Cobb Electric Membership Corporation

2011 Annual Report

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Cobb EMC serves portions of Cobb, Cherokee, Fulton, Bartow and Paulding counties in the metro Atlanta area and Calhoun, Clay, Quitman and Randolph counties in southwest Georgia.

Mission Statement

Cobb Electric Membership Corporation shall provide safe, adequate and reliable electric service and other energy related services to its members/consumers. Our primary focus will be to provide superior service through a professional staff, competitive rates and sound business principles. The organization further dedicates itself to being a corporate citizen within the community and a recognized leader in the utility industry.

Letter To Our Members

Over the past 36 years, the Cobb EMC Board of Directors has wisely invested in Cobb EMC's growing distribution system. Today it is one of the most technologically advanced in the world. Cobb EMC has expanded and continues to maintain a system that in the mid-1970s served roughly 30,000 meters and today serves about 196,000 meters for 171,000 members, all while keeping the electricity flowing and rates competitive.

To keep up with growth and continue to provide our members with reliable electric energy, Cobb EMC crews installed Substation No. 44 at the Galleria complex in Cobb County last summer. The installation of this new substation provides power to the Galleria complex, one of Cobb EMC's largest usage customers.

Cobb EMC was one of only 100 companies, utilities, manufacturers, cities and other partners to receive a $16.89 million Smart Grid Investment Grant award from the U.S. Department of Energy. Since October 2010, Cobb EMC has been replacing existing meters with Smart Meters throughout the system. The award represents half of the $33.78 million cost of the system upgrade and enables Cobb EMC to obtain meter readings electronically, eliminating the need for manual readings for most meters. The process began with the installation of Smart Meters for a test group in October 2010. Full deployment began on February 21, 2011 and will continue until the systems' meters have been upgraded by May 2012.

In the early months of 2010, the Cobb EMC Board of Directors approved a wholesale power adjustment (WPA) decrease from $0.023 to $0.019 per kWh, effective June 1, 2010. For a typical residential member on the Cobb EMC system, this has meant an average savings of about $6.00 per month for their electric service. Cobb EMC members continued to benefit from this cost saving over the past year.

This year, a $14.5 million rebate was made possible because wholesale power purchased by Cobb EMC in 2010 did not cost as much as had been anticipated. Cobb EMC residential and commercial members received the rebates totaling $10 million on their May 2011 bills. An additional $4.5 million rebate appears on September 2011 bills. This brings the total rebated to members since 1994 to $52 million.

According to a recent national survey, Cobb EMC achieved a ranking among mid-size utilities in the south for customer satisfaction that was greater than that for most others in the same category. The study measured customer satisfaction with electric utility companies by examining six key factors: power quality and reliability; price; billing and payment; corporate citizenship; communications; and customer service. The study ranks large and midsize utility companies in four geographic regions: East, Midwest, South and West. Companies in the midsize utility segments serve between 125,000 and 499,999 residential customers.

Additionally, the July 2011 Georgia PSC rate survey shows that for a typical residential consumer, Cobb EMC's summer rates are lower than the local investor-owned electric utility's rates by 15 percent.

Gas South, our wholly owned natural gas marketing subsidiary, had another strong year in terms of customer growth, financial results, and community engagement. Gas South serves more than 250,000 households and businesses across the state of Georgia and has been the state's fastest growing natural gas provider since 2008.

ProCore Solutions, a Cobb EMC company, continues to develop new business relationships. For one client, the call center service handles calls for IOU's from Canada to California, and now also supports the Islands of Hawaii for Hawaiian Electric Co. (HECO). The ProCore call center will manage more than 2,000,000 calls in 2011. ProCore Solutions provides contract labor services, and inbound and outbound call handling services for professional service organizations, municipalities, cooperatives and investor-owned utilities 24 hours a day, 7 days a week.

Interim President/ CEO and former Cobb EMC Chief Operations Officer, W. T. (Chip) Nelson III was hired in July to become the cooperative's sixth chief executive officer since its inception in 1938. Mr. Nelson has been employed by Cobb EMC for 37 years.

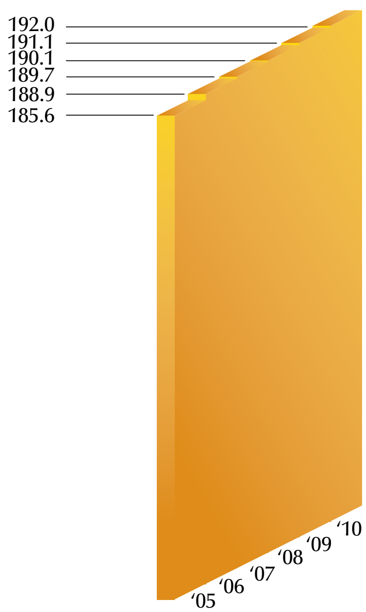
This year, Cobb EMC celebrates 73 years of providing safe, reliable electric service and excellent value to our members. We remain committed to going above and beyond to address your ever-growing energy needs and look forward to another great year as your EMC doing great things together. For more information about Cobb EMC, visit our web site at www.cobbemc.com.

