Dixie Electric Membership Corporation and Subsidiaries
Baton Rouge, Louisiana
December 31, 2012

TABLE OF CONTENTS

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

LOUIS C. McKNIGHT, III, C.P.A.
CHARLES R. PEVEY, JR., C.P.A.
DAVID J. BROUSSARD, C.P.A.
NEAL D. KING, C.P.A.
KARIN S. LEJEUNE, C.P.A.
ALYCE S. SCHMITT, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

8555 UNITED PLAZA BLVD., SUITE 200
BATON ROUGE, LOUISIANA 70809
(225) 923-3000 • FAX (225) 923-3008

May 24, 2013

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Dixie Electric Membership Corporation (a nonprofit organization) and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and patronage capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 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, 2012 and 2011, and the changes in its patronage capital and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is 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 audits 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated May 24, 2013 on our consideration of Dixie Electric Membership Corporation and Subsidiaries' internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dixie Electric Membership Corporation and Subsidiaries' internal control over financial reporting and compliance.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP

Dixie Electric Membership Corporation and Subsidiaries
Consolidated Balance Sheets
December 31, 2012 and 2011

A s s e t s

	2012	2011
Utility Plant		
Electric plant in service	$ 513,926,186	$ 488,388,955
Construction work in progress	36,455,414	31,661,471
Other fixed assets	4,591,947	4,604,915
	554,973,547	524,655,341
Less: accumulated depreciation	(127,411,878)	(122,372,391)
Total utility plant, net	427,561,669	402,282,950
Investments and Other Assets		
Investments in associated organizations	8,879,159	8,634,147
Notes receivable, long-term portion	475,362	716,966
Total investments and other assets	9,354,521	9,351,113
Current Assets		
Cash and cash equivalents	612,734	581,382
Current portion of notes receivable	241,603	241,602
Accounts receivable		
Consumers (net of allowance for uncollectible accounts of $450,466 in 2012 and $418,732 in 2011)	7,819,887	8,137,478
Unbilled revenue	8,918,027	8,841,326
Other receivables (net of allowance of $509,990 in 2012 and $511,760 in 2011)	7,486,240	4,916,721
Deferred fuel adjustment	3,109,184	–
Materials and supplies	7,645,178	3,877,043
Prepaid expenses	1,356,685	1,318,582
Total current assets	37,189,538	27,914,134
Other Assets		
Deferred charges	34,011,156	29,981,227
Intangible, net	800	800
Certificate of deposit - pledged	150,000	150,000
Total other assets	34,161,956	30,132,027
Total assets	$ 508,267,684	$ 469,680,224

The accompanying notes are an integral part of these consolidated financial statements.

Equities and Liabilities

	2012	2011
Equities		
Memberships	$ 420,980	$ 414,065
Patronage capital	81,912,869	82,614,943
Total equities	82,333,849	83,029,008
Long-Term Debt		
Notes payable, less current maturities	323,948,363	305,275,449
Deferred interest - RUS notes	3,292,714	4,216,571
Total long-term debt	327,241,077	309,492,020
Current Liabilities		
Managed overdraft	1,337,336	3,998,129
Current maturities of notes payable	11,325,937	6,936,219
Lines of credit	32,417,432	15,406,326
Accounts payable	12,899,547	11,085,610
Consumer deposits	7,432,265	7,086,950
Accrued interest	861,521	1,673,083
Other accrued expenses and deferred credits	2,483,728	1,939,702
Deferred fuel adjustment	–	1,671,081
Customer refund	624,336	624,336
Total current liabilities	69,382,102	50,421,436
Deferred Credits and Other Liabilities		
Accrued post-retirement benefits	23,735,900	21,442,000
Accrued vacation and sick pay	5,574,756	5,295,760
Total deferred credits and other liabilities	29,310,656	26,737,760
Total equities and liabilities	$ 508,267,684	$ 469,680,224

