

**Dixie Electric Membership Corporation  
and Subsidiaries  
Baton Rouge, Louisiana  
December 31, 2010**

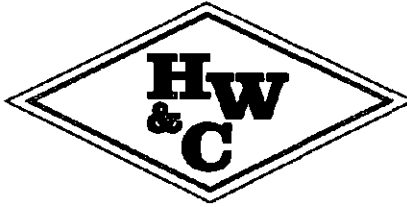
Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date SEP 28 2011

## Table of Contents

Independent Auditor's Report	Page	3
Basic Financial Statements		
Consolidated Balance Sheets	Page	5
Consolidated Statements of Operations and Patronage Capital	Page	6
Consolidated Statements of Cash Flows	Page	7
Notes to Consolidated Financial Statements	Page	9
Additional Information		
Independent Auditor's Report on Additional Information	Page	22
Consolidating Balance Sheets	Page	23
Consolidating Statements of Operations	Page	25
Report on Internal Control over Financial Reporting and on Compliance and Other matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	Page	27
Schedule of Findings and Questioned Costs	Page	29
Schedule of Prior Year Findings and Questioned Costs	Page	30

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April 20, 2011

**Independent Auditor's Report**

The Officers and Board of Directors  
Dixie Electric Membership Corporation  
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, 2010 and 2009, 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 Company'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, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 20, 2011, 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 audit.

Yours truly,

*Hawthorn, Waymouth & Carroll, L.L.P.*

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
**December 31, 2010 and 2009**

**A s s e t s**

	<u>2010</u>	<u>2009</u>
<b>Utility Plant</b>		
Electric plant in service	\$469,223,213	\$439,058,657
Construction work in progress	16,185,392	21,973,652
Other fixed assets	<u>5,026,533</u>	<u>5,019,367</u>
	490,435,138	466,051,676
Accumulated depreciation	<u>117,755,031</u>	<u>119,678,753</u>
	<u>372,680,107</u>	<u>346,372,923</u>
<b>Investments and Other Assets</b>		
Investments in associated organizations	8,218,473	7,671,290
Notes receivable, long-term portion	<u>958,568</u>	<u>1,053,034</u>
	<u>9,177,041</u>	<u>8,724,324</u>
<b>Current Assets</b>		
Cash and cash equivalents	503,639	448,713
Restricted cash		610,059
Current portion of notes receivable	241,602	229,752
Accounts receivable		
Consumers (net of allowance for uncollectible accounts of \$431,827 in 2010 and \$541,392 in 2009)	8,900,046	8,491,637
Unbilled revenue	10,620,014	11,201,144
Current portion of other receivables (net of allowance of \$511,760 in 2010 and \$605,585 in 2009)	7,035,410	6,405,403
Materials and supplies	6,016,324	5,207,790
Prepaid expenses	<u>1,327,954</u>	<u>1,476,500</u>
	<u>34,644,989</u>	<u>34,070,998</u>
<b>Other Assets</b>		
Deferred charges	27,499,789	27,467,320
Intangible, net	800	800
Certificate of deposit - pledged	<u>150,000</u>	<u>150,000</u>
	<u>27,650,589</u>	<u>27,618,120</u>
<b>Total assets</b>	<u><u>444,152,726</u></u>	<u><u>416,786,365</u></u>

The accompanying notes are an integral part of these statements.