Larry N. Chadwick, Chairman

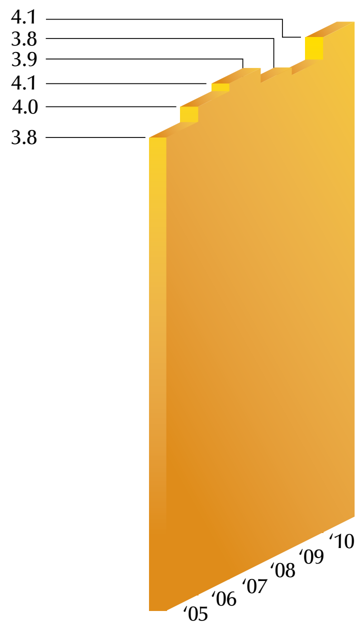
W. T. (Chip) Nelson III, President/CEO

2010 Year End

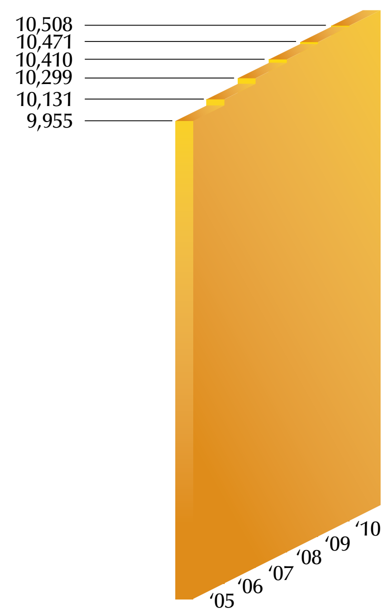
Number of Members
In thousands



Kilowatt Hour Sales
In Billions

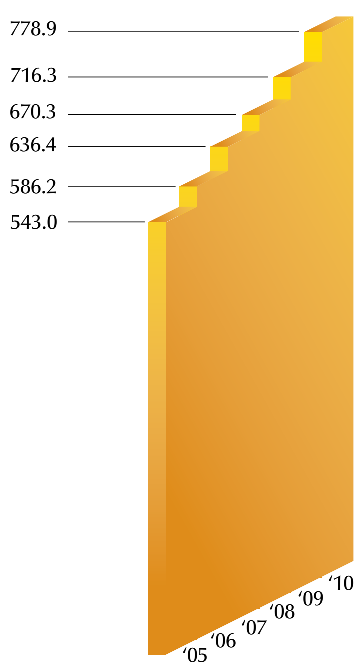


Miles Of Line

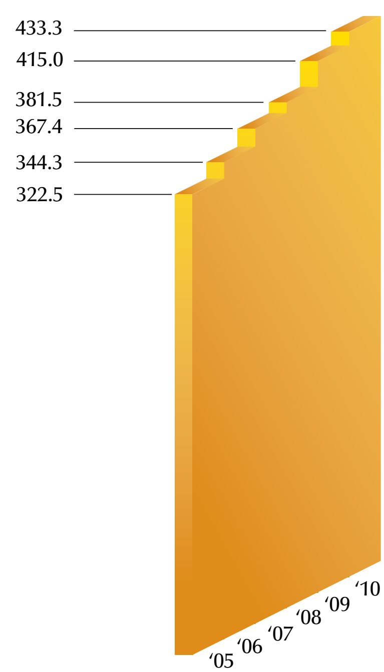


Peak Load
In thousands of Kilowatts

Total Plant Value
In Millions of Dollars



Total Operating Revenue
In Millions of Dollars



August 11, 2011

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Cobb Electric Membership Corporation

We have audited the accompanying consolidated balance sheets of **Cobb Electric Membership Corporation and Subsidiaries** as of April 30, 2011 and 2010 and the related consolidated statements of operations, equities and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Gas South, LLC, a wholly-owned subsidiary, which statements reflect operating revenues of $238,655,557 and $256,750,804, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Gas South, LLC, is based solely on the report of the other auditors.

We conducted our audit as of and for the year ended April 30, 2010 in accordance with auditing standards generally accepted in the United States of America. We conducted our audit as of for the year ended April 30, 2011 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The financial statements of Gas South, LLC were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Cobb Electric Membership Corporation and Subsidiaries as of April 30, 2011 and 2010, and the results of its operations and 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 August 11, 2011 on our consideration of Cobb Electric Membership Corporation and Subsidiaries', excluding Gas South, LLC, 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 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 result of our audits.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic consolidated financial statements as a whole.

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

Consolidated Balance Sheets as of April 30

ASSETS

	2011	2010
UTILITY PLANT		
Utility Plant in Service, at Cost	**$ 795,710,596**	$ 727,715,440
Construction Work in Progress	**9,301,891**	10,715,268
Gross Utility Plant	**805,012,487**	738,430,708
Accumulated Provision for Depreciation	**(199,598,948)**	(172,889,489)
	605,413,539	565,541,219
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	**151,214,962**	143,143,904
Nonutility Plant (Net of Accumulated Depreciation of $1,484,384 in 2011 and $1,206,573 in 2010)	**1,106,458**	1,310,025
Notes Receivable	**13,243,902**	11,202,076
Other Investments	**12,553,597**	2,569,223
	178,118,919	158,225,228
CURRENT ASSETS		
Cash and Cash Equivalents	**54,810,514**	47,074,341
Short-Term Investments	**980,270**	2,270,124
Accounts Receivable - (Net of Accumulated Provision for Uncollectibles of $6,835,810 in 2011 and $7,131,203 in 2010)	**37,991,226**	59,741,365
Gas Inventory	**2,622,232**	1,776,784
Materials and Supplies	**2,576,245**	2,748,140
Prepaid Income Taxes	**3,970,468**	668,584
Other Prepayments	**4,393,214**	6,608,189
Assets Held for Sale	**1,027,621**	3,209,903
Deferred Tax Assets	**1,651,958**	3,866,579
Other Current Assets	**1,098,037**	1,062,202
	111,121,785	129,026,211
DEFERRED TAX ASSETS	**11,672,410**	12,434,428
OTHER ASSETS	**27,889,849**	63,096,456
TOTAL ASSETS	**$ 934,216,502**	$ 928,323,542

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

Consolidated Balance Sheets as of April 30

EQUITIES AND LIABILITIES	2011	2010
EQUITIES		
Membership Fees	**$ 558,030**	$ 599,294
Patronage Capital	**356,839,085**	316,969,102
Donated Capital	**433,963**	450,896
Other Equities	**1,716,249**	19,356,233
Accumulated Other Comprehensive Loss	**(5,839,507)**	(14,379,811)
Noncontrolling Interest	**-**	426,873
	353,707,820	323,422,587
LONG-TERM LIABILITIES		
Long-Term Debt	**398,635,888**	395,025,028
Risk Management Liability	**29,200**	200,565
Retirement Benefits	**6,712,106**	12,413,251
Deferred Tax Liabilities	**5,894,561**	13,045,528
Other	**830,808**	707,570
	412,102,563	421,391,942
CURRENT LIABILITIES		
Lines-of-Credit	**67,350,000**	86,750,000
Current Portion of Long-Term Debt	**17,907,800**	16,109,900
Current Portion of Risk Management Liability	**771,910**	4,901,572
Current Portion of Retirement Benefits	**339,600**	480,880
Accounts Payable	**42,682,477**	38,498,007
Consumer Deposits	**12,367,978**	11,349,589
Accrued and Withheld Taxes	**3,657,268**	4,381,911
Liabilities Held for Sale	**198,198**	115,701
Deferred Tax Liabilities	**2,737,482**	2,755,360
Other Current and Accrued Liabilities	**10,764,843**	11,404,591
	158,777,556	176,747,511
DEFERRED CREDITS	**9,628,563**	6,761,502
TOTAL EQUITIES AND LIABILITIES	**$ 934,216,502**	$ 928,323,542

