of Directors
Dixie Electric Membership Corporation and Subsidiaries
Baton Rouge, Louisiana

We have audited the accompanying consolidated balance sheets of

Dixie Electric Membership Corporation
(A Cooperative) and Subsidiaries
Baton Rouge, Louisiana

as of December 31, 2011 and 2010, and the related consolidated statements of operations and patronage capital, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dixie Electric Membership Corporation and Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 17 to the financial statements, certain reclassifications have been made to our previously issued Consolidated Statements of Operations and Patronage Capital for the year ended December 31, 2011.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 8, 2012, on our consideration of Dixie Electric Membership Corporation and Subsidiaries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP

Dixie Electric Membership Corporation and Subsidiaries
Consolidated Balance Sheets
December 31, 2011 and 2010

A s s e t s

	2011	2010
Utility Plant		
Electric plant in service	$488,388,955	$469,223,213
Construction work in progress	31,661,471	16,185,392
Other fixed assets	4,604,915	5,011,998
	524,655,341	490,420,603
Less: accumulated depreciation	122,372,391	117,755,031
Total utility plant, net	402,282,950	372,665,572
Investments and Other Assets		
Investments in associated organizations	8,634,147	8,218,473
Notes receivable, long-term portion	716,966	958,568
Total investments and other assets	9,351,113	9,177,041
Current Assets		
Cash and cash equivalents	581,382	503,639
Current portion of notes receivable	241,602	241,602
Accounts receivable		
Consumers (net of allowance for uncollectible accounts of $418,732 in 2011 and $431,827 in 2010)	8,137,478	8,900,046
Unbilled revenue	8,841,326	10,620,014
Current portion of other receivables (net of allowance of $511,760 in 2011 and 2010)	4,916,721	7,035,410
Materials and supplies	3,877,043	6,030,859
Prepaid expenses	1,318,582	1,327,954
Total current assets	27,914,134	34,659,524
Other Assets		
Deferred charges	29,981,227	27,499,789
Intangible, net	800	800
Certificate of deposit - pledged	150,000	150,000
Total other assets	30,132,027	27,650,589
Total assets	469,680,224	444,152,726

The accompanying notes are an integral part of these statements.

Equities and Liabilities

	2011	2010
Equities		
Memberships	$414,065	$409,285
Patronage capital	82,614,943	77,393,724
Total equities	83,029,008	77,803,009
Long-Term Debt		
Notes payable, less current maturities	305,275,449	276,812,707
Deferred interest - RUS notes	4,216,571	5,224,126
Total long-tem debt	309,492,020	282,036,833
Current Liabilities		
Managed overdraft	3,998,129	3,505,690
Current maturities of notes payable	6,936,219	9,649,764
Line of credit	15,406,326	19,598,003
Accounts payable	11,085,610	13,672,844
Consumer deposits	7,086,950	6,839,836
Accrued interest	1,673,083	1,576,799
Other accrued expenses and deferred credits	1,939,702	1,808,582
Deferred fuel adjustment	1,671,081	2,882,283
Customer refund - Cajun	624,336	624,336
Total current liabilities	50,421,436	60,158,137
Deferred Credits and Other Liabilities		
Accrued post retirement benefits	21,442,000	19,150,200
Accrued vacation and sick pay	5,295,760	5,004,547
Total deferred credits and other liabilities	26,737,760	24,154,747
Total equities and liabilities	469,680,224	444,152,726

Dixie Electric Membership Corporation and Subsidiaries
Consolidated Statements of Operations and Patronage Capital
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenue	$171,232,487	$174,933,819
Operating Expenses		
Cost of power	94,519,648	94,098,421
Cost of sales	135,838	202,504
Distribution - operations	6,417,026	6,544,082
Distribution - maintenance	16,444,481	14,048,734
Consumer accounts	5,583,508	5,523,862
Administrative and general	7,932,825	7,642,085
Depreciation and amortization	15,053,137	14,381,534
Taxes	4,661,299	4,408,030
Other	1,758,194	1,539,851
	152,505,956	148,389,103
Operating margins before fixed charges	18,726,531	26,544,716
Fixed Charges		
Interest on long-term debt	13,441,317	13,337,755
Other interest	1,119,288	2,160,879
	14,560,605	15,498,634
Operating margins after fixed charges	4,165,926	11,046,082
Capital credits	860,776	1,037,050
Nonoperating Margins		
Interest income	191,736	152,938
Other income (expense)	2,781	(88,361)
	194,517	64,577
Net margins	5,221,219	12,147,709
Patronage Capital, beginning of year	77,393,724	65,246,015
Patronage Capital, end of year	82,614,943	77,393,724

The accompanying notes are an integral part of these statements.