Dixie Electric Membership Corporation and Subsidiaries
Consolidated Statements of Operations and Patronage Capital
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenue	$167,381,768	$171,232,487
Operating Expenses		
Cost of power	93,208,759	94,519,648
Cost of sales	72,819	135,838
Distribution - operations	6,501,792	6,417,026
Distribution - maintenance	18,129,697	16,444,481
Consumer accounts	5,881,872	5,583,508
Administrative and general	8,747,309	7,905,545
Depreciation and amortization	15,614,758	15,053,137
Taxes	4,807,009	4,661,299
Other	2,140,512	1,758,194
Total operating expenses	155,104,527	152,478,676
Operating margins before fixed charges	12,277,241	18,753,811
Fixed Charges		
Interest on long-term debt	12,852,112	13,468,597
Other interest	836,900	1,119,288
Total fixed charges	13,689,012	14,587,885
Operating margins (deficit) after fixed charges	(1,411,771)	4,165,926
Capital Credits	567,284	860,776
Non-operating Margins (Expenses)		
Interest income	210,723	191,736
Other income (expense)	(68,310)	2,781
Total non-operating margins (expenses)	142,413	194,517
Net margins (deficit)	(702,074)	5,221,219
Patronage Capital, beginning of year	82,614,943	77,393,724
Patronage Capital, end of year	$ 81,912,869	$ 82,614,943

The accompanying notes are an integral part of these consolidated financial statements.

Dixie Electric Membership Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Net margins (deficit)	$ (702,074)	$ 5,221,219
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	15,614,758	15,053,137
Depreciation included in administrative and general	39,703	39,873
Depreciation included in cost of sales	72,819	133,412
Bad debts	337,890	346,949
Capital credits assigned by associated organizations	(420,866)	(765,768)
Amortization of conversion fee	829,547	403,737
Loss on disposal of equipment	–	5,754
(Increase) decrease in assets:		
Consumer accounts receivable	(20,299)	416,719
Unbilled revenue	(76,701)	1,778,688
Other receivables	(2,569,519)	2,117,589
Materials and supplies	(3,768,135)	2,153,816
Other deferred costs	(7,968,660)	(2,885,175)
Prepaid expenses	(38,103)	9,372
Increase (decrease) in liabilities:		
Accounts payable	1,813,937	(2,587,234)
Consumer deposits	345,315	247,114
Accrued interest	(811,562)	96,284
Other accrued expenses and deferred credits	521,984	495,376
Net cash provided by operating activities	3,200,034	22,280,862
Cash Flows From Investing Activities		
Utility plant expenditures	(40,483,027)	(44,238,873)
Purchases of fixed assets	(60,117)	(2,683)
Capitalized interest	(462,855)	(607,998)
Capital credits collected	175,854	350,094
Proceeds from notes receivable	241,603	241,602
Net cash used in investing activities	(40,588,542)	(44,257,858)
Cash Flows From Financing Activities		
Proceeds from long-term debt	54,000,000	40,000,000
Increase (decrease) in line of credit	17,011,106	(4,191,677)
Repayment of long-term debt	(30,937,368)	(14,250,803)
Proceeds from memberships, net	6,915	4,780
Increase (decrease) managed overdraft	(2,660,793)	492,439
Net cash provided by financing activities	37,419,860	22,054,739

(Continued)

The accompanying notes are an integral part of these consolidated financial statements.

Dixie Electric Membership Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	2012	2011
Net Increase in Cash and Cash Equivalents	$ 31,352	$ 77,743
Cash and Cash Equivalents		
Beginning of year	581,382	503,639
End of year	$ 612,734	$ 581,382

Supplemental Disclosures of Noncash Investing and Financing Activities

	2012	2011
Increase in compensated absences in accordance with FASB ASC 980	$ 278,997	$ 291,213
Amortization of deferred interest	$ 93,857	$ 1,007,555
Post-retirement benefits	$ 2,293,900	$ 2,291,800

Supplemental Disclosures of Cash Flow Information

	2012	2011
Cash paid during the year for:		
Interest	$14,963,429	$15,099,599
Income taxes	$ -	$ -

The accompanying notes are an integral part of these consolidated financial statements.