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

Consolidated Statements of Operations for the Years Ended April 30

	2011	2010
OPERATING REVENUES	**$ 674,341,711**	$ 690,449,506
OPERATING EXPENSES		
Cost of Revenues	**470,049,073**	471,144,245
Distribution Operations	**7,353,914**	6,275,273
Distribution Maintenance	**25,009,018**	20,893,786
Consumer Accounts	**33,853,915**	33,088,487
Consumer Service and Information	**12,364,293**	11,652,353
Administrative, Selling and General	**52,473,069**	46,017,697
Depreciation and Amortization	**32,444,443**	30,812,546
Operating Taxes	**4,384,270**	4,553,967
TOTAL OPERATING EXPENSES	**637,931,995**	624,438,354
OPERATING MARGINS BEFORE INTEREST EXPENSE	**36,409,716**	66,011,152
INTEREST EXPENSE	**28,020,909**	29,544,308
OPERATING MARGINS AFTER INTEREST EXPENSE	**8,388,807**	36,466,844
NONOPERATING MARGINS (LOSS)	**1,816,202**	(1,359,505)
G & T CAPITAL CREDITS	**6,849,514**	6,305,425
OTHER CAPITAL CREDITS AND PATRONAGE ALLOCATIONS	**3,348,860**	2,793,918
OPERATIONS FROM ASSETS HELD FOR SALE	**(2,376,664)**	305,606
GAIN (LOSS) ON DISPOSITION OF ASSETS	**(354,393)**	1,658,209
NET INCOME BEFORE INCOME TAXES	**17,672,326**	46,170,497
INCOME TAX BENEFIT (EXPENSE)	**4,130,800**	(3,023,339)
NET INCOME	**$ 21,803,126**	$ 43,147,158

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

Consolidated Statements of Equities and Comprehensive Income
For the Years Ended April 30, 2011 and 2010

	Membership Fees	Patronage Capital	Donated Capital	Other Equities	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total	Comprehensive Income
BALANCE-APRIL 30, 2009	$ 619,873	$ 291,519,921	$ 437,319	$ 1,658,256	$ (19,433,116)	$ 426,873	$ 275,229,126	-
Decrease in Membership Fees	(20,579)	-	-	-	-	-	(20,579)	-
Net Income	-	25,449,181	-	17,697,977	-	-	43,147,158	$ 43,147,158
Change in Donated Capital	-	-	13,577	-	-	-	13,577	-
Net Change in Fair Value of Risk Management Liability, Net of Tax	-	-	-	-	2,371,860	-	2,371,860	2,371,860
Net Change in Pension Plans	-	-	-	-	2,681,445	-	2,681,445	2,681,445
BALANCE-APRIL 30, 2010	599,294	316,969,102	450,896	19,356,233	(14,379,811)	426,873	323,422,587	$ 48,200,463
Decrease in Membership Fees	(41,264)	-	-	-	-	-	(41,264)	-
Net Income	-	39,869,983	-	(17,639,984)	-	(426,873)	21,803,126	$ 21,803,126
Change in Donated Capital	-	-	(16,933)	-	-	-	(16,933)	-
Net Change in Fair Value of Risk Management Liability, Net of Tax	-	-	-	-	2,773,571	-	2,773,571	2,773,571
Net Change in Pension Plans	-	-	-	-	5,766,733	-	5,766,733	5,766,733
BALANCE-APRIL 30, 2011	**$ 558,030**	**$ 356,839,085**	**$ 433,963**	**$ 1,716,249**	**$ (5,839,507)**	**$ -**	**$ 353,707,820**	**$ 30,343,430**

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

Consolidated Statements of Cash Flows for the Years Ended April 30

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	**$ 21,803,126**	$ 43,147,158
Adjustments to Reconcile Net Income to Net		
Cash Provided by Operating Activities		
Depreciation and Amortization	**35,423,172**	32,933,380
Bad Debt Provision	**8,537,661**	8,020,172
Patronage Capital from Associated Organizations	**(10,198,374)**	(9,091,684)
Postretirement Benefit Cost	**9,090,308**	7,997,824
Deferred Income Tax (Benefit) Expense	**(5,889,252)**	161,923
(Gain) Loss on Disposition of Assets	**354,393**	(1,658,209)
Gain on Early Extinguishment of Debt	**(612,620)**	(630,405)
Deferred Gain - Catalyst Recovery	**(984,870)**	-
Recovery of Fuel Cost	**4,500,000**	3,844,562
CHANGE IN		
Accounts Receivable	**13,212,478**	(11,194,162)
Gas Inventory	**(845,448)**	3,364,841
Assets and Liabilities Held for Sale	**1,575,386**	(3,858,926)
Other Current Assets	**2,179,140**	7,874,691
Accounts Payable	**4,184,470**	(842,750)
Prepaid Income Taxes	**(3,301,884)**	(2,368,584)
Other Current Liabilities	**(1,023,436)**	466,668
	78,004,250	78,166,499
CASH FLOWS FROM INVESTING ACTIVITIES		
Extension and Replacement of Plant, Net	**(40,520,910)**	(32,457,164)
Return of Equity from Associated Organizations	**2,127,316**	1,275,484
Postretirement Plan Contributions	**(9,166,000)**	(8,453,000)
Advances to Related Party	**(2,041,826)**	(2,548,661)
Proceeds from Sale of Assets	**335,000**	2,000,000
Change in Short-Term and Other Investments	**(7,242,487)**	12,880,635
Deferred Debits	**596,142**	254,268
Materials and Supplies	**171,895**	164,411
	(55,740,870)	(26,884,027)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from Long-Term Debt	**22,000,000**	30,677,083
Principal Repayment of Long-Term Debt	**(16,591,240)**	(17,024,083)
Lines-of-Credit	**(19,400,000)**	(46,518,816)
Increase in Capital Term Certificates	**(1,452,033)**	(224,115)
Membership Fees	**(41,264)**	(20,579)
Donated Capital	**(16,933)**	13,577
Consumer Deposits	**1,018,389**	65,416
Deferred Credits	**(35,449)**	1,234,759
Other Long-Term Liabilities	**(8,677)**	(1,247,299)
	(14,527,207)	(33,044,057)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**7,736,173**	18,238,415
CASH AND CASH EQUIVALENTS-BEGINNING	**47,074,341**	28,835,926
CASH AND CASH EQUIVALENTS-ENDING	**$ 54,810,514**	$ 47,074,341

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Accounting policies of Cobb Electric Membership Corporation and Subsidiaries (the Corporation) reflect practices appropriate to the electric utility industry. The following describes the more significant of those policies.

Nature of Operations

The operations of the Corporation are as follows:

Cobb Electric Membership Corporation

Cobb Electric Membership Corporation (Cobb Electric) is a not-for-profit electric membership corporation whose purpose is to provide electric service to its members located in the Georgia counties of Cobb, Cherokee, Bartow, Fulton, Paulding, Randolph, Clay, Quitman and Calhoun. The Corporation operates as a cooperative whereby all monies in excess of cost of providing electric service are capital, at the moment of receipt, and are credited to each member's capital account on a calendar year basis.