Dixie Electric Membership Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Net margins	$5,221,219	$12,147,709
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	15,053,137	14,381,534
Depreciation included in administrative and general	39,873	40,053
Depreciation included in cost of sales	133,412	202,476
Bad debts	346,949	341,527
Capital credits assigned by associated organizations	(765,768)	(1,028,402)
Amortization of conversion fee	403,737	23,800
Loss on disposal of equipment	5,754	
(Increase) decrease in assets		
Restricted cash		610,059
Consumer accounts receivable	2,195,407	(168,806)
Other receivables	2,117,589	(630,007)
Materials and supplies	2,153,816	(808,534)
Other deferred costs	(2,885,175)	1,324,152
Prepaid expenses	9,372	148,546
Increase (decrease) in liabilities		
Accounts payable	(2,587,234)	1,488,115
Consumer deposits	247,114	236,088
Accrued interest	96,284	535,761
Other accrued expenses and deferred credits	495,376	2,545,079
Net cash provided by operating activities	22,280,862	31,389,150
Cash Flows From Investing Activities		
Utility plant expenditures	(44,238,873)	(40,141,076)
Purchases of fixed assets	(2,683)	(7,166)
Capitalized interest	(607,998)	(783,005)
Capital credits collected	350,094	481,219
Proceeds from notes receivable	241,602	82,616
Net cash used in investing activities	(44,257,858)	(40,367,412)
Cash Flows From Financing Activities		
Proceeds from long-term debt	40,000,000	68,025,324
Decrease in line of credit	(4,191,677)	(44,611,409)
Repayment of long-term debt	(14,250,803)	(14,331,824)
Proceeds from memberships, net	4,780	4,610
Managed overdraft	492,439	(53,513)
Net cash provided by financing activities	22,054,739	9,033,188

The accompanying notes are an integral part of these statements.

Dixie Electric Membership Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Net Increase in Cash and Cash Equivalents	$77,743	$54,926
Cash and Cash Equivalents		
Beginning of year	503,639	448,713
End of year	581,382	503,639

Supplemental Schedule of Noncash Investing and Financing Activities

Increase in compensated absences in accordance with FASB ASC 980	$291,213	$166,732
Amortization of Deferred Interest	1,007,555	1,058,911
Post-retirement Benefits	2,291,800	2,272,600

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:		
Interest	$14,491,601	$15,774,129
Income taxes	None	None

The accompanying notes are an integral part of these statements.

Note 1-Organization and Summary of Significant Accounting Policies

A. Nature of Operations

Dixie Electric Membership Corporation (DEMCO) is an electric transmission and distribution cooperative. Its principal business activity is providing electric power to over 100,000 member-consumers over seven parishes. The Cooperative is subject to the jurisdiction of the Louisiana Public Service Commission (LPSC) for rate-making.

DEMCO Energy Services, L.L.C. (DESI) provides surge protection services in southeastern Louisiana.

Dixie Business Development Center, Inc. (DBDC) is a nonprofit organization whose purpose is to attract and assist emerging businesses in the local service area by providing office space and technical services in an environment in which these businesses can develop, grow, and succeed.

B. Principles of Consolidation

The consolidated financial statements include the accounts of DEMCO and its wholly owned Subsidiaries, DESI and DBDC (collectively referred to as "the Cooperative"). Intercompany transactions and balances have been eliminated in consolidation. Operations in these consolidated financial statements are predominantly from DEMCO.

C. System of Accounts

The Cooperative maintains its records in accordance with the Uniform System of Accounts prescribed for borrowers from the United States Department of Agriculture Rural Utilities Service.

D. Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant items on the consolidated balance sheets that involve a greater degree of accounting estimates are unbilled revenue, deferred fuel adjustment, and self-insured group, which is included in other accrued expenses and deferred credits. As additional information becomes available, the recorded estimates are revised and reflected in operating results of the period they are determined. Although some variability is inherent in these estimates, the Cooperative believes the amounts provided are adequate.

E. Cash Equivalents

For purposes of the consolidated statement of cash flows, the Cooperative considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

F. Accounts Receivable

The Cooperative uses the reserve method to account for uncollectible accounts. Accounts deemed uncollectible are written off against the reserve. The allowance for doubtful accounts is based on a percentage of revenue and is periodically reviewed and compared with past due accounts to insure that it is sufficient.

The Cooperative grants credit to its members. Payment terms are net 30 days with balance due in full. After 30 days, the accounts are considered past due. The Cooperative charges a 5% finance fee on all past due amounts.

Note 1-Organization and Summary of Significant Accounting Policies (Continued)

G. Unbilled Revenue

Unbilled revenue consists of revenue that has been earned but not yet billed due to a time lag in billing related services.

H. Inventory

Inventory is stated at the lower of cost or market. Cost is determined on an average cost basis. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration and other factors in evaluating net realizable value.

I. Utility Plant

Utility plant is stated at original cost, net of contributions. Such cost includes applicable supervisory and overhead costs. Expenditures for maintenance and repairs which do not materially extend the life of assets are included in operating and maintenance expenses. Upon retirement or disposition, the recorded cost of depreciable plant and the cost of removal, net of salvage, are charged to accumulated depreciation.

Depreciation is computed using straight-line composite rates based upon the estimated useful lives of the various classes of assets.

J. Costs of Borrowing

Interest totaling $15,168,603 and $16,281,639 was incurred during the years ended December 31, 2011 and 2010, respectively. Interest costs incurred on borrowed funds during the construction of capital assets are capitalized as a component of the cost of acquiring those assets. Interest of $607,998 and $783,005 was capitalized during the years ended December 31, 2011 and 2010, respectively.