## Equities and Liabilities

	<u>2010</u>	<u>2009</u>
<b>Equities</b>		
Memberships	\$409,285	\$404,675
Patronage capital	<u>77,393,724</u>	<u>65,246,015</u>
	<u>77,803,009</u>	<u>65,650,690</u>
 <b>Long-Term Debt</b>		
Notes payable, less current maturities	276,812,707	223,230,083
Deferred interest - RUS notes	<u>5,224,126</u>	<u>6,283,037</u>
	<u>282,036,833</u>	<u>229,513,120</u>
 <b>Current Liabilities</b>		
Managed overdraft	3,505,690	3,559,203
Current maturities of notes payable	9,649,764	9,538,888
Line of credit	19,598,003	64,209,412
Accounts payable	13,672,844	12,184,729
Consumer deposits	6,839,836	6,603,748
Accrued interest	1,576,799	1,041,038
Other accrued expenses and deferred credits	1,808,582	1,403,506
Deferred fuel adjustment	2,882,283	742,280
Customer refund - Cajun	<u>624,336</u>	<u>624,336</u>
	<u>60,158,137</u>	<u>99,907,140</u>
 <b>Deferred Credits and Other Liabilities</b>		
Accrued post retirement benefits	19,150,200	16,877,600
Accrued vacation and sick pay	<u>5,004,547</u>	<u>4,837,815</u>
	24,154,747	21,715,415
	<hr/>	<hr/>
<u>Total equities and liabilities</u>	<u>444,152,726</u>	<u>416,786,365</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidated Statements of Operations and Patronage Capital**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Revenue</b>	<u>\$174,933,819</u>	<u>\$162,171,371</u>
<b>Operating Expenses</b>		
Cost of power	94,098,421	88,634,095
Cost of sales	202,504	277,115
Distribution - operations	6,544,082	6,561,763
Distribution - maintenance	14,048,734	14,625,590
Consumer accounts	5,523,862	5,854,096
Administrative and general	7,642,085	7,649,610
Depreciation and amortization	14,381,534	13,250,904
Taxes	4,408,030	3,851,148
Other	<u>1,539,851</u>	<u>1,283,626</u>
	<u>148,389,103</u>	<u>141,987,947</u>
<u>Operating margins before fixed charges</u>	<u>26,544,716</u>	<u>20,183,424</u>
<b>Fixed Charges</b>		
Interest on long-term debt	13,337,755	12,557,938
Other interest	<u>2,160,879</u>	<u>2,058,337</u>
	<u>15,498,634</u>	<u>14,616,275</u>
<u>Operating margins after fixed charges</u>	<u>11,046,082</u>	<u>5,567,149</u>
<b>Capital credits</b>	<u>1,037,050</u>	<u>809,815</u>
<b>Nonoperating Margins</b>		
Interest income	152,938	153,931
Other income (expense)	<u>(88,361)</u>	<u>39,349</u>
	<u>64,577</u>	<u>193,280</u>
<u>Net margins, as restated for 2009</u>	<u>12,147,709</u>	<u>6,570,244</u>
<b>Patronage Capital, beginning of year</b> as previously reported for 2009	65,246,015	59,025,565
Prior period adjustment	<u>—</u>	<u>(349,794)</u>
Patronage Capital, beginning of year as restated	<u>—</u>	<u>58,675,771</u>
<b>Patronage Capital, end of year</b>	<u>77,393,724</u>	<u>65,246,015</u>

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, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Cash Flows From Operating Activities</b>		
Net margins	\$12,147,709	\$6,570,244
Adjustments to reconcile net margins to net cash provided by operating activities		
Depreciation and amortization	14,381,534	13,250,904
Depreciation included in administrative and general	40,053	39,193
Depreciation included in cost of sales	202,476	260,669
Bad debts	341,527	497,557
Capital credits assigned by associated organizations	(1,028,402)	(723,753)
Amortization of conversion fee	23,800	23,981
Loss on abandonment		257
(Increase) decrease in assets		
Restricted cash	610,059	(21,163)
Consumer accounts receivable	(168,806)	(3,096,826)
Other receivables	(630,007)	25,822,728
Materials and supplies	(808,534)	5,313,907
Other deferred costs	1,324,152	2,533,627
Prepaid expenses	148,546	(147,393)
Increase (decrease) in liabilities		
Accounts payable	1,488,115	(8,778,069)
Consumer deposits	236,088	237,378
Accrued interest	535,761	(12,274)
Other accrued expenses and deferred credits	<u>2,545,079</u>	<u>1,257,710</u>
<u>Net cash provided in operating activities</u>	<u>31,389,150</u>	<u>43,028,677</u>
<b>Cash Flows From Investing Activities</b>		
Utility plant expenditures	(40,141,076)	(53,843,173)
Purchases of fixed assets	(7,166)	(34,633)
Capitalized interest	(783,005)	(1,192,331)
Capital credits collected	481,219	326,466
Proceeds from notes receivable	<u>82,616</u>	<u>246,239</u>
<u>Net cash used in investing activities</u>	<u>(40,367,412)</u>	<u>(54,497,432)</u>
<b>Cash Flows From Financing Activities</b>		
Proceeds from long-term debt	68,025,324	2,430,112
Increase (decrease) in line of credit	(44,611,409)	20,478,719
Repayment of long-term debt	(14,331,824)	(9,931,265)
Proceeds from memberships, net	4,610	4,350
Managed overdraft	<u>(53,513)</u>	<u>(1,464,848)</u>
<u>Net cash provided by financing activities</u>	<u>9,033,188</u>	<u>11,517,068</u>

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, 2010 and 2009**

	<b>2010</b>	<b><u>2009</u></b>
<b>Net Increase in Cash and Cash Equivalents</b>	\$54,926	\$48,313
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>448,713</u>	<u>400,400</u>
End of year	<u><u>503,639</u></u>	<u><u>448,713</u></u>

**Supplemental Schedule of Noncash Investing and Financing Activities**

Increase (Decrease) in compensated absences in accordance with FASB ASC 980	<u>\$166,732</u>	<u>\$6,000</u>
Amortization of Deferred Interest	<u>1,058,911</u>	<u>1,171,687</u>
Post-retirement Benefits	<u>2,272,600</u>	<u>2,318,600</u>

**Supplemental Disclosures of Cash Flow Information**

Cash paid during the year for:		
Interest	<u>\$15,774,129</u>	<u>\$15,852,051</u>

The accompanying notes are an integral part of these statements.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

**Note 1-Organization and Summary of Significant Accounting Policies**

A. Consolidation

The consolidated financial statements include the accounts of Dixie Electric Membership Corporation and its wholly owned Subsidiaries, DEMCO Energy Services, L.L.C. and Dixie Business Development Center, Inc. Intercompany transactions and balances have been eliminated in consolidation. Operations in these financial statements are predominantly from Dixie Electric Membership Corporation.