The rates charged by Cobb Electric are determined by the board of directors. Cobb Electric reviews its rates and fees at least annually for recovery of costs. Changes or additional charges are reviewed and approved by the board of directors as needed to account for changes in purchased power throughout the year.

Gas South, LLC

Gas South, LLC (Gas South) is a certified natural gas marketer in the state of Georgia. As such, it is allowed to compete to serve customers who take service on Atlanta Gas Light's (AGL) natural gas distribution pipelines within the state of Georgia. The Corporation purchases natural gas from wholesale suppliers for delivery to the citygate where AGL assumes responsibility and liability associated with the delivery of natural gas to Gas South's consumers.

Cobb Energy Management Corporation

Cobb Energy Management Corporation (CEMC) was incorporated in the state of Georgia on September 3, 1997, to provide various services to Cobb Electric, its subsidiaries and third parties. Effective December 29, 1997, all employees of Cobb Electric were transferred to CEMC. The following were wholly-owned subsidiaries of CEMC as of April 30, 2011: (1) ProCore Solutions, LLC, which is a provider of call center services, employee training and development programs, and a full range of strategic staffing services to Cobb Electric, Gas South and other nonrelated parties; and (2) Cobb Energy Right of Way, LLC, which has contracted with Cobb Electric to provide tree trimming services along its power line rights-of-way.

Software Joint Venture

In 2005, Cobb Electric and CEMC entered into a joint venture for the design, development and operation of software to be used for billing consumers. The software was transferred to Cobb Electric in June 2010, thus dissolving the joint venture.

Cobb Energy Management Corporation Liquidating Trust

Cobb Energy Management Corporation Liquidating Trust (the Trust) was formed to sell or liquidate CEMC's ownership interests in: (1) Cooperative Benefits and Financial Services, LLC; (2) Cooperative Business Ventures, Inc.; (3) Allied Utility Network, LLC; (4) Allied Energy Services, LLC; (5) Cobb Energy Pest Control, LLC; (6) Marable-Pirkle Services, LLC; and (7) Energy Consulting Group, LLC. The Cobb Energy Management Corporation Liquidating Trust Agreement between CEMC and J. W. Rayder, as trustee, provides for the ownership interests in each of the foregoing entities to be transferred to the Trust. The Trust provides that the proceeds of such sales or liquidations will be distributed from the Trust to CEMC, the beneficiary, less funds necessary to satisfy potential claims or liabilities of the Trust. CEMC is required to distribute these amounts to Cobb Electric within five business days of receiving Trust distributions.

The assets, liabilities and operations of the ownership interests held by the Trust are presented as "held for sale" in the consolidated balance sheets. The Trust was created in December of 2008 (See Note 17).

(1) Summary of Significant Accounting Policies (Continued)

Nature of Operations (continued)

On December 2, 2009, the Trust sold the assets of Cooperative Business Ventures, Inc. for $2,000,000. A gain of $1,188,463 was recognized in the consolidated statement of operations for the year ended April 30, 2010.

On March 30, 2010, the Trust sold the health and welfare brokerage operations of Cooperative Benefits and Financial Services, LLC for one-half of the gross monthly revenue received by the buyer from the acquired accounts for a period of 36 months. Based on management's estimate of those revenues, the Corporation recognized a gain of $470,000 in the consolidated statement of operations for the year ended April 30, 2010.

On October 1, 2010, the Trust sold the salary and benefits consulting operations of Cooperative Benefits and Financial Services, LLC for $150,000 plus ten percent of the net monthly revenue for a period of 24 months. Based on management's estimate of those revenues, the Corporation recognized a gain of $178,567 in the consolidated statement of operations for the year ended April 30, 2011.

On May 19, 2010, the Trust sold 100 percent of the issued and outstanding membership interests of Cobb Energy Pest Control, LLC for $185,000. A gain of $136,273 was recognized in the April 30, 2011 consolidated statement of operations as a result of this transaction.

Allied Utility Network, LLC ceased operations in October 2010 and has been dissolved.

Allied Energy Services, LLC was sold on August 9, 2011 for $128,256.

As of April 30, 2011, the Trust has yet to sell or fully liquidate its ownership interests in Marable-Pirkle Services, LLC and Energy Consulting Group, LLC.

Consolidation

The consolidated financial statements include the accounts and results of operations of the Corporation and its wholly-owned and majority-owned subsidiaries. Intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting standards generally accepted in the United States of America (U.S. GAAP) 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Long-Lived Assets

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on either a specific regulatory disallowance or an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for loss if the carrying value is greater than the fair value. For the assets identified as held for sale, the carrying value is compared to the estimated fair value less the cost to sell in order to determine if an impairment provision is required. Until the assets are disposed of, their estimated fair value is reevaluated when circumstances or events change.

Accounting standards require the present value of the ultimate cost for an asset's future retirement be recorded in the period in which the liability is incurred. The cost should be capitalized as part of the related long-lived asset and depreciated over the asset's useful life. The Corporation has no legal retirement obligations related to its distribution facilities. Therefore, a liability for the removal of these assets will not be recorded. Management believes the actual cost of removal, even though not a legal obligation, will be recovered through rates over the lives of the distribution assets.

(1) Summary of Significant Accounting Policies (Continued)

Utility Plant

Electric distribution plant is capitalized at cost less related contributions in aid of construction. In general, electric distribution plant is capitalized at the time it becomes part of an operating unit and has been energized. However, certain items of plant referred to as special equipment items (meters, transformers, oil circuit reclosers, etc.) are capitalized at the time of purchase along with related estimated cost of installation.

Nonutility Plant

Nonutility plant is comprised of depreciable assets owned by Cobb Electric subsidiaries used for nonutility purposes.

Depreciation and Maintenance

Depreciation of distribution plant is provided using composite straight-line rates. When property subject to depreciation is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to the accumulated provision for depreciation. Provision has been made for depreciation of distribution plant at a weighted average straight-line composite rate of 2.79 percent per annum.

Depreciation of general plant is provided on a straight-line basis over the estimated useful lives of the various assets. The rates range from 2.5 to 22 percent per annum.

Depreciation of nonutility plant is provided on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 11 years.

The costs of maintenance, repairs and replacements of minor items of property are charged to maintenance expense accounts.

Generation and Transmission Cooperative Capital Credits

Generation and transmission cooperative capital credits represent the annual capital furnished generation and transmission cooperatives through payment of power bills. The capital is recorded in the year provided, even though notification of the capital allocation is not received until later.