K. Investments in Associated Organizations

Investments in capital term certificates and patronage capital certificates are stated at cost, plus the Cooperative's share of assigned patronage capital. Investments in capital stock are stated at cost.

L. Intangible Assets

Conversion fees related to the repricing of debt are amortized over the term of the debt using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize these costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

M. Revenue

The Cooperative accrues revenue related to energy consumed but not yet billed. The Cooperative's rates include a purchased power cost adjustment clause which enables the Cooperative to pass through to consumers all purchased power cost as approved monthly by the LPSC.

Note 1-Organization and Summary of Significant Accounting Policies (Continued)

N. Advertising

Advertising costs, which are included in operating expenses, are expensed as incurred. Advertising expense was $1,530,560 and $1,432,137 for the years ended December 31, 2011 and 2010, respectively.

O. Income Taxes

DEMCO is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code (IRC).

DESI is a limited liability company and has elected to be taxed as a C-Corporation under the provisions of the IRC.

DBDC is exempt from federal and state income taxes under Section 501(c)(4) of the IRC.

Deferred income taxes are provided for temporary differences arising from using the straight-line depreciation method for financial statement purposes and accelerated methods of depreciation for income taxes, including differences between book and tax for amortizing organization expenses. In addition, deferred income taxes are recognized for certain expense accruals, allowances and net operating loss carryforwards available to offset future taxable income, net of valuation allowances for potential expiration and other contingencies that could impact the Cooperative's ability to recognize the benefit.

The Cooperative has adopted the revised provisions of FASB ASC 740, relating to uncertain income tax positions. These standards require management to perform an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Cooperative's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be preformed for all open tax years, as defined by the various statutes of limitations for federal and state purposes.

The Cooperative is required to file federal and state income tax returns. The income tax returns of the Cooperative for 2010, 2009, and 2008 are subject to possible federal and state examination, generally for three years after they were filed. Management has performed its evaluation of all other income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax provisions in the accompanying consolidated financial statements.

From time to time, the Cooperative may be subject to interest and penalties assessed by various taxing authorities. These amounts have historically been insignificant and are classified as other expenses when they occur.

P. Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform with the 2011 presentation. The reclassifications had no effect on net margins or patronage capital.

Note 2-Notes Receivable

	2011	2010
Notes receivable due from customers for special construction. The unsecured, non-interest bearing notes are due in monthly installments of $24,464. The notes mature in 2015 through 2023.	$958,568	$1,200,170
Less: current portion of notes receivable	241,602	241,602
Notes receivables, long-term portion	716,966	958,568

Maturities of the notes receivable during the next five years ending December 31 are as follows:

2012	$241,602
2013	241,602
2014	241,602
2015	145,875
2016	11,850
Thereafter	76,037
	958,568

Note 3-Utility Plant

Utility plant consisted of the following as of December 31, 2011 and 2010:

	2011	2010
Distribution plant	$415,440,686	$397,835,032
Transmission plant	44,155,834	43,410,597
General plant	28,792,435	27,977,584
Construction work in progress	31,661,471	16,185,392
Other fixed assets	4,604,915	5,011,998
	524,655,341	490,420,603

Average annual composite rates of depreciation used by the Cooperative during 2011 and 2010 are as follows:

Distribution plant	1.8% to 4.4%
Transmission plant	2.7%
General plant	
Structures and improvements	2.5%
Power operated equipment	14%
Transportation equipment	16%
Other	6% to 14%

Note 4-Investments in Associated Organizations

Investments in associated organizations consisted of the following as of December 31, 2011 and 2010:

	2011	2010
Capital Term Certificates		
National Rural Utilities Cooperatives Finance Corporation	$4,664,466	$4,682,437
Patronage Capital Certificates		
National Rural Utilities Cooperatives Finance Corporation	3,401,024	3,081,224
Southeastern Data Cooperative, Inc.	252,056	218,208
CoBank, ACB	188,277	108,343
Gresco Utility Supply, Inc.	42,368	42,368
Other	29,897	29,834
Memberships		
Association of Louisiana Electric Cooperatives	51,759	51,759
Other	4,300	4,300
	8,634,147	8,218,473

Note 5-Deferred Charges

Following is a summary of deferred charges:

	2011	2010
Deferred compensation	$5,295,760	$5,004,548
Deferred interest on RUS notes	4,012,774	5,020,329
Unamortized conversion fee	2,843,860	397,469
Post-retirement benefits	16,039,321	13,747,521
Regulatory assets - storm related	1,693,675	3,213,335
Other	95,837	116,587
	29,981,227	27,499,789

Deferred compensation represents employees' accrued vacation and sick time, accounted for in accordance with the Regulated Operations Topic of the FASB-Accounting Standards Codification.

Deferred interest represents interest that was added back to the principal balances of debt from RUS. The deferred interest is accounted for in accordance with the Regulated Operations Topic of the FASB-Accounting Standards Codification, and the deferred cost is amortized to expense when paid. The amount amortized was $1,007,555 and $1,058,911 for the years ended December 31, 2011 and 2010, respectively.

The Cooperative repriced its debt with the National Rural Utilities Cooperative Finance Corporation (NRUCFC) to lower its interest rates. The cost to reprice the debt is being amortized to expense over the repricing period.