Note 1-Summary of Significant Accounting Policies

A. Nature of Organization

Dixie Electric Membership Corporation (DEMCO) is an electric distribution cooperative. Its principal business activity is providing electric power to over 100,000 consumer accounts throughout seven parishes. DEMCO is subject to the jurisdiction of the Louisiana Public Service Commission (LPSC) for rate-setting.

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 herein 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 periods. 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 the allowance for uncollectible accounts, unbilled revenue, deferred fuel adjustment, and self-insured liabilities. 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 statements 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.

Note 1-Summary of Significant Accounting Policies (Continued)

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 ensure 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.

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 in aid. 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 as shown in Note 3.

J. Costs of Borrowing

Interest totaling $14,151,867 and $15,195,883 was incurred during the years ended December 31, 2012 and 2011, 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 $462,855 and $607,998 was capitalized during the years ended December 31, 2012 and 2011, 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.

Note 1-Summary of Significant Accounting Policies (Continued)

L. Other Assets

Included in deferred charges are conversion fees related to the repricing of debt, which 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. See Note 5 for additional information related to the conversion fees.

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.

N. Advertising

Advertising costs, which are included in operating expenses, are expensed as incurred. Advertising expense was $1,555,243 and $1,532,449 for the years ended December 31, 2012 and 2011, 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 tax purposes, 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 follows the 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 performed for all open tax years, as defined by the various statutes of limitations for federal and state purposes.

Note 1-Summary of Significant Accounting Policies (Continued)

O. Income Taxes (Continued)

The Cooperative is required to file federal and state income tax returns. The income tax returns of the Cooperative for 2011, 2010, and 2009 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.

Note 2-Notes Receivable

	2012	2011
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 at various times from 2015 through 2023.	$ 716,965	$ 958,568
Less: current portion of notes receivable	(241,603)	(241,602)
Notes receivables, long-term portion	$ 475,362	$ 716,966

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

2013	$ 241,603
2014	241,603
2015	145,872
2016	11,850
2017	11,850
Thereafter	64,187
	$ 716,965

Note 3-Utility Plant

Utility plant consisted of the following as of December 31, 2012 and 2011:

	2012	2011
Distribution plant	$436,475,759	$415,440,686
Transmission plant	45,519,139	44,155,834
General plant	31,931,288	28,792,435
Construction work in progress	36,455,414	31,661,471
Other fixed assets	4,591,947	4,604,915
	$554,973,547	$524,655,341

Note 3-Utility Plant (Continued)

Average annual composite rates of depreciation used by the Cooperative during 2012 and 2011 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, 2012 and 2011:

	2012	2011
Capital Term Certificates		
National Rural Utilities Cooperatives Finance Corporation	$4,640,275	$4,664,466
Patronage Capital Certificates		
National Rural Utilities Cooperatives Finance Corporation	3,558,842	3,401,024
Southeastern Data Cooperative, Inc.	289,698	252,056
CoBank, ACB	266,708	188,277
Gresco Utility Supply, Inc.	42,368	42,368
Other	25,209	29,897
Memberships		
Association of Louisiana Electric Cooperatives	51,759	51,759
Other	4,300	4,300
	$8,879,159	$8,634,147

Note 5-Deferred Charges

Following is a summary of deferred charges:

	2012	2011
Deferred compensation	$ 5,574,757	$ 5,295,760
Deferred interest on RUS notes	3,088,917	4,012,774
Unamortized conversion fee	2,014,313	2,843,860
Post-retirement benefits	18,333,221	16,039,321
Regulatory assets - storm related	4,836,320	1,693,675
Other	163,628	95,837
	$34,011,156	$29,981,227

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

Note 5-Deferred Charges (Continued)

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 $923,857 and $1,007,555 for the years ended December 31, 2012 and 2011, 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.