Cash Equivalents and Short-Term Investments

Cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Short-term investments consist primarily of National Rural Utilities Cooperative Finance Corporation (NRUCFC) commercial paper, certificates of deposit, trading securities and other highly liquid debt instruments, which mature in less than one year. Amounts maturing in more than one year are included in other investments.

Accounts Receivable and Credit Policies

Accounts receivable are stated at the amount management expects to collect. Once a gas consumer's service is shut off and the account is 120 days past due, the Corporation writes off the associated account receivable. Once an electricity consumer's service is shut off and the account is approximately 350 days past due, the Corporation writes off the associated accounts receivable. An allowance is made for doubtful accounts based on experience and other circumstances which may affect the ability of consumers to meet their obligations. Accounts considered uncollectible are charged against the allowance. Receivables are reported in the consolidated balance sheets net of such accumulated allowance.

Gas Imbalance

Certified natural gas marketers have an obligation to deliver to the citygate the volume of natural gas required by AGL. If a natural gas marketer does not deliver the required amount of natural gas, penalties may apply in accordance with the AGL tariff. Since the amounts required by AGL are based on estimates, an imbalance, either positive or negative, occurs with some natural gas marketers delivering more natural gas than their customers actually consume and other natural gas marketers delivering less natural gas than their customers actually consume. An imbalance in deliveries of natural gas results in some marketers owing other marketers for excess natural gas (short marketer) and some marketers being owed by other marketers for deficient deliveries of natural gas (long marketer). An imbalance from the short marketers is settled with the long marketers, pursuant to the AGL tariff.

(1) Summary of Significant Accounting Policies (Continued)

Gas Imbalance (Continued)

The Corporation had a gas imbalance payable of $272,992 and $145,473 as of years ended April 30, 2011 and 2010, respectively. These amounts are included in other current and accrued liabilities in the consolidated balance sheets.

Gas Inventory

Inventory is valued at the lower of cost or market, with cost determined by applying the weighted average cost to purchases and the first-in, first-out method to inventory layers for each month.

Materials and Supplies

Materials and supplies are stated at lower of cost or market. Cost is determined by the moving average method of inventory valuation.

Customer Lists

Natural gas customer lists are amortized on the straight-line basis over the estimated useful life of the customers acquired, which is 5 or 8 years depending on when the customer list was acquired. As of April 30, 2011, the weighted average remaining amortization period for natural gas customer lists was 2.63 years.

Equities and Margins

Cobb Electric is organized and operates under the cooperative form of organization. As such, patronage sourced margins are allocated to patrons on the basis of patronage. Other margins are not allocated and are retained by Cobb Electric. Under provisions of the long-term debt agreements and line-of-credit agreements, the return to patrons of capital contributed by them is limited unless total modified equity (as defined by the loan agreements), is equal to or greater than 20 percent of modified total assets (as defined by the loan agreements), after giving effect to the distribution. Modified equity as a percentage of modified total assets was approximately 36 percent as of April 30, 2011.

Comprehensive Income (Loss)

The objective of comprehensive income (loss) is to report a measure of all changes in equity of the entity that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income (loss) consists of net income, changes in the fair value of qualifying cash flow hedges and prior service cost not yet recognized as a component of income related to the Corporation's retirement plans. Where applicable, items are recorded net of tax.

Risk Management Activities

As part of its regular operations, the Corporation enters into contracts, including options, swaps, futures, forwards, and other contractual commitments, to manage market risks such as changes in the price of electricity and natural gas.

The Corporation recognizes certain derivative instruments in the consolidated balance sheets as assets or liabilities at their fair value. Subsequent changes in fair value of the derivatives are recorded in current earnings unless certain hedge accounting criteria are met.

The effectiveness of hedge transactions is measured by calculating a 36-month correlation ratio between the appropriate market index used in the derivative and the market price exposure being hedged. Material amounts determined to be ineffective are recognized in current period earnings.

Operating Revenues and Patronage Capital

Operating revenues represent primarily electric and natural gas revenues.

Electric revenues include patronage capital and are billed monthly to consumers on a cycle basis. Electric rates for the Corporation include provisions to permit the board of directors to adjust billings for fluctuations in fuel costs, purchased power costs, and certain other costs. Electricity which had been used by the members of the Corporation but had not been billed to the members was not recorded. The components of this unbilled revenue can fluctuate based on factors including rate structure, weather,

(1) Summary of Significant Accounting Policies (Continued)

Operating Revenues and Patronage Capital (Continued)

period of use, cost of purchased power and other factors. As a result, the overall estimate of unbilled revenues could be significantly affected, which could have a material impact on the Corporation's results of operations if recorded in the consolidated financial statements. Unbilled electric revenue was estimated to be $15,606,000 and $19,103,000 as of April 30, 2011 and 2010, respectively.

Gas revenues are recognized when the natural gas is delivered to the customer based upon meter reading data provided by AGL. In addition, revenues are recorded for estimated deliveries of natural gas not yet billed to the customers, based on the meter reading date to the end of the accounting period. Unbilled receivables of $8,335,000 and $6,997,000 are included in accounts receivable in the consolidated balance sheets for the years ended April 30, 2011 and 2010, respectively.

Cost of Revenues

Cost of revenues for electricity and natural gas are expensed as consumed. The Corporation expenses all natural gas transportation and storage costs and includes these amounts in cost of revenues. Transportation and storage costs were approximately $45,408,000 and $43,185,000 for the years ended April 30, 2011 and 2010, respectively.

Advertising

The Corporation expenses most of the advertising costs as incurred and includes these amounts in consumer service and information, and administrative, selling and general expenses. In the event an advertising expense covers several months, the amount is established as a prepayment and amortized over the appropriate time frame. Advertising costs expensed were approximately $4,445,000 and $4,242,000 for the years ended April 30, 2011 and 2010, respectively.

Income Taxes

The Corporation, as a cooperative, is subject to income taxes on all patronage sourced income which is not allocated to patrons as patronage capital and on all nonpatronage-sourced income. The Corporation provides for income taxes in accordance with U.S. GAAP. Under the liability method specified by U.S. GAAP, deferred tax assets and liabilities are based on the difference between the financial statement and tax basis of assets and liabilities as measured by tax rates that are anticipated to be in effect when these differences reverse. The deferred tax provision represents the net change in the assets and liabilities for deferred tax. A valuation is established when it is necessary to reduce deferred tax assets to amounts for which realization is reasonably assumed.

The Corporation allocates patronage sourced income to its members on a tax basis. The income tax provision presented in the April 30, 2011 consolidated statement of operations is based on proper notification of Cobb Electric's members by September 15, 2011.