	2011	2010
Original amount	$4,064,997	$1,305,380
Accumulated amortization	(1,221,137)	(907,911)
Net book value	2,843,860	397,469

Note 5-Deferred Charges (Continued)

Amortization expense was $403,737 and $23,800 for the years ended December 31, 2011 and 2010, respectively. Future expected amortization of the conversion fees is as follows:

2012	$829,637
2013	829,637
2014	630,105
2015	194,441
2016	80,736
Thereafter	279,304
	2,843,860

Deferred post retirement benefits are being accounted for in accordance with the Regulated Operations Topic of the FASB-Accounting Standards Codification. See Footnote 12 for information relating to the post-retirement benefit.

The regulatory asset consists of storm related expenses that were approved by the Public Service Commission which will be charged to members over a period of time.

Note 6-Line of Credit

Line of credit as of December 31, 2011 and 2010 consists of the following:

	2011	**2010**
The Cooperative has an unsecured $12,000,000 line of credit with CoBank. The interest rate on the line of credit was 2.15% and 2.57% at December 31, 2011 and 2010, respectively.	$3,147,625	$7,032,506
The Cooperative has an unsecured line of credit totaling $25,000,000 with the National Rural Utilities Cooperative Finance Corporation. The interest rate on the line of credit was 3.20% and 4.95% at December 31, 2011 and 2010, respectively.	12,258,701	12,565,497
	15,406,326	19,598,003

Note 7-Notes Payable

Long-term debt as of December 31, 2011 and 2010 consisted of the following:

	2011	**2010**
Rural Utilities Service, 3.63% to 5.18% mortgage notes, due in quarterly principal and interest installments of approximately $750,000 through 2022, secured by utility plant.	$109,863,705	$120,278,746
National Rural Utilities Cooperative Finance Corporation, mortgage notes at variable and fixed interest rates ranging from 2.90% to 5.65%, due in quarterly principal and interest installments of approximately $2,500,000 through 2031 and secured by utility plant.	94,355,610	97,796,543
(Continued - amounts brought forward)	204,219,315	218,075,289

Note 7-Notes Payable (Continued)

	2011	2010
(Continued - amounts carried forward)	$204,219,315	$218,075,289
Federal Financing Bank, note payable secured by plant with a 3.55% interest rate due in quarterly principal and interest payments of $824,628 through 2045. The note is guaranteed by the USDA Rural Utilities Service.	64,000,000	64,000,000
Federal Financing Bank, note payable secured by plant with a 2.86% interest rate due in quarterly principal and interest payments of $468,825 through 2045. The note is guaranteed by the USDA Rural Utilities Service.	40,000,000	
CoBank, note payable secured by plant with a 3.25% imputed interest rate due in monthly principal and interest payments of approximately $44,000 through 2024.	3,565,251	3,929,373
Note payable to National Cooperative Services Corporation (NCSC) due in monthly installments of approximately $4,800 through March 2022. The interest is fixed at 5.95%. The note is guaranteed by DEMCO and secured by a building.	427,102	457,809
	312,211,668	286,462,471
Less current maturities of notes payable	6,936,219	9,649,764
Notes payable, less current maturities	305,275,449	276,812,707

Substantially all of the Cooperative's utility plant is pledged as collateral under the various mortgage notes.

Annual future maturities of long-term debt, as of December 31, 2011, are as follows:

2012	$6,936,219
2013	11,277,343
2014	10,673,131
2015	10,206,465
2016	9,157,155
Thereafter	263,961,355
	312,211,668

Note 8-Patronage Capital

At December 31, 2011 and 2010, patronage capital consisted of:

	2011	2010
Assignable	$49,835,284	$46,066,873
Assigned to date	22,892,714	22,892,714
Non-assignable nonoperating	9,886,945	8,434,137
	82,614,943	77,393,724

Note 8-Patronage Capital (Continued)

Under the provisions of the Mortgage Agreement, the Cooperative shall not, without written approval of RUS and National Rural Utilities Cooperative Finance Corporation, make any distributions to members or consumers, provided that the borrower may make distributions to estates of deceased patrons to the extent required or permitted by its articles of incorporation and bylaws so long as such distributions shall not in any year exceed 25 percent of the patronage capital and margins received by the borrower in the preceding year. No distributions of capital credits occurred in 2011 or 2010.

Note 9-Income Tax

DESI had no provision recorded for current or deferred income taxes for the years ended December 31, 2011 and 2010.

The components of income tax expense are as follows:

	2011	2010
Current income tax expense	$162,856	$185,412
Benefit of net operating loss carryforward	(162,856)	(185,412)
Net deferred tax asset		

The tax effects of temporary differences and operating loss carryforward that give rise to significant portions of deferred tax assets and liabilities consist of the following:

	2011	2010
Net operating loss (NOL) carryforward	$846,343	$925,497
Depreciation	(9,673)	(22,174)
Valuation allowance	(836,670)	(903,323)
Net deferred tax asset		

The valuation allowance for the deferred tax asset relates principally to the uncertainty of the utilization of deferred tax assets and was calculated in accordance with the provisions of the Income Taxes Topic of the Financial Accounting Standards Board Accounting Standards Codification, which requires that a valuation allowance be established or maintained when it is "more likely than not" that all or a portion of deferred tax asset will not be realized. This valuation allowance is based on management estimates of future taxable income. Although the degree of variability inherent in the estimates of future taxable income is significant and subject to change in the near term, management believes that the estimate is adequate. The estimated valuation allowance is continually reviewed and adjusted, as necessary, in the current operations.