B. Nature of Operations

Dixie Electric Membership Corporation (the Cooperative) is an electric transmission and distribution cooperative. Its principal business activity is providing electric power to approximately 99,000 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. provides Strike Safe services in southeastern Louisiana.

Dixie Business Development Center, Inc. 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.

C. System of Accounts

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

D. Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash Equivalents

For purposes of the Statement of Cash Flows, the Cooperative considers all highly liquid debt instruments purchased with a 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 monthly against the reserve.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

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

G. Unbilled Revenue

Unbilled revenue consists of earned but unbilled revenue which results from a time lag in billing related services.

H. Inventory

Inventory valuation is based on the average-cost method.

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 cost incurred on borrowed funds during the construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest of \$783,005 and \$1,192,331 was capitalized during the years ended December 31, 2010 and 2009, 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

Intangible assets consist of FCC licenses which are being amortized on a straight-line basis. No amortization expense was charged in 2010 or 2009.

M. Conversion Fee

The Cooperative repriced its debt with the National Rural Utilities Cooperative Finance Corporation (NRUCFC) to lower its interest rates. The cost to reprice its debt is being amortized to expense over the repricing period. The amounts amortized for 2010 and 2009 were \$23,800 and \$23,982, respectively.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

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

N. 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 Louisiana Public Service Commission (LPSC).

O. Advertising

Advertising costs, which are included in operating expenses, are expensed as incurred. Advertising expense was \$1,432,137 and \$1,267,785 for the years ended December 31, 2010 and 2009, respectively.

P. Income Taxes

The Cooperative is exempt from federal and state income taxes under Section 501(c)(12) of the Internal Revenue Code, since it receives more than 85% of its income from its members.

As a Limited Liability Company, DEMCO Energy Services, L.L.C. has elected to be taxed as a C-Corporation under the provisions of the Internal Revenue Code ("IRC"). Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established, when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Cooperative's wholly owned Subsidiary, Dixie Business Development Center, Inc., is exempt from federal and state income taxes under Section 501(c)(4) of the Internal Revenue Code.

In Management's judgment, the Cooperative does not have any tax positions that would result in a loss contingency considering the facts, circumstances, and information available at the reporting date.

With few exceptions, the statute of limitations for the examination of the Cooperative's income tax returns is generally three years from the due date of the tax returns including extensions. The tax Form 990s are prepared on a calendar year basis. The tax Form 1120 is prepared on a fiscal year basis. The tax years open for assessment are the years ending on or after December 31, 2007.

Q. Reclassification

Certain reclassifications have been made to the 2010 financial statements to conform with classifications used in 2010. The reclassifications had no effect on net margins or patronage capital.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

**Note 2-Restricted Cash**

Restricted cash consisted of the following as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Restricted cash		
Revolving loan fund	<u>—</u>	<u>\$610,059</u>

**Note 3-Notes Receivable**

Following is a summary of notes receivable at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Note receivable due from Denbury Onshore, L.L.C., for special construction. The note is due in monthly installments of \$23,476, maturing in June 2015.	\$1,053,033	\$1,282,786
Note receivable due from Amerchol Corporation for special construction. This note is due monthly installments of \$988, maturing May 2023.	<u>147,137</u>	<u>1,282,786</u>
Less current portion of notes receivable	<u>241,602</u>	<u>229,752</u>
Notes receivables, long-term portion	<u>958,568</u>	<u>1,053,034</u>

**Note 4-Utility Plant**

Utility plant consisted of the following as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Distribution plant	\$397,835,032	\$372,049,023
Transmission plant	43,410,597	39,816,606
General plant	27,977,584	27,193,028
Construction work in progress	16,185,392	21,973,652
Other fixed assets	<u>5,026,533</u>	<u>5,019,367</u>
	<u>490,435,138</u>	<u>466,051,676</u>

Average annual composite rates of depreciation used by the Cooperative during 2010 and 2009 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%

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

**Note 5-Investments in Associated Organizations**

Investments in associated organizations consisted of the following as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Capital Term Certificates		
National Rural Utilities Cooperatives Finance Corporation	\$4,682,437	\$4,699,229
Patronage Capital Certificates		
National Rural Utilities Cooperatives Finance Corporation	3,081,224	2,617,558
Other	398,753	250,083
Membership	<u>56,059</u>	<u>104,420</u>
	<u>8,218,473</u>	<u>7,671,290</u>