The Corporation and its subsidiaries record interest and penalties related to federal and state income tax returns as a component of nonoperating loss. The amount included in nonoperating margins (loss) in the April 30, 2011 and 2010 consolidated statement of operations was $-0- and $51,088, respectively.

Cobb Electric's income tax returns and the returns for its subsidiaries are subject to examination by federal and state taxing authorities generally for three years after they are filed. Consolidated tax returns for the years ended December 31, 2009 and 2008 are currently under examination by the Internal Revenue Service.

Fair Value of Financial Instruments

Authoritative guidance regarding Fair Value Measurements for financial and nonfinancial assets and liabilities defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements.

The guidance establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Quoted prices from active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Quoted prices in active markets provide the most reliable evidence of fair value and shall be used to measure fair value whenever available. Level 1 primarily consists of financial instruments that are exchange-traded.

- Level 2. Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and

(1) Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments (Continued)

contractual prices for the underlying instruments, as well as other relevant economic measures. Level 2 primarily consists of financial instruments that are nonexchange-traded but have significant observable inputs.

- Level 3. Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may include internally developed methodologies that result in management's best estimate of fair value. Level 3 financial instruments are those whose fair value is based on significant unobservable inputs.

As required by the guidance, assets and liabilities measured at fair value are based on one or more of the following three valuation techniques:

(1) *Market approach*. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business) and deriving fair value based on these inputs.

(2) *Income approach*. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

(3) *Cost approach*. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (often referred to as current replacement cost). This approach assumes that the fair value would not exceed what it would cost a market participant to acquire or construct a substitute asset or comparable utility, adjusted for obsolescence.

The table below details assets and liabilities carrying values and their fair value measurements as of April 30, 2011:

ASSETS	Carrying Value as of April 30, 2011	Fair Value as of April 30, 2011	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
Other Investments:						
Certificates of Deposit	$ 174,115	$ 174,115	$ 174,115	$ -	$ -	(1)
NRUCFC Medium-Term Notes	9,257,000	9,257,000	9,257,000	-	-	(1)
Held to Maturity Securities						
Bonds	1,083,446	1,091,389	-	1,091,389	-	(1)
Other	39,016	32,315	-	32,315	-	(1)
Cash and Cash Equivalents	54,810,514	54,810,514	54,810,514	-	-	(1)
Accounts Receivable	37,991,226	37,991,226	37,991,226	-	-	(1)
Short-Term Investments:						
Certificates of Deposit	200,000	200,000	200,000	-	-	(1)
NRUCFC Commercial Paper	658,020	658,020	658,020	-	-	(1)
Trading Securities						
Preferred Stock	122,250	273,900	273,900	-	-	(1)
Assets Held for Sale (See Note 12)						
Current	1,024,729	1,024,729	1,024,729	-	-	(1)
Investments	2,892	320,640	-	-	320,640	(2)
	$ 105,363,228	$ 105,833,848	$104,389,504	$ 1,123,704	$320,640	

LIABILITIES	Carrying Value as of April 30, 2011	Fair Value as of April 30, 2011	Level 1	Level 2	Level 3	Valuation Technique
Lines-of-Credit (See Note 7)	$ 67,350,000	$ 67,350,000	$ -	$ 67,350,000	$ -	(2)
Long-Term Debt (See Note 7)	416,543,688	421,061,261	-	421,061,261	-	(2)
Net Risk Management Liability (See Note 8)	652,390	652,390	652,390	-	-	(1)
	$ 484,546,078	$ 489,063,651	$ 652,390	$ 488,411,261	$ -	

(1) Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments (Continued)

Investments in associated organizations represent nontransferable interest in associated organizations. The right to receive cash is an inherent component of a financial instrument. The cooperative holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, patronage capital from associated organizations is not considered a financial instrument. Furthermore, the Corporation considers NRUCFC certificates and member capital securities to be directly related to borrowing and the fair value of the investments not determinable. Investments in associated organizations are carried at cost (See Note 3).

The Corporation recognized a permanent impairment on the value of its preferred stock trading securities in a prior period. Under U.S. GAAP, any increase in value subsequent to the date of the impairment will be recognized upon the sale of each instrument.

Legal Expenditures

Due to the ongoing nature of the Corporation's litigation, more fully described in Notes 17-19, all of the Corporation's legal expenditures have been classified as an operating expense and included as a component of administrative, selling and general costs in the consolidated statements of operations.

Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 consolidated financial statement presentation. These reclassifications had no effect on net income for the year ended April 30, 2011.

Subsequent Events

In preparing these consolidated financial statements, the Corporation evaluated events and transactions for potential recognition or disclosure through August 11, 2011, the date the consolidated financial statements were available to be issued.

(2) Utility Plant

Listed below are the major classes of the utility plant as of April 30:

	2011	2010
Distribution Plant	**$ 636,659,070**	$ 580,762,875
General Plant	**159,051,526**	146,952,565
Electric Plant In Service	**795,710,596**	727,715,440
Construction Work in Progress	**9,301,891**	10,715,268
	$ 805,012,487	$ 738,430,708

(3) Investments in Associated Organizations

Investments in associated organizations consisted of the following as of April 30:

	2011	2010
National Rural Utilities Cooperative Finance Corporation		
Membership Fee	**$ 2,000**	$ 2,000
Capital Term Certificates	**32,463,787**	31,011,754
Capital Credits	**8,430,588**	6,922,032
Oglethorpe Power Corporation		
Membership Fee	**10**	10
Capital Credits	**77,583,772**	72,786,215
Georgia Transmission Corporation		
Contributed Capital	**5,800,314**	5,800,314
Capital Credits	**16,409,722**	14,846,144
GRESCO Utility Supply, Inc.		
Membership Fee	**200**	200
Capital Credits	**1,127,031**	1,033,230
Georgia Electric Membership Corporation		
Workers' Compensation Fund		
Capital Credits	**140,527**	255,209
Smarr EMC		
Contributed Capital	**729,543**	1,074,922
Capital Credits	**5,615,137**	6,558,779
Federated Rural Electric Insurance Exchange		
Capital Credits	**430,873**	391,689
CoBank		
Capital Credits	**2,225,199**	2,225,199
Cooperative Energy Incorporated (CEI)		
Contributed Capital	**120,554**	120,554
Other	**135,705**	115,653
	$ 151,214,962	$ 143,143,904

The amount due from CEI, included in other current assets in the consolidated balance sheets, was $11,671 and $50,455 as of April 30, 2011 and 2010, respectively.

(4) Notes Receivable

Dwight T. Brown Employment Contract

Dwight T. Brown, the former President and Chief Executive Officer of Cobb Electric had a contractual arrangement that expired February 28, 2011. Cobb Electric charged $58,700 and $70,452 to expense for the years ended April 30, 2011 and 2010 related to the agreement.