During the years ended December 31, 2011 and 2010, the Cooperative did not incur any interest or penalties on its income tax returns.

Note 9-Income Tax (Continued)

At December 31, 2011, net operating loss carryforwards available to offset future taxable income, if any, are as follows:

Taxable Year	Expiration Date	NOL Carry-forward
2001	2021	$1,977,811
2002	2022	1,987,440
2004	2024	254,031
		4,219,282

Note 10-Fair Value of Financial Instruments

The Financial Instruments Topic of the FASB - Accounting Standards Codification requires disclosure of fair value information about certain financial instruments, whether or not recognized on the consolidated balance sheets. Where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In addition, the Financial Instruments Topic of the FASB - Accounting Standards Codification, excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Therefore, the aggregate fair value amounts presented do not purport to represent and should not be considered representative of the underlying "market" or franchise value of the Cooperative.

The methods and assumptions used to estimate the fair values of each class of the financial instruments are as follows:

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash and cash equivalents approximates fair value.

Notes Receivable

Fair value of the outstanding notes receivable is estimated by discounting the future cash flows using the Cooperative's current rates on new notes receivable with similar remaining maturities. Historical experience of bad debts is also factored into the calculation.

Certificate of Deposit - Pledged

The carrying amount reported in the consolidated balance sheets for the pledged certificate of deposit approximates fair value.

Investments in Associated Organizations

The investments in associated organizations are accounted for at cost. These investments are in non-publicly traded companies which have no quoted market prices; therefore, a reasonable estimate of fair value could not be made.

Note 10-Fair Value of Financial Instruments (Continued)

Long-Term and Short-Term Debt

The carrying amounts of the Corporative's borrowings under its short-term debt arrangements approximate their fair values. The fair values of the Cooperatives long-term debt have been based upon market quotations for similar debt instruments or estimated using discounted cash flow analyses based upon the Cooperative's current incremental borrowing rates for similar types of borrowing arrangements.

The estimated value of the Cooperative's financial instruments are as follows:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$581,382	$581,382	$503,639	$503,639
Certificate of deposit - pledged	150,000	150,000	150,000	150,000
Notes receivable	958,568	958,568	1,200,170	1,200,170
Investment in associated organizations	8,634,147	8,634,147	8,218,473	8,218,473
Managed overdrafts	3,998,129	3,998,129	3,505,690	3,505,690
Long-term and short-term debt	327,617,994	369,769,950	306,060,474	345,844,558

Note 11-Retirement Plans

The Cooperative participates in the National Rural Electric Cooperative Association (NRECA) pension plan for all of its employees. Pension expense for 2011 and 2010 was $3,282,244 and $3,263,484, respectively. The Cooperative's policy is to fund all accrued pension costs.

In this master multi-employer plan, which is available to all member cooperatives of the NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employers. The plan has been approved by the Internal Revenue Service.

In addition, the Cooperative has a 401(K) Defined Contributions Plan available to all employees which provides for a matching contribution by the Cooperative (at specified percentages of compensation), as well as certain elective and voluntary employee contributions. Employer contributions to the plan for the years ended December 31, 2011 and 2010 amounted to $382,391 and $359,584, respectively.

Note 12-Post-retirement Benefits Other Than Pensions

The Cooperative continues to fund benefit costs on a pay-as-you-go basis. The benefit provided by the Cooperative is certain health insurance coverage for retired employees. Substantially all of the Cooperative's employees may become eligible for these benefits if they reach normal retirement age while working for the Cooperative. Such benefits are provided through an insurance company whose premiums are based on the benefits paid during the year.

The following is summary information on the Cooperative's plan.

Note 12-Post-retirement Benefits Other Than Pensions (Continued)

Accumulated post-retirement benefit obligation as of December 31, 2011 and 2010:

	2011	2010
Retirees and dependents	$9,746,000	$9,141,900
Fully eligible active plan participants	10,112,700	9,227,400
Other active plan participants	14,498,400	14,070,300
	34,357,100	32,439,600
Unrecognized net gain or (loss)	(13,998,200)	(14,766,400)
Unrecognized prior service cost	1,083,100	1,477,000
Accrued post-retirement benefit cost	21,442,000	19,150,200

The components of net periodic post-retirement benefit cost are as follows:

	2011	2010
Service cost benefits attributed to employee service during the year	$762,900	$808,100
Interest cost on accumulated post-retirement benefit obligation	1,898,300	1,775,300
Amortization of net loss	768,200	780,700
Amortization of prior service cost	(393,900)	(393,900)
Net periodic post-retirement benefit cost	3,035,500	2,970,200

The discount rate used in determining the accrued post-retirement benefit cost was 6% for 2011 and 2010. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 8.0% in 2011 and 9.0% in 2010, declining to an ultimate rate of 5.0% in 2018.