	2012	2011
Original amount	$ 4,064,997	$ 4,064,997
Accumulated amortization	(2,050,684)	(1,221,137)
Net book value	$ 2,014,313	$ 2,843,860

Amortization expense was $829,547 and $403,737 for the years ended December 31, 2012 and 2011, respectively. Future expected amortization of the conversion fees is as follows:

2013	$ 829,637
2014	630,105
2015	194,441
2016	80,736
2017	23,633
Thereafter	255,761
	$ 2,014,313

Deferred post-retirement benefits are being accounted for in accordance with the Regulated Operations Topic of the FASB-Accounting Standards Codification. See Note 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-Lines of Credit

Lines of credit as of December 31, 2012 and 2011 consist of the following:

	2012	2011
The Cooperative has an unsecured $12,000,000 line of credit with CoBank. The interest rate on the line of credit was 2.06% and 2.15% at December 31, 2012 and 2011, respectively. The line of credit matures August 31, 2013.	$305,135	$ 3,147,625
(Continued - amounts brought forward)	305,135	3,147,625

Note 6-Lines of Credit (Continued)

	2012	2011
(Continued - amounts carried forward)	$ 305,135	$ 3,147,625
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 2.90% and 3.20% at December 31, 2012 and and 2011, respectively. The line of credit matures January 26, 2013.	17,067,354	12,258,701
The Cooperative has an unsecured $35,000,000 line of credit with CoBank. The interest rate on the line of credit was 2.06% at December 31, 2012. The line of credit matures August 31, 2013.	15,044,943	–
	$ 32,417,432	$ 15,406,326

Note 7-Notes Payable

Long-term debt as of December 31, 2012 and 2011 consisted of the following:

	2012	2011
Rural Utilities Service, 3.63% to 5.18% mortgage notes, due in monthly principal and interest installments of approximately $200,000 and quarterly principal and interest installments of approximately $650,000 through 2022, secured by utility plant.	$ 84,953,576	$109,863,705
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 $950,000 through 2031, secured by utility plant.	90,608,109	94,355,610
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.	62,940,224	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.	39,249,760	40,000,000
Federal Financing Bank, note payable secured by plant with a 2.28% interest rate due in quarterly principal and interest payments of $327,788 through 2045. The note is guaranteed by the USDA Rural Utilities Service.	29,708,734	–
CoBank, note payable secured by plant with a 3.25% interest rate due in monthly principal and interest payments of approximately $37,000 through 2024.	3,149,426	3,565,251
(Continued - amounts brought forward)	310,609,829	311,784,566

Note 7-Notes Payable (Continued)

	2012	2011
(Continued - amounts carried forward)	$310,609,829	$311,784,566
CoBank, note payable secured by plant with a 4.10% interest rate due in monthly principal and interest payments of approximately $49,000 through 2037.	24,464,115	-
National Cooperative Services Corporation, note payable due in monthly installments of $2,172 through March 2022. The interest is fixed at 4.10%. The note is guaranteed by DEMCO and secured by a building.	200,356	427,102
	335,274,300	312,211,668
Less current maturities of notes payable	11,325,937	6,936,219
Notes payable, less current maturities	$323,948,363	$305,275,449

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, 2012, are as follows:

2013	$ 11,325,937
2014	11,262,013
2015	10,782,328
2016	9,593,333
2017	10,138,368
Thereafter	282,172,321
	$335,274,300

Note 8-Patronage Capital

At December 31, 2012 and 2011, patronage capital consisted of:

	2012	2011
Assignable	$ 49,328,597	$ 49,835,284
Assigned to date	22,892,714	22,892,714
Non-assignable nonoperating	9,691,558	9,886,945
	$ 81,912,869	$ 82,614,943

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 2012 or 2011.

Note 9-Income Tax

DESI had no provision recorded for current or deferred income taxes for the years ended December 31, 2012 and 2011.

The components of income tax expense are as follows:

	2012	2011
Current income tax expense	$ 117,921	$ 162,856
Benefit of net operating loss carryforward	(117,921)	(162,856)
Net deferred tax asset	$ –	$ –

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

	2012	2011
Net operating loss (NOL) carryforward	$ 776,978	$ 846,343
Depreciation	(3,235)	(9,673)
Valuation allowance	(773,743)	(836,670)
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 FASB 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 the 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. The changes in the valuation allowance as of December 31, 2012 and 2011 were $62,927 and $66,653, respectively.