**Note 6-Deferred Charges**

Following is a summary of deferred charges:

	<u>2010</u>	<u>2009</u>
Deferred compensation	\$5,004,548	\$4,837,816
Deferred interest on RUS notes	5,020,329	6,079,240
Unamortized conversion fee	397,469	421,269
Post-retirement benefits	13,747,521	11,474,921
Regulatory assets - storm related	3,213,335	4,646,047
Other	<u>116,587</u>	<u>8,027</u>
	<u>27,499,789</u>	<u>27,467,320</u>

**Note 7-Line of Credit**

Line of credit as of December 31, 2010 and 2009 consists of the following:

	<u>2010</u>	<u>2009</u>
The Cooperative has an unsecured \$12,000,000 line of credit with CoBank. The interest rate on the line of credit was 2.57% at December 31, 2010.	\$7,032,506	\$10,012,790
The Cooperative has two unsecured lines of credit totaling \$25,000,000 with the National Rural Utilities Cooperative Finance Corporation. The interest rate on the line of credit was 4.95% at December 31, 2010.	<u>12,565,497</u>	<u>54,196,622</u>
	<u>19,598,003</u>	<u>64,209,412</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

**Note 8-Notes Payable**

Long-term debt as of December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Rural Utilities Service, 3.63% to 5.18% mortgage notes, due in quarterly principal and interest installments of approximately \$750,000 through 2022.	\$120,278,746	\$130,547,273
National Rural Utilities Cooperative Finance Corporation, mortgage notes at variable and fixed interest rates ranging from 2.90% to 7.35%, due in quarterly principal and interest installments of approximately \$2,500,000 through 2031.	97,796,543	100,868,923
Unsecured USDA loan payable due in annual installments of \$28,615 until paid. Interest is at 1%. This loan was paid in full during 2010.		465,427
Federal Financing Bank, note payable secured by plant with a 3.55% interest rate due in quarterly principal and interest payments of approximately \$800,000 through 2045. The note is guaranteed by the Rural Utilities Service.	64,000,000	
CoBank, note payable secured by plant with a 3.25% interest rate due in monthly principal and interest payments of approximately \$30,000 through 2024.	3,929,373	
The Cooperative's Subsidiary, Dixie Business Development Center, Inc. has a note payable to National Cooperative Services Corporation (NCSC) due in 59 monthly installments of approximately \$4,800 through 2021. The interest is fixed at 5.95%. The note is guaranteed by DEMCO.	457,809	487,348
USDA Rural Economic Development, \$400,000 unsecured, non-interest bearing. This loan was paid in full during 2010.		<u>400,000</u>
	<u>286,462,471</u>	<u>232,768,971</u>
Less current maturities of notes payable	<u>9,649,764</u>	<u>9,538,888</u>
Notes payable, less current maturities	<u>276,812,707</u>	<u>223,230,083</u>

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

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

**Note 8-Notes Payable (Continued)**

Annual future maturities of long-term debt, as of December 31, 2010, are as follows:

2011	\$9,649,764
2012	10,460,222
2013	9,942,907
2014	9,435,764
2015	8,158,348
Thereafter	<u>238,815,466</u>
	<u>286,462,471</u>

**Note 9-Deferred Interest**

Effective February 1, 1991, the Cooperative entered into an agreement (Section 12) with the Rural Utilities Service (RUS) with respect to \$83,040,993 of long-term mortgage notes held by RUS. The agreement allowed the Cooperative a 5-year deferral of interest followed by a 5-year deferral of principal (1996-2000). The amount of interest and principal deferred over the 10-year period was approximately \$26,700,000. Under the agreement, interest did not accrue on the deferred interest; however, it did accrue on the deferred principal. The deferred interest is accounted for in accordance with the Regulated Operations Topic of the FASB - Accounting Standards Codification, and the deferred cost will be amortized to expense when paid. The deferral was removed in 1996 and payments of \$1,058,911 and \$1,171,687 were charged to interest expense for the years ended December 31, 2010 and 2009.

The agreement includes financial covenants requiring a TIER and DSC of 1.25. The agreement also places a restriction on the payment of patronage capital. The Cooperative met its TIER and DSC covenant requirements for the years ended December 31, 2010 and 2009.

**Note 10-Patronage Capital**

At December 31, 2010 and 2009, patronage capital consisted of:

	<u>2010</u>	<u>2009</u>
Assignable	\$46,066,873	\$35,456,076
Assigned to date	22,892,714	22,892,714
Non-assignable nonoperating	<u>8,434,137</u>	<u>6,897,225</u>
	<u>77,393,724</u>	<u>65,246,015</u>

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, however, 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 2010 or 2009.