Power4Georgians, LLC

As of April 30, 2009, Cobb Electric had advanced funds totaling $8,524,264 to CEI. As of that date, CEI was the sole member of Power4Georgians, LLC (Power4Georgians). Power4Georgians was created for the purpose of acquiring the assets necessary for a proposed electric generation facility. On December 31, 2009, CEI and Power4Georgians were restructured such that the individual member cooperatives became members of Power4Georgians. All amounts due in notes from CEI were transferred to the restructured Power4Georgians partnership, of which Cobb Electric owns 39.4 percent. The amounts due from Power4Georgians totaled $13,243,902 and $11,143,376 as of April 30, 2011 and 2010.

In addition, Power4Georgians has a $4,898,250 line-of-credit, which its members have individually guaranteed at 150 percent of their membership percentages. No amounts were outstanding on the line-of-credit as of April 30, 2011.

(5) Other Investments

Other investments consisted of the following as of April 30:

	2011	2010
NRUCFC Member Capital Securities	$ 2,000,000	$ 2,000,000
NRUCFC Medium Term Notes	9,257,000	-
Bonds Maturing in Excess of One Year	1,083,466	321,503
Certificates of Deposit with Original Maturities in Excess of One Year	174,115	200,000
Other	39,016	47,720
	$ 12,553,597	$ 2,569,223

(6) Other Assets

The following deferred debits and intangibles are included in other assets in the consolidated balance sheets as of April 30:

	2011	2010
Customer Lists and Credit Facility Fees (Net of Accumulated Amortization of $22,345,865 in 2011 and $18,512,985 in 2010)	$ 11,694,177	$ 16,277,057
Sponsorship Naming Rights (Net of Accumulated Amortization of $2,305,500 in 2011 and $1,669,500 in 2010)	10,414,500	11,050,500
Software Development Costs	-	27,467,550
Software Application Configuration Costs	4,065,653	3,469,511
Long-Term Portion of Prepaid Marquee Sponsorships	1,103,332	1,782,706
Former CEMC CEO Contract Settlement (Net of Accumulated Amortization of $1,365,672 in 2011 and $892,939 in 2010)	-	472,733
Clearing Accounts	314,818	2,417,053
Risk Management Asset, Net of Current Portion	39,540	-
Other	257,829	159,346
	$ 27,889,849	$ 63,096,456

Customer Lists and Credit Facility Fees

Amortization expense related to Gas South's acquired customer lists was approximately $4,411,000 for the years ended April 30, 2011 and 2010. Amortization expense related to the credit facility fees is included in interest expense and was approximately $172,000 and $220,000 for the years ended April 30, 2011 and 2010.

Sponsorship Naming Rights

On January 25, 2005, CEMC entered into a naming rights sponsorship agreement with the Cobb Marietta Coliseum and Exhibit Hall Authority. Under this agreement, CEMC obtained naming rights for a new performing arts centre, officially known as the Cobb Energy Centre for the Performing Arts (the Centre).

Under the agreement, CEMC paid $12,720,000 for the naming rights of the Centre through September 2027, and continues to amortize the cost into income on a straight-line basis over that period. Amortization expense of $636,000 is included in the consolidated statements of operations for the years ended April 30, 2011 and 2010.

Software Development Costs

The Corporation developed its own billing software for internal use. The costs capitalized include costs related to consulting services, licenses, coding, configuration and testing. The application was placed in service on January 1, 2006 at a total cost of $34,897,014. In conjunction to the dissolution of the Software Joint Venture, the billing software became part of the general plant assets of Cobb Electric.

(6) Other Assets (Continued)

Former CEMC CEO Contract Settlement

As part of the Joint Proposal *(See Note 17)*, Cobb Electric settled the employment contract of Dwight Brown, former CEO of CEMC. The cost was amortized over the remaining term of Mr. Brown's Cobb Electric employment contract which expired in February 2011.

(7) Long-Term Debt

The Corporation has a Master Trust Indenture administered by Regions Bank, as trustee. The notes are secured by the Trust Indenture. Substantially all the assets of the Corporation, excluding those of Gas South and the Trust entities, are pledged as security for long-term debt. The notes have maturity periods varying from August 1, 2010 to April 30, 2039 and are payable on an installment basis.

Holder of Note	Interest Rate	2011	2010
NRUCFC Mortgage Notes	2.85% to 7.35%	**$ 416,190,898**	$ 410,771,713
Rural Utilities Service	5.12% to 5.5%	**352,790**	363,215
		416,543,688	411,134,928
Maturities Due Within One Year		**(17,907,800)**	(16,109,900)
		$ 398,635,888	$ 395,025,028

Interest payments totaled approximately $28,997,000 and $30,793,000 for the years ended April 30, 2011 and 2010, respectively.

Principal maturities for each of the next five years are as follows:

Year	Amount
2012	$ 17,907,800
2013	17,776,000
2014	17,738,900
2015	18,393,100
2016	18,873,600
Thereafter	325,854,288
	$ 416,543,688

The Corporation has unadvanced loan funds totaling $38,000,000 on commitment from NRUCFC. The availability of the funds is contingent on the Corporation's compliance with one or more preconditions set forth in the master mortgage and supplemental indentures.

The Corporation's lines-of-credit are secured under Cobb Electric's Trust Indenture and supplemental indentures. A summary of the lines-of-credit as of April 30, 2011 is as follows:

Holder of Note	Amount	Interest Rate	Outstanding
NRUCFC	$ 51,000,000	4.95%	$ -
Regions Bank	50,000,000	2.20%	37,350,000
Wells Fargo	20,000,000	2.52%	20,000,000
Compass Bank	10,000,000	2.44%	10,000,000
	$ 131,000,000		$ 67,350,000

(7) Long-Term Debt (Continued)

The Regions Bank, Well Fargo and Compass Bank lines-of-credit expired on June 28, 2011. The Corporation obtained an extension from each bank through September 30, 2011. In addition, on June 16, 2011, the Corporation obtained a $30,000,000 line-of-credit from Fifth Third Bank. The extensions and newly obtained line-of-credit stipulate a maximum amount which may be outstanding under all lines-of-credit of $125,000,000 through the term of the extensions.

Gas South has a revolving credit agreement with a syndicate of banks administered by NRUCFC in the amount of $130,000,000, extending through November 2012. Amounts outstanding under the credit agreement are collateralized by virtually all assets of Gas South. The credit agreement contains provisions for certain minimum covenants including provisions for minimum interest coverage, minimum net worth excluding other comprehensive income (loss), minimum current ratio and debt to total capitalization. As of April 30, 2011 and 2010, Gas South had no notes outstanding under the credit agreement.