During the years ended December 31, 2012 and 2011, the Cooperative did not incur any interest or penalties on its income tax returns.

At December 31, 2012, net operating loss carryforwards available to offset future taxable income, if any, are as follows:

Taxable Year	Expiration Date	NOL Carry-forward
2001	2021	$1,630,985
2002	2022	1,987,440
2004	2024	254,031
		$3,872,456

Note 10-Fair Value of Financial Instruments

The carrying value of financial instruments reported in the accompanying consolidated balance sheets for cash and cash equivalents, accounts receivable, certificate of deposits – pledged, investments in associated organizations, and managed overdraft approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The fair value of notes receivable and long-term and short-term debt is based on fees currently charged for similar agreements. The carrying amounts and fair values of other financial instruments subject to fair value disclosures as of December 31, 2012 and 2011 are presented in the table below and have been calculated based upon market quotes and present value calculations based on market rates.

	2012		2011	
	Carrying Amount	Fair Value Level 2	Carrying Amount	Fair Value Level 2
Notes receivable	$ 716,965	$ 673,153	$ 958,568	$ 776,159
Long-term and short-term debt	367,691,732	372,359,731	327,617,994	369,769,950

Note 11-Retirement Plans

The Cooperative participates in the National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan), which is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multi-employer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multi-employer plan, as opposed to a single employer plan, is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative's contributions to the RS Plan in 2012 and 2011 represented less than 5% of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of $3,408,399 in 2012 and $3,282,244 in 2011. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

In the RS Plan, a "zone status" determination is not required and, therefore, not determined under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was between 65% and 80% funded at December 31, 2012 and December 31, 2011 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

In addition, the Cooperative has a 401(k) defined contribution plan available to all employees, which provides for matching contributions 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, 2012 and 2011 amounted to $396,127 and $382,391, 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.

Accumulated post-retirement benefit obligation as of December 31, 2012 and 2011:

	2012	2011
Retirees and dependents	$ 11,931,300	$ 9,746,000
Fully eligible active plan participants	14,379,100	10,112,700
Other active plan participants	20,615,100	14,498,400
	46,925,500	34,357,100
Unrecognized net gain (loss)	(23,878,800)	(13,998,200)
Unrecognized prior service cost	689,200	1,083,100
Accrued post-retirement benefit cost liability	$ 23,735,900	$ 21,442,000

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

	2012	2011
Service cost benefits attributed to employee service during the year	$ 759,000	$ 762,900
Interest cost on accumulated post-retirement benefit obligation	1,998,900	1,898,300
Amortization of net loss	754,500	768,200
Amortization of prior service cost	(393,900)	(393,900)
Net periodic post-retirement benefit cost	$ 3,118,500	$ 3,035,500

The discount rate used in determining the accrued post-retirement benefit cost was 6.0% for 2012 and 2011. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 7.5% in 2012 and 8.0% in 2011, declining to an ultimate rate of 5.0% in 2018.

The Cooperative expects to contribute approximately $871,300 to the plan in 2013. 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:

2013	$ 871,300
2014	957,500
2015	1,050,200
2016	1,209,500
2017	1,412,500
Aggregate for the five years thereafter	10,038,100

Note 13-Self-Funded Programs

The Cooperative is exposed to various claims relating to its business, including those for which self-insurance is provided. Claims for which the Cooperative self-insure include: (1) worker's compensation claims; (2) general liability claims by third parties for injury or property damage caused by equipment or personnel; and (3) automobile liability claims. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim, including claims incurred but not reported as of a period-end reporting date, may not be known for an extended period of time. The methodology for developing self-insurance reserves is based on management estimates and independent third-party actuarial estimates. The estimation process considers, among other matters, the cost of known claims over time, cost inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in claim history or receipt of additional information relevant to assessing the claims. Further, these estimates may prove to be inaccurate due to factors such as adverse judicial determinations or other claim settlements at higher than estimated amounts. Accordingly, the Cooperative may be required to increase or decrease our reserve levels. At December 31, 2012, the claims reserves related to worker's compensation, general liability and automobile liability, which are included in "other accrued expense and deferred charges" in the consolidated balance sheets, totaled $1,490,504. At December 31, 2011, the claims reserves related to worker's compensation, general liability and automobile liability totaled $701,704.