**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

**Note 11-Prior Period Adjustments**

From 2006 through 2010, the Cooperative charged certain employees a portion of health savings account costs in error. During 2010, the Cooperative refunded these amounts to all current and former employees that were affected. The financial statements for 2009 have been retroactively restated to reflect the amounts related to the years from 2006 through 2009. The restatements resulted in a decrease in net margins for 2009 in the amount of \$118,022. Patronage capital has been decreased accordingly in the amount of \$349,794 as of the end of 2008.

	<b>December 31, 2009</b>	
	<b>Net Margins</b>	<b>Patronage Capital</b>
Balance as previously reported	\$6,688,266	\$59,025,565
Correction of an error	<u>(118,022)</u>	<u>(349,794)</u>
	<u>6,570,244</u>	<u>58,675,771</u>

**Note 12-Income Tax**

Significant components of the DEMCO Energy Services, L.L.C.'s deferred tax items are as follows:

	<b>2010</b>	<b>2009</b>
Net operating loss (NOL) carryforward	\$925,497	\$1,015,574
Depreciation	(22,174)	(35,742)
Valuation allowance	<u>(903,323)</u>	<u>(979,832)</u>
Net deferred tax asset	<u>—</u>	<u>—</u>

A valuation allowance has been established due to the uncertainty of realizing the benefit of NOL carryforwards. DEMCO Energy Services, L.L.C. has available at December 31, 2010 approximately \$5,066,000 of unused operating loss carryforwards which expire in various years from 2021 to 2024, that may be applied against future taxable income.

**Note 13-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 balance sheet. 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 Company.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

**Note 13-Fair Value of Financial Instruments (Continued)**

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 Company'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 balance sheet 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.

Long-Term and Short-Term Debt

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

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

	<u>2010</u>		<u>2009</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$503,639	\$503,639	\$1,058,772	\$1,058,772
Certificate of deposit - pledged	150,000	150,000	150,000	150,000
Notes receivable	1,200,170	1,200,170	1,282,786	1,282,786
Investment in associated organizations	8,218,473	8,218,473	7,671,290	7,671,290
Managed overdrafts	3,505,690	3,505,690	3,559,203	3,559,203
Long-term and short-term debt	306,060,474	345,844,558	296,978,383	356,460,000

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

**Note 14-Retirement Plans**

The Cooperative participates in the National Rural Electric Cooperative Association (NRECA) pension plan for all of its employees. Pension expense for 2010 and 2009 was \$3,263,484 and \$2,288,561, 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, 2010 and 2009 amounted to \$359,584 and \$329,166, respectively.

**Note 15-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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Retirees	\$9,141,900	\$7,433,000
Fully eligible, active plan participants	9,227,400	1,780,600
Other active plan participants	<u>14,070,300</u>	<u>16,217,500</u>
	32,439,600	25,431,100
Unrecognized net gain or (loss)	(14,766,400)	(10,424,400)
Unrecognized prior service cost	<u>1,477,000</u>	<u>1,870,900</u>
Accrued post-retirement benefit cost	<u>19,150,200</u>	<u>16,877,600</u>

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

Service cost benefits attributed to employee service during the year	808,100	477,400
Interest cost on accumulated post-retirement benefit obligation	1,775,300	1,432,400
Amortization of net loss	780,700	803,000
Amortization of prior service cost	<u>(393,900)</u>	<u>(393,900)</u>
Net periodic post-retirement benefit cost	<u>2,970,200</u>	<u>2,318,900</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

**Note 15-Post-retirement Benefits Other Than Pensions (Continued)**

The discount rate used in determining the accrued post-retirement benefit cost was 6% for 2010 and 2009. The assumed health care cost trend rate used in measuring the accumulated post-retirement benefit obligation was 9.0% in 2010, declining to an ultimate rate of 5 % in 2018.

The Cooperative expects to contribute approximately \$743,700 to the plan in 2011. 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:

2011	\$743,700
2012	824,600
2013	871,300
2014	957,500
2015	1,050,200
Aggregate for the five years thereafter	8,055,500

**Note 16-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.

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.

**Dixie Electric Membership Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010**

**Note 17-Related Party Transactions**

The Cooperative collects voluntary contributions from customer billings and remits them to The DEMCO Foundation, Inc., a related party through common management. Total contributions remitted were \$380,242 and \$375,090 for the years ended December 31, 2010 and 2009, respectively. Total contributions due to the Foundation were \$31,764 and \$31,394 as of December 31, 2010 and 2009, respectively.

**Note 18-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 had operational problems or ceased making materials available or providing services to the Cooperative, operations could be adversely affected.