The Cooperative expects to contribute approximately $864,600 to the plan in 2012. Benefits expected to be paid in each of the next five years, and in the aggregate for the next five years thereafter, are approximately as follows:

2012	$824,600
2013	871,300
2014	957,500
2015	1,050,200
2016	1,209,500
Aggregate for the five years thereafter	9,048,200

Note 13-Self-Funded Programs

General Liability Insurance

The Cooperative maintains a self insured plan for general liability purposes. The plan, administered by a third party, has a stop loss insurance agreement to limit the Cooperative's losses on individual claims. The amount of stop loss per occurrence is $200,000, with no aggregate. An accrual is provided for estimated claims. Management reviews this accrual on an on-going basis and believes it is adequate to cover such claims.

Note 13-Self-Funded Programs (Continued)

Automobile Liability Insurance

The Cooperative maintains a self insured plan for automobile insurance purposes. The plan, administered by a third party, has a stop loss insurance agreement to limit the Cooperative's losses on individual claims. The amount of stop loss per occurrence is $200,000 with no aggregate. An accrual is provided for estimated claims. Management reviews this accrual on an on-going basis and believes it is adequate to cover such claims.

Worker's Compensation

The Cooperative maintains a self insured plan for worker's compensation purposes. The plan requires a $150,000 deposit that will be returned to the Cooperative upon dissolution of the plan. The plan, administered by a third party, has a stop loss insurance agreement to limit the Cooperative's losses on individual claims. The amount of the stop loss is $200,000 per occurrence with no aggregate stop loss. An accrual is provided for estimated claims. Management reviews this accrual on an on-going basis and believes it is adequate to cover such claims.

Note 14-Related Party Transactions

The Cooperative collects voluntary contributions from customer billings and remits them to The DEMCO Foundation, Inc. (the "Foundation"), a related party through common management. Total contributions remitted were $380,733 and $380,242 for the years ended December 31, 2011 and 2010, respectively. Total contributions due to the Foundation were $31,756 and $31,764 as of December 31, 2011 and 2010, respectively.

Note 15-Concentrations of Credit Risk

The Cooperative's future operating results may be affected by a number of factors. The Cooperative is dependent upon a number of major suppliers and contractors. If a supplier or contractor has operational problems or ceases making materials available or providing services to the Cooperative, operations could be adversely affected.

A substantial portion of the Cooperative's workforce is covered by a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 767. This contract was negotiated for a four year term beginning February 28, 2011 through February 28, 2015.

Note 16-Commitments and Contingencies

The Cooperative is committed under a wholesale power agreement to purchase its electric power and energy requirements from Louisiana Generating, L.L.C. and Southwestern Power Administration through March 31, 2014. The Cooperative has assigned its receivables to Louisiana Generating, L.L.C. as security for its contractual obligations.

The Cooperative is a litigant in several lawsuits. Management, on the advice of legal counsel, believes that such proceedings and contingencies will not have a material effect on the Cooperative. The ultimate outcome of these matters cannot presently be determined and no provision for any liability or asset that may result from the claims have been made in the consolidated financial statements.

Note 16-Commitments and Contingencies (Continued)

At December 31, 2011, the Cooperative had the following unused lines of credit to be drawn upon as needed:

Lender	Amount	Interest Rate
CoBank	$35,000,000	2.65%
National Rural Utilities Cooperative Finance Corporation	20,000,000	3.20%
Capital One	1,050,000	3.25%

At December 31, 2011, the Cooperative had funds available to be drawn upon as needed from the Federal Financing Bank of $45,425,000.

Note 17-Reclassifications

In the Consolidated Statements of Operations and Partonage Capital for the year ended December 31, 2011, other nonoperating margins of $1,752,440 have been reclassified to other operating expenses.

Certain reclassifications have been made to the 2010 consolidated financial statements to conform with the 2011 presentation. The reclassifications had no effect on net margins or patronage capital.

Note 18-Subsequent Events

The Cooperative has evaluated all subsequent events through May 8, 2012, the date the consolidated financial statements were available to be issued. As a result, the Cooperative noted no subsequent events that required adjustment to, or disclosure in, these consolidated financial statements.

Additional Information

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

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May 8, 2012

Independent Auditor's Report on Additional Information

The Officers and Board of Directors
Dixie Electric Membership Corporation
Baton Rouge, Louisiana

We have audited the consolidated financial statements of Dixie Electric Membership Corporation and Subsidiaries as of and for the year ended December 31, 2011, and have issued our report thereon dated May 8, 2012, which contained an unqualified opinion on those consolidated financial statements . Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The additional consolidating balance sheets and consolidating statements of operations on pages 23 through 26 are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Yours truly,

Hawthorn, Waymouth + Carroll, LLP

Dixie Electric Membership Corporation and Subsidiaries
Consolidating Balance Sheet
December 31, 2011