The Cooperative's worker's compensation plan is administered by a third-party, which requires a $150,000 deposit and is included in other assets, will be returned to the Cooperative upon dissolution of the plan.

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 $382,469 and $380,733 for the years ended December 31, 2012 and 2011, respectively. Total contributions due to the Foundation were $31,928 and $31,756 as of December 31, 2012 and 2011, 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.

At December 31, 2012, the Cooperative had the following lines of credit available for use against which no funds had been drawn:

	Amount	Interest Rate
National Rural Utilities Cooperative Finance Corporation	$3,393,139	2.90%
Capital One	1,050,000	3.25%

At December 31, 2012, the Cooperative had funds available to be drawn upon as needed from the Federal Financing Bank of $15,425,000.

Note 17-Reclassifications

Certain reclassifications have been made to the 2011 consolidated financial statements to conform with the 2012 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 24, 2013, 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.

LOUIS C. McKNIGHT, III, C.P.A.
CHARLES R. PEVEY, JR., C.P.A.
DAVID J. BROUSSARD, C.P.A.
NEAL D. KING, C.P.A.
KARIN S. LEJEUNE, C.P.A.
ALYCE S. SCHMITT, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

8555 UNITED PLAZA BLVD., SUITE 200
BATON ROUGE, LOUISIANA 70809
(225) 923-3000 • FAX (225) 923-3008

May 24, 2013

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 years ended December 31, 2012 and 2011, and have issued our report thereon dated May 24, 2013, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and consolidating statements of operations on pages 24 through 27 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, 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 audits 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, 2012

A s s e t s

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Elimin-ations	2012 Totals
Utility Plant					
Electric plant in service	$ 513,926,186	$ –	$ –	$ –	$ 513,926,186
Construction work in progress	36,455,414	–	–	–	36,455,414
Other fixed assets	787,702	2,290,550	1,513,695	–	4,591,947
	551,169,302	2,290,550	1,513,695	–	554,973,547
Accumulated depreciation	(124,645,089)	(2,260,567)	(506,222)	–	(127,411,878)
Total utility plant, net	426,524,213	29,983	1,007,473	–	427,561,669
Investments and Other Assets					
Investments in associated organizations	8,863,238	15,921	–	–	8,879,159
Investment at cost plus equity in undistributed earnings	1,239,191	–	–	(1,239,191)	–
Notes receivable, long-term portion	475,362	–	–	–	475,362
Total investments and other assets	10,577,791	15,921	–	(1,239,191)	9,354,521
Current Assets					
Cash and cash equivalents	534,519	5,104	73,111	–	612,734
Current portion of notes receivable	241,603	–	–	–	241,603
Accounts receivable					
Consumers, net of allowance for uncollectible accounts	7,819,887	–	–	–	7,819,887
Unbilled revenue	8,918,027	–	–	–	8,918,027
Other receivables, net of allowance for uncollectible accounts	7,517,420	309,850	18,703	(359,733)	7,486,240
Deferred fuel adjustment	3,109,184	–	–	–	3,109,184
Materials and supplies	7,634,131	11,047	–	–	7,645,178
Prepaid expenses	1,354,569	–	2,116	–	1,356,685
Total current assets	37,129,340	326,001	93,930	(359,733)	37,189,538
Other Assets					
Deferred charges	34,011,156	–	–	–	34,011,156
Intangible, net	–	800	–	–	800
Certificate of deposit - pledged	150,000	–	–	–	150,000
Total other assets	34,161,156	800	–	–	34,161,956
Total assets	$508,392,500	$ 372,705	$1,101,403	$(1,598,924)	$508,267,684