**Note 19-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 financial statements.

At December 31, 2010, the Cooperative had unused lines of credit to be drawn upon as needed as follows:

<u>Lender</u>	<u>Amount</u>	<u>Interest Rate</u>
CoBank	\$35,000,000	3.07%
National Rural Utilities Cooperative Finance Corporation	25,000,000	4.95%
Capital One	1,050,000	3.25%

At December 31, 2010, the Cooperative had funds available to be drawn upon as needed from the Federal Financing Bank of \$85,425,000.

**Note 20-Subsequent Events**

The Cooperative has evaluated all subsequent events through April 20, 2011, the date the financial statements were available to be issued.

**Additional Information**

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

J CHARLES PARKER, C.P.A.  
LOUIS C. McKNIGHT, III, C.P.A.  
CHARLES R. PEVEY, JR., C.P.A.  
DAVID J. BROUSSARD, C.P.A.



CERTIFIED PUBLIC ACCOUNTANTS

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April 20, 2011

**Independent Auditor's Report on Additional Information**

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

We have audited the financial statements of Dixie Electric Membership Corporation and Subsidiaries as of and for the year ended December 31, 2010, and have issued our report thereon dated April 20, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The additional consolidating information on pages 23 through 26 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Yours truly,

*Hawthorn, Waymouth & Carroll, L.L.P.*

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

A s s e t s

	<u>DEMCO</u>	<u>DEMCO Energy Services, L.L.C.</u>	<u>Dixie Business Development Center, Inc.</u>	<u>Elimin- ations</u>	<u>2010</u>
<b>Utility Plant</b>					
Electric plant in service	\$469,223,213				\$469,223,213
Construction work in progress	16,185,392				16,185,392
Other fixed assets	<u>451,963</u>	<u>\$3,123,675</u>	<u>\$1,450,895</u>		<u>5,026,533</u>
	485,860,568	3,123,675	1,450,895		490,435,138
Accumulated depreciation	<u>(114,456,985)</u>	<u>(2,871,399)</u>	<u>(426,647)</u>		<u>(117,755,031)</u>
	<u>371,403,583</u>	<u>252,276</u>	<u>1,024,248</u>		<u>372,680,107</u>
<b>Investments and Other Assets</b>					
Investments in associated organizations	8,202,345	16,128			8,218,473
Investment in unconsolidated subsidiary at cost plus equity in undistributed earnings	1,413,555			(\$1,413,555)	
Notes receivable, long-term portion	<u>958,568</u>				<u>958,568</u>
	<u>10,574,468</u>	<u>16,128</u>		<u>(1,413,555)</u>	<u>9,177,041</u>
<b>Current Assets</b>					
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	2,833			6,016,324
Prepaid expenses	<u>1,326,694</u>		<u>1,260</u>		<u>1,327,954</u>
	<u>34,478,139</u>	<u>451,026</u>	<u>175,431</u>	<u>(459,607)</u>	<u>34,644,989</u>
<b>Other Assets</b>					
Deferred charges	27,499,789				27,499,789
Intangible, net		800			800
Certificate of deposit - pledged	150,000				150,000
	<u>27,649,789</u>	<u>800</u>			<u>27,650,589</u>
<b>Total assets</b>	<u>444,105,979</u>	<u>720,230</u>	<u>1,199,679</u>	<u>(1,873,162)</u>	<u>444,152,726</u>



## Equities and Liabilities

	<u>DEMCO</u>	<u>DEMCO Energy Services, L.L.C.</u>	<u>Dixie Business Development Center, Inc.</u>	<u>Elimin- ations</u>	<u>2010</u>
<b>Equities</b>					
Memberships	\$409,285				\$409,285
Net assets			\$706,034	(\$706,034)	
Patronage capital	77,393,724				77,393,724
Retained earnings		<u>\$707,521</u>		<u>(707,521)</u>	
	<u>77,803,009</u>	<u>707,521</u>	<u>706,034</u>	<u>(1,413,555)</u>	<u>77,803,009</u>
<b>Long-Term Debt</b>					
Notes payable, less current maturities	276,386,446		426,261		276,812,707
Deferred interest - RUS notes	<u>5,224,126</u>				<u>5,224,126</u>
	<u>281,610,572</u>		<u>426,261</u>		<u>282,036,833</u>
<b>Current Liabilities</b>					
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	<u>624,336</u>				<u>624,336</u>
	<u>60,537,651</u>	<u>12,709</u>	<u>67,384</u>	<u>(459,607)</u>	<u>60,158,137</u>
<b>Deferred Credits and Other Liabilities</b>					
Accrued post retirement benefits	19,150,200				19,150,200
Accrued vacation and sick pay	<u>5,004,547</u>				<u>5,004,547</u>
	<u>24,154,747</u>				<u>24,154,747</u>
<b><u>Total equities and liabilities</u></b>	<u>444,105,979</u>	<u>720,230</u>	<u>1,199,679</u>	<u>(1,873,162)</u>	<u>444,152,726</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
**December 31, 2009**