Assets

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Eliminations	2011 Totals
Utility Plant					
Electric plant in service	$488,388,955				$488,388,955
Construction work in progress	31,661,471				31,661,471
Other fixed assets	614,065	$2,537,272	$1,453,578		4,604,915
	520,664,491	2,537,272	1,453,578		524,655,341
Accumulated depreciation	(119,467,174)	(2,438,697)	(466,520)		(122,372,391)
Total utility plant, net	401,197,317	98,575	987,058		402,282,950
Investments and Other Assets					
Investments in associated organizations	8,618,042	16,105			8,634,147
Investment in unconsolidated subsidiaries at cost plus equity in undistributed earnings	1,310,606			($1,310,606)	
Notes receivable, long-term portion	716,966				716,966
Total investments and other assets	10,645,614	16,105		(1,310,606)	9,351,113
Current Assets					
Cash and cash equivalents	364,194	6,914	210,274		581,382
Current portion of notes receivable	241,602				241,602
Accounts receivable					
Consumers, net of allowance for uncollectible accounts	8,130,412		7,066		8,137,478
Unbilled revenue	8,841,326				8,841,326
Current portion of other receivables, net of allowance for uncollectible accounts	4,916,721	421,697	11,794	(433,491)	4,916,721
Materials and supplies	3,862,339	14,704			3,877,043
Prepaid expenses	1,316,956		1,626		1,318,582
Total current assets	27,673,550	443,315	230,760	(433,491)	27,914,134
Other Assets					
Deferred charges	29,981,227				29,981,227
Intangible, net		800			800
Certificate of deposit - pledged	150,000				150,000
Total other assets	30,131,227	800			30,132,027
Total assets	469,647,708	558,795	1,217,818	(1,744,097)	469,680,224

Equities and Liabilities

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Elimin-ations	2011 Totals
Equities					
Memberships	$414,065				$414,065
Net assets			$767,671	($767,671)	
Patronage capital	82,614,943				82,614,943
Retained earnings		$542,935		(542,935)	
Total equities	83,029,008	542,935	767,671	(1,310,606)	83,029,008
Long-Term Debt					
Notes payable, less current maturities	304,881,822		393,627		305,275,449
Deferred interest - RUS notes	4,216,571				4,216,571
Total long-term debt	309,098,393		393,627		309,492,020
Current Liabilities					
Managed overdraft	3,998,129				3,998,129
Current maturities of notes payable	6,902,744		33,475		6,936,219
Line of credit	15,406,326				15,406,326
Accounts payable	11,508,509	10,592		(433,491)	11,085,610
Consumer deposits	7,072,338		14,612		7,086,950
Accrued interest	1,673,083				1,673,083
Other accrued expenses and deferred credits	1,926,001	5,268	8,433		1,939,702
Deferred fuel adjustment	1,671,081				1,671,081
Customer refund - Cajun	624,336				624,336
Total current liabilities	50,782,547	15,860	56,520	(433,491)	50,421,436
Deferred Credits and Other Liabilities					
Accrued post retirement benefits	21,442,000				21,442,000
Accrued vacation and sick pay	5,295,760				5,295,760
Total deferred credits and other liabilities	26,737,760				26,737,760
Total equities and liabilities	469,647,708	558,795	1,217,818	(1,744,097)	469,680,224

Dixie Electric Membership Corporation and Subsidiaries
Consolidating Balance Sheet
December 31, 2010

A s s e t s

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Elimin-ations	2010 Totals
Utility Plant					
Electric plant in service	$469,223,213				$469,223,213
Construction work in progress	16,185,392				16,185,392
Other fixed assets	451,963	$3,109,140	$1,450,895		5,011,998
	485,860,568	3,109,140	1,450,895		490,420,603
Accumulated depreciation	(114,456,985)	(2,871,399)	(426,647)		(117,755,031)
Total utility plant	371,403,583	237,741	1,024,248		372,665,572
Investments and Other Assets					
Investments in associated organizations	8,202,345	16,128			8,218,473
Investment in unconsolidated subsidiaries at cost plus equity in undistributed earnings	1,413,555			($1,413,555)	
Notes receivable, long-term portion	958,568				958,568
Total investments and other assets	10,574,468	16,128		(1,413,555)	9,177,041
Current Assets					
Cash and cash equivalents	356,432	2,609	144,598		503,639
Current portion of notes receivable	241,602				241,602
Accounts receivable					
Consumers, net of allowance for uncollectible accounts	8,884,496		15,550		8,900,046
Unbilled revenue	10,620,014				10,620,014
Current portion of other receivables, net of allowance for uncollectible accounts	7,035,410	445,584	14,023	(459,607)	7,035,410
Materials and supplies	6,013,491	17,368			6,030,859
Prepaid expenses	1,326,694		1,260		1,327,954
Total current assets	34,478,139	465,561	175,431	(459,607)	34,659,524
Other Assets					
Deferred charges	27,499,789				27,499,789
Intangible, net		800			800
Certificate of deposit - pledged	150,000				150,000
Total other assets	27,649,789	800			27,650,589
Total assets	444,105,979	720,230	1,199,679	(1,873,162)	444,152,726