Equities and Liabilities

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Elimin-ations	2012 Totals
Equities					
Memberships	$ 420,980	$ –	$ –	$ –	$ 420,980
Net assets	–	–	881,663	(881,663)	–
Patronage capital	81,912,869	–	–	–	81,912,869
Retained earnings	–	357,528	–	(357,528)	–
Total equities	82,333,849	357,528	881,663	(1,239,191)	82,333,849
Long-Term Debt					
Notes payable, less current maturities	323,766,195	–	182,168	–	323,948,363
Deferred interest - RUS notes	3,292,714	–	–	–	3,292,714
Total long-term debt	327,058,909	–	182,168	–	327,241,077
Current Liabilities					
Managed overdraft	1,337,336	–	–	–	1,337,336
Current maturities of notes payable	11,307,749	–	18,188	–	11,325,937
Line of credit	32,417,432	–	–	–	32,417,432
Accounts payable	13,252,555	6,725	–	(359,733)	12,899,547
Consumer deposits	7,416,803	–	15,462	–	7,432,265
Accrued interest	861,521	–	–	–	861,521
Other accrued expenses and deferred credits	2,471,354	8,452	3,922	–	2,483,728
Customer refund	624,336	–	–	–	624,336
Total current liabilities	69,689,086	15,177	37,572	(359,733)	69,382,102
Deferred Credits and Other Liabilities					
Accrued post-retirement benefits	23,735,900	–	–	–	23,735,900
Accrued vacation and sick pay	5,574,756	–	–	–	5,574,756
Total deferred credits and other liabilities	29,310,656	–	–	–	29,310,656
Total equities and liabilities	$508,392,500	$ 372,705	$1,101,403	$(1,598,924)	$508,267,684

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

A s s e t s

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Elimin-ations	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 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
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.	Eliminations	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	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 Statement of Operations
Year Ended December 31, 2012

	DEMCO	DEMCO Energy Services, L.L.C.	Dixie Business Development Center, Inc.	Elimin-ations	2012 Totals
Operating Revenue	$ 166,467,686	$652,193	$266,089	$ (4,200)	$ 167,381,768
Operating Expenses					
Cost of power	93,208,759	–	–	–	93,208,759
Cost of sales	–	72,819	–	–	72,819
Distribution - operations	6,501,792	–	–	–	6,501,792
Distribution - maintenance	18,129,697	–	–	–	18,129,697
Consumer accounts	5,881,872	–	–	–	5,881,872
Administrative and general	8,421,850	264,781	242,955	(182,277)	8,747,309
Depreciation and amortization	15,614,758	–	–	–	15,614,758
Taxes	4,807,009	–	–	–	4,807,009
Other	2,140,512	–	–	–	2,140,512
Total operating expenses	154,706,249	337,600	242,955	(182,277)	155,104,527
Operating margins before fixed charges	11,761,437	314,593	23,134	178,077	12,277,241
Fixed Charges					
Interest on long-term debt	12,834,076	–	18,036	–	12,852,112
Other interest	836,900	–	–	–	836,900
Total fixed charges	13,670,976	–	18,036	–	13,689,012
Operating margins (deficit) after fixed charges	(1,909,539)	314,593	5,098	178,077	(1,411,771)
Capital Credits	567,284	–	–	–	567,284
Non-operating Margins (Expenses)					
Interest income	210,723	–	–	–	210,723
Other income (expenses)	429,458	–	108,894	(606,662)	(68,310)
Total non-operating margins (expenses)	640,181	–	108,894	(606,662)	142,413
Net Margins (Deficit)	$ (702,074)	$314,593	$113,992	$(428,585)	$ (702,074)

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.	Elimin-ations	2011 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	237,550	(76,964)	7,905,545
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	237,550	(76,964)	152,478,676
Operating margins before fixed charges	18,332,261	335,414	13,372	72,764	18,753,811
Fixed Charges					
Interest on long-term debt	13,441,317	–	27,280	–	13,468,597
Other interest	1,119,288	–	–	–	1,119,288
Total fixed charges	14,560,605	–	27,280	–	14,587,885
Operating margins after fixed charges	3,771,656	335,414	(13,908)	72,764	4,165,926
Capital Credits	860,776	–	–	–	860,776
Non-operating Margins (Expenses)					
Interest income	191,736	–	–	–	191,736
Other income (expenses)	397,051	–	75,545	(469,815)	2,781
Total non-operating margins (expenses)	588,787	–	75,545	(469,815)	194,517
Net Margins	$ 5,221,219	$335,414	$ 61,637	$ (397,051)	$ 5,221,219