**A s s e t s**

	<u>DEMCO</u>	<u>DEMCO Energy Services, L.L.C.</u>	<u>Dixie Business Development Center, Inc.</u>	<u>Elimin- ations</u>	<u>2009</u>
<b>Utility Plant</b>					
Electric plant in service	\$439,058,657				\$439,058,657
Construction work in progress	21,973,652				21,973,652
Other fixed assets	<u>451,963</u>	<u>\$3,116,509</u>	<u>\$1,450,895</u>		<u>5,019,367</u>
	461,484,272	3,116,509	1,450,895		466,051,676
Accumulated depreciation	<u>(116,623,236)</u>	<u>(2,668,923)</u>	<u>(386,594)</u>		<u>(119,678,753)</u>
	<u>344,861,036</u>	<u>447,586</u>	<u>1,064,301</u>		<u>346,372,923</u>
<b>Investments and Other Assets</b>					
Investments in associated organizations	7,654,833	16,457			7,671,290
Investment in unconsolidated subsidiary at cost plus equity in undistributed earnings	1,476,985			(\$1,476,985)	
Notes receivable, long-term portion	<u>1,053,034</u>				<u>1,053,034</u>
	<u>10,184,852</u>	<u>16,457</u>		<u>(1,476,985)</u>	<u>8,724,324</u>
<b>Current Assets</b>					
Cash and cash equivalents	337,884	15	110,814		448,713
Restricted cash	610,059				610,059
Current portion of notes receivable	229,752				229,752
Accounts receivable					
Consumers, net of allowance for uncollectible accounts	8,482,904	7,983	750		8,491,637
Unbilled revenue	11,201,144				11,201,144
Current portion of other receivables, net of allowance for uncollectible accounts	6,405,403	356,827	3,924	(360,751)	6,405,403
Materials and supplies	5,204,746	3,044			5,207,790
Prepaid expenses	<u>1,475,461</u>		<u>1,039</u>		<u>1,476,500</u>
	<u>33,947,353</u>	<u>367,869</u>	<u>116,527</u>	<u>(360,751)</u>	<u>34,070,998</u>
<b>Other Assets</b>					
Deferred charges	27,467,320				27,467,320
Intangible, net		800			800
Certificate of deposit - pledged	<u>150,000</u>				<u>150,000</u>
	<u>27,617,320</u>	<u>800</u>			<u>27,618,120</u>
<b>Total assets</b>	<u>416,610,561</u>	<u>832,712</u>	<u>1,180,828</u>	<u>(1,837,736)</u>	<u>416,786,365</u>

### Equities and Liabilities

	<u>DEMCO</u>	<u>DEMCO Energy Services, L.L.C.</u>	<u>Dixie Business Development Center, Inc.</u>	<u>Elimin- ations</u>	<u>2009</u>
<b>Equities</b>					
Memberships	\$404,675				\$404,675
Net assets			\$658,561	(\$658,561)	
Patronage capital	65,246,015				65,246,015
Retained earnings	<u>                    </u>	<u>\$818,424</u>	<u>                    </u>	<u>(818,424)</u>	<u>                    </u>
	<u>65,650,690</u>	<u>818,424</u>	<u>658,561</u>	<u>(1,476,985)</u>	<u>65,650,690</u>
<b>Long-Term Debt</b>					
Notes payable, less current maturities	222,775,176		454,907		223,230,083
Deferred interest - RUS notes	<u>6,283,037</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>6,283,037</u>
	<u>229,058,213</u>	<u>                    </u>	<u>454,907</u>	<u>                    </u>	<u>229,513,120</u>
<b>Current Liabilities</b>					
Managed overdraft	3,559,203				3,559,203
Current maturities of notes payable	9,506,447		32,441		9,538,888
Line of credit	64,209,412				64,209,412
Accounts payable	12,539,186	5,257	1,037	(360,751)	12,184,729
Consumer deposits	6,589,351		14,397		6,603,748
Accrued interest	1,041,038				1,041,038
Other accrued expenses and deferred credits	1,374,990	9,031	19,485		1,403,506
Deferred fuel adjustment	742,280				742,280
Customer refund - Cajun	<u>624,336</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>624,336</u>
	<u>100,186,243</u>	<u>14,288</u>	<u>67,360</u>	<u>(360,751)</u>	<u>99,907,140</u>
<b>Deferred Credits and Other Liabilities</b>					
Accrued post retirement benefits	16,877,600				16,877,600
Accrued vacation and sick pay	<u>4,837,815</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>4,837,815</u>
	<u>21,715,415</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>21,715,415</u>
<b>Total equities and liabilities</b>	<u>416,610,561</u>	<u>832,712</u>	<u>1,180,828</u>	<u>(1,837,736)</u>	<u>416,786,365</u>