Equities and Liabilities

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Elimin-ations	2010 Totals
Equities					
Memberships	$409,285				$409,285
Net assets			$706,034	($706,034)	
Patronage capital	77,393,724				77,393,724
Retained earnings		$707,521		(707,521)	
Total equities	77,803,009	707,521	706,034	(1,413,555)	77,803,009
Long-Term Debt					
Notes payable, less current maturities	276,386,446		426,261		276,812,707
Deferred interest - RUS notes	5,224,126				5,224,126
Total long-term debt	281,610,572		426,261		282,036,833
Current Liabilities					
Managed overdraft	3,505,690				3,505,690
Current maturities of notes payable	9,618,216		31,548		9,649,764
Line of credit	19,598,003				19,598,003
Accounts payable	14,126,842	4,572	1,037	(459,607)	13,672,844
Consumer deposits	6,825,924	300	13,612		6,839,836
Accrued interest	1,576,799				1,576,799
Other accrued expenses and deferred credits	1,779,558	7,837	21,187		1,808,582
Deferred fuel adjustment	2,882,283				2,882,283
Customer refund - Cajun	624,336				624,336
Total current liabilities	60,537,651	12,709	67,384	(459,607)	60,158,137
Deferred Credits and Other Liabilities					
Accrued post retirement benefits	19,150,200				19,150,200
Accrued vacation and sick pay	5,004,547				5,004,547
Total deferred credit and other liabilities	24,154,747				24,154,747
Total equities and liabilities	444,105,979	720,230	1,199,679	(1,873,162)	444,152,726

Dixie Electric Membership Corporation and Subsidiaries
Consolidating Statement of Operations
Year Ended December 31, 2011

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Eliminations	Totals
Operating Revenue	$170,294,442	$691,323	$250,922	($4,200)	$171,232,487
Operating Expenses					
Cost of power	94,519,648				94,519,648
Cost of sales		135,838			135,838
Distribution - operations	6,417,026				6,417,026
Distribution - maintenance	16,444,481				16,444,481
Consumer accounts	5,583,508				5,583,508
Administrative and general	7,530,642	214,317	206,076	(18,210)	7,932,825
Depreciation and amortization	15,053,137				15,053,137
Taxes	4,661,299				4,661,299
Other	1,752,440	5,754			1,758,194
Total operating expenses	151,962,181	355,909	206,076	(18,210)	152,505,956
Operating margins before fixed charges	18,332,261	335,414	44,846	14,010	18,726,531
Fixed Charges					
Interest on long-term debt	13,441,317				13,441,317
Other interest	1,119,288				1,119,288
Total fixed charges	14,560,605				14,560,605
Operating margins after fixed charges	3,771,656	335,414	44,846	14,010	4,165,926
Capital credits	860,776				860,776
Nonoperating Margins (Expenses)					
Interest income	191,736				191,736
Other income (expenses)	397,051		16,791	(411,061)	2,781
Total nonoperating margins (expenses)	588,787		16,791	(411,061)	194,517
Net Margins	5,221,219	335,414	61,637	(397,051)	5,221,219

Dixie Electric Membership Corporation and Subsidiaries
Consolidating Statement of Operations
Year Ended December 31, 2010

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Elimin-ations	Totals
Operating Revenue	$173,876,545	$837,375	$224,099	($4,200)	$174,933,819
Operating Expenses					
Cost of power	94,098,421				94,098,421
Cost of sales		202,504			202,504
Distribution - operations	6,544,082				6,544,082
Distribution - maintenance	14,048,734				14,048,734
Consumer accounts	5,523,862				5,523,862
Administrative and general	7,315,660	245,774	196,451	(115,800)	7,642,085
Depreciation and amortization	14,381,534				14,381,534
Taxes	4,408,030				4,408,030
Other	1,539,851				1,539,851
Total operating expenses	147,860,174	448,278	196,451	(115,800)	148,389,103
Operating margins before fixed charges	26,016,371	389,097	27,648	111,600	26,544,716
Fixed Charges					
Interest on long-term debt	13,337,755				13,337,755
Other interest	2,160,879				2,160,879
Total fixed charges	15,498,634				15,498,634
Operating margins after fixed charges	10,517,737	389,097	27,648	111,600	11,046,082
Capital credits	1,037,050				1,037,050
Nonoperating Margins (Expenses)					
Interest income	152,938				152,938
Other income (expenses)	439,984		19,825	(548,170)	(88,361)
Total nonoperating margins (expenses)	592,922		19,825	(548,170)	64,577
Net Margins	12,147,709	389,097	47,473	(436,570)	12,147,709

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

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May 8, 2012

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

The Officers and Board of Directors
Dixie Electric Membership Corporation and Subsidiaries
Baton Rouge, Louisiana

We have audited the consolidated financial statements of Dixie Electric Membership Corporation and Subsidiaries (a Cooperative) as of and for the year ended December 31, 2011, and have issued our report thereon dated May 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dixie Electric Membership Corporation and Subsidiaries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Dixie Electric Membership Corporation and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dixie Electric Membership Corporation and Subsidiaries' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies and pass-through entities, and the Louisiana Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP

Dixie Electric Membership Corporation and Subsidiaries
Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

Findings - Financial Statement Audit

None.

Dixie Electric Membership Corporation and Subsidiaries
Schedule of Prior Year Findings and Questioned Costs
Year Ended December 31, 2011

Findings - Financial Statement Audit

None.