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

LOUIS C. McKNIGHT, III, C.P.A.
CHARLES R. PEVEY, JR., C.P.A.
DAVID J. BROUSSARD, C.P.A.
NEAL D. KING, C.P.A.
KARIN S. LEJEUNE, C.P.A.
ALYCE S. SCHMITT, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

8555 UNITED PLAZA BLVD., SUITE 200
BATON ROUGE, LOUISIANA 70809
(225) 923-3000 • FAX (225) 923-3008

May 24, 2013

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated 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, in accordance with the 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, the consolidated financial statements of Dixie Electric Membership Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and patronage capital, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Dixie Electric Membership Corporation and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dixie Electric Membership Corporation and Subsidiaries' consolidated financial statements are free from 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 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP

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

LOUIS C. McKNIGHT, III, C.P.A.
CHARLES R. PEVEY, JR., C.P.A.
DAVID J. BROUSSARD, C.P.A.
NEAL D. KING, C.P.A.
KARIN S. LEJEUNE, C.P.A.
ALYCE S. SCHMITT, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

8555 UNITED PLAZA BLVD., SUITE 200
BATON ROUGE, LOUISIANA 70809
(225) 923-3000 • FAX (225) 923-3008

May 24, 2013

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by *OMB Circular A-133*

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

Report on Compliance for the Major Federal Program

We have audited Dixie Electric Membership Corporation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Dixie Electric Membership Corporation's major federal program for the year ended December 31, 2012. Dixie Electric Membership Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Dixie Electric Membership Corporation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dixie Electric Membership Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Dixie Electric Membership Corporation's compliance.

Opinion on the Major Federal Program

In our opinion, Dixie Electric Membership Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Dixie Electric Membership Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Dixie Electric Membership Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Dixie Electric Membership Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Yours truly,

Hawthorn, Waymouth & Carroll, LLP

Dixie Electric Membership Corporation and Subsidiaries
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass Through Grantor/ Program Title or Cluster Title	CFDA	Federal Expenditures
U.S. Department of Homeland Security		
Pass through of Office of Emergency Preparedness Disaster Grants - Public Assistance (Presidentially Declared Disasters)*	97.036	$6,426,873
Total U.S. Department of Homeland Security		$6,426,873
Total expenditures of federal awards		$6,426,873

* Denotes major program

See accompanying notes to the schedule of expenditures of federal awards.

Dixie Electric Membership Corporation and Subsidiaries
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Note 1-Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Dixie Electric Membership Corporation and Subsidiaries ("the Cooperative") under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Cooperative, it is not intended to and does not present the financial position or changes in patronage capital of the Cooperative.

Note 2-Summary of Significant Accounting Principles

The Cooperative's Schedule of Expenditures of Federal Awards is reported on the accrual basis of accounting.

Note 3-Subrecipients

Dixie Electric Membership Corporation did not pass through any of its federal awards to a subrecipient during the fiscal year 2012.

Note 4-Non-cash Assistance

No federal awards were expended in the form of non-cash assistance during 2012.

Dixie Electric Membership Corporation
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements
Type of auditor's report issued:
Unmodified

Internal control over financial reporting
* Material weakness(es) identified:
_____ Yes __X__ No
* Significant deficiencies identified that are not considered to be material weaknesses:
_____ Yes __X__ No

Noncompliance material to financial statements noted:
_____ Yes __X__ No

Federal Awards
Internal control over major programs
* Material weakness(es) identified:
_____ Yes __X__ No
* Significant deficiencies identified that are not considered to be material weaknesses:
_____ Yes __X__ No

Type of auditor's report issued on compliance for major programs:
Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133:
_____ Yes __X__ No

Identification of major programs:

CFDA Numbers	Federal Program or Cluster
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee:
_____ Yes __X__ No

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings

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.