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

	<u>DEMCO</u>	<u>DEMCO Energy Services, L.L.C.</u>	<u>Dixie Business Development Center, Inc.</u>	<u>Elimin- ations</u>	<u>2010</u>
<b>Operating Revenue</b>	<u>\$173,876,545</u>	<u>\$837,375</u>	<u>\$224,099</u>	<u>(\$4,200)</u>	<u>\$174,933,819</u>
<b>Operating Expenses</b>					
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	<u>1,539,851</u>				<u>1,539,851</u>
	<u>147,860,174</u>	<u>448,278</u>	<u>196,451</u>	<u>(115,800)</u>	<u>148,389,103</u>
Operating margins before fixed charges	<u>26,016,371</u>	<u>389,097</u>	<u>27,648</u>	<u>111,600</u>	<u>26,544,716</u>
<b>Fixed Charges</b>					
Interest on long-term debt	13,337,755				13,337,755
Other interest	<u>2,160,879</u>				<u>2,160,879</u>
	<u>15,498,634</u>				<u>15,498,634</u>
Operating margins after fixed charges	<u>10,517,737</u>	<u>389,097</u>	<u>27,648</u>	<u>111,600</u>	<u>11,046,082</u>
<b>Capital credits</b>	<u>1,037,050</u>				<u>1,037,050</u>
<b>Nonoperating Margins (Expenses)</b>					
Interest income	152,938				152,938
Other income (expenses)	<u>439,984</u>		<u>19,825</u>	<u>(548,170)</u>	<u>(88,361)</u>
	<u>592,922</u>		<u>19,825</u>	<u>(548,170)</u>	<u>64,577</u>
<b>Net Margins</b>	<u>12,147,709</u>	<u>389,097</u>	<u>47,473</u>	<u>(436,570)</u>	<u>12,147,709</u>

**Dixie Electric Membership Corporation and Subsidiaries**  
**Consolidating Statement of Operations**  
**Year Ended December 31, 2009**

	<u>DEMCO</u>	<u>DEMCO Energy Services, L.L.C.</u>	<u>Dixie Business Development Center, Inc.</u>	<u>Elimin- ations</u>	<u>2009</u>
<b>Operating Revenue</b>	<u>\$161,019,789</u>	<u>\$911,922</u>	<u>\$252,298</u>	<u>(\$12,638)</u>	<u>\$162,171,371</u>
<b>Operating Expenses</b>					
Cost of power	88,634,095				88,634,095
Cost of sales		277,115			277,115
Distribution - operations	6,561,763				6,561,763
Distribution - maintenance	14,625,590				14,625,590
Consumer accounts	5,854,096				5,854,096
Administrative and general	7,304,438	260,316	200,383	(115,527)	4,649,610
Depreciation and amortization	13,250,904				13,250,904
Taxes	3,851,148				3,851,148
Other	1,292,064			(8,438)	1,283,626
	<u>141,374,098</u>	<u>537,431</u>	<u>200,383</u>	<u>(123,965)</u>	<u>141,987,947</u>
Operating margins before fixed charges	<u>19,645,691</u>	<u>374,491</u>	<u>51,915</u>	<u>111,327</u>	<u>20,183,424</u>
<b>Fixed Charges</b>					
Interest on long-term debt	12,557,938				12,557,938
Other interest	2,058,337				2,058,337
	<u>14,616,275</u>				<u>14,616,275</u>
Operating margins after fixed charges	<u>5,029,416</u>	<u>374,491</u>	<u>51,915</u>	<u>111,327</u>	<u>5,567,149</u>
<b>Capital credits</b>	<u>809,815</u>				<u>809,815</u>
<b>Nonoperating Margins (Expenses)</b>					
Interest income	153,931				153,931
Other income (expenses)	577,082	(257)	24,106	(561,582)	39,349
	<u>731,013</u>	<u>(257)</u>	<u>24,106</u>	<u>(561,582)</u>	<u>193,280</u>
<b>Net Margins</b>	<u>6,570,244</u>	<u>374,234</u>	<u>76,021</u>	<u>(450,255)</u>	<u>6,570,244</u>

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

J. CHARLES PARKER, C.P.A.  
LOUIS C. MCKNIGHT, III, C.P.A.  
CHARLES R. PEVEY, JR., C.P.A.  
DAVID J. BROUSSARD, C.P.A.



CERTIFIED PUBLIC ACCOUNTANTS

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April 20, 2011

**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, 2010, and have issued our report thereon dated April 20, 2011. 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 Organization'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 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 is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

*Hawthorn, Weymouth & Carroll, L.L.P.*

**Dixie Electric Membership Corporation  
Schedule of Findings and Questioned Costs  
Year Ended December 31, 2010**

**Findings - Financial Statement Audit**

None.



**Dixie Electric Membership Corporation  
Schedule of Findings and Questioned Costs  
Year Ended December 31, 2009**

**Findings - Financial Statement Audit**

None.