Gas South had letters of credit outstanding with certain counterparties totaling approximately $19,963,000 and $25,097,000 as of April 30, 2011 and 2010, respectively. Upon occurrence of specified events, each counterparty may draw upon its letter of credit up to the amount due from Gas South, which was approximately $439,000 and $404,000 as of April 30, 2011 and 2010, respectively.

(8) Gas South Risk Management Liability

Gas South had a net risk management liability of $652,390 and $5,102,137 as of April 30, 2011 and 2010, respectively. Gas South enters into master netting agreements with its counterparties and accounts for these agreements in accordance with U.S. GAAP. Gas South analyzes its contracts by counterparty and nets the derivative assets and derivative liabilities by counterparty.

Assets and liabilities from risk management activities are classified as current or long-term based upon the maturities of the underlying financial instruments. Risk management liabilities are stated separately in the consolidated balance sheets. The current and long-term portions of risk management assets are included in other current assets and other assets in the consolidated balance sheets. Gas South enters into derivative contracts that are designated as cash flow hedges. Commodity contracts that are designated as cash flow hedges extend through December 2012 and are used to mitigate the risk of cash flow variability associated with the forecasted purchases and sales of natural gas. To the extent they are effective, the changes in the fair values of these contracts are included in other comprehensive income.

Amounts recorded in accumulated other comprehensive loss related to these cash flow hedges will be recognized in earnings as the related hedged transactions are recognized in earnings, or if it is probable that the hedged transaction will not occur. In the next 12 months, subject to changes in market prices of natural gas, Gas South expects that a loss of approximately $634,000 will be recognized in earnings as the related hedged transactions are recognized in earnings. For the years ended April 30, 2011 and 2010, Gas South did not recognize in the consolidated statements of operations any material amounts related to the ineffectiveness of its hedge transactions. For the year ended April 30, 2011 and 2010, Gas South recognized a loss of approximately $9,129,000 and $11,597,000 in the consolidated statements of operations for hedges that were previously recorded in accumulated other comprehensive loss as the hedged transactions were recognized in the current period's earnings. As of April 30, 2011 and 2010, all of Gas South's derivatives are designated as hedges under U.S. GAAP.

(9) Retirement Benefits

Pension Plans (Defined Benefit)

CEMC

CEMC has defined benefit pension plans which provides a minimum pension benefit that is determined by a participant's years of service, final average compensation and the value of the Corporation's contributions. The status of the CEMC pension plans as of April 30 is detailed as follows:

	2011	2010
Benefit Obligation, Beginning of Year	**$ 59,161,101**	$ 49,762,752
Service Cost	**4,045,728**	3,245,737
Interest Cost	**3,535,969**	3,402,262
Benefits Paid	**(8,927,710)**	(5,679,706)
Actuarial Loss	**1,911,196**	8,430,056
Benefit Obligation, End of Year	**$ 59,726,284**	$ 59,161,101
Fair Value of Plan Assets, Beginning of Year	**$ 46,187,598**	$ 33,856,440
Contributions	**8,800,000**	8,050,000
Benefits Paid	**(8,927,710)**	(5,679,706)
Gain on Plan Assets	**6,394,540**	9,960,864
Fair Value of Plan Assets, End of Year	**$ 52,454,428**	$ 46,187,598
Funded Status	**$ (7,271,856)**	$ (12,973,503)
Prior Service Cost	**1,717,835**	2,085,942
Unrecognized Net Loss	**3,758,682**	9,142,222
Net Amount Recognized	**$ (1,795,339)**	$ (1,745,339)

CEMC's pension benefit costs are calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, expected return on plan assets, rate of compensation increases, mortality rates and other factors. Actuarial assumptions are reviewed on an annual basis. Weighted average assumptions for the years ended April 30 are as follows:

	2011	2010
Discount Rate on Net Periodic Benefit Cost	**6.25%**	7.25%
Discount Rate on Projected Benefit Obligation	**6.00%**	6.25%
Expected Return on Plan Assets	**8.00%**	8.00%
Rate of Compensation Increase	**4.00%**	4.00%

CEMC has elected to amortize gains and losses from changes in actuarial assumptions at a rate which exceeds the minimum rate prescribed by U.S. GAAP.

As of April 30, 2011, plan assets were comprised as follows: 61 percent equity funds, 38 percent bond funds and 1 percent cash and money market funds. The current asset allocation adheres to the Corporation's overall investment strategy for plan assets. The fair value measurement is based on quoted market prices in active markets for identical assets. This is considered a Level 1 fair value measurement, measured utilizing the market approach, in accordance with U.S. GAAP. The expected rate of return on plan assets is determined by those assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

(9) Retirement Benefits (Continued)

Pension Plans (Defined Benefit) (Continued)

CEMC (Continued)

The Corporation expects to contribute approximately $8,550,000 to the pension plans for the year ended April 30, 2011.

The Corporation's expected benefit payments under the plan for the next ten years are as follows:

Year	Amount
2012	$ 330,000
2013	405,000
2014	520,000
2015	590,000
2016	700,000
2017-2021	3,750,000

Gas South

The Corporation has adopted a defined benefit retirement plan for all eligible full-time employees who have attained the age of 21 and completed one year of service. A participant is 100 percent vested after 5 years of service. The status of the Gas South pension plan as of April 30 is detailed as follows:

	2011	2010
Benefit Obligation, Beginning of Year	**$ 1,222,000**	$ 814,000
Service Cost	**279,000**	267,000
Interest Cost	**73,000**	59,000
Benefits Paid	**(4,000)**	(4,000)
Actuarial Loss	**126,000**	86,000
Benefit Obligation, End of Year	**$ 1,696,000**	$ 1,222,000
Fair Value of Plan Assets, Beginning of Year	**$ 1,301,372**	$ 689,560
Contributions	**366,000**	403,000
Benefits Paid	**(4,000)**	(4,000)
Gain Loss on Plan Assets	**252,778**	212,812
Fair Value of Plan Assets, End of Year	**$ 1,916,150**	$ 1,301,372
Funded Status	**$ 220,150**	$ 79,372
Unrecognized Net Gain	**(21,270)**	(6,184)
Net Amount Recognized	**$ 198,880**	$ 73,188

Gas South's pension benefit costs are calculated using various actuarial assumptions and methodologies. These assumptions include discount rates, expected return on plan assets, rate of compensation increases, mortality rates and other factors. Actuarial assumptions are reviewed on an annual basis. Weighted average assumptions for the years ended April 30 are as follows:

	2011	2010
Discount Rate on Net Periodic Benefit Cost	**6.00%**	7.25%
Discount Rate on Projected Benefit Obligation	**5.60%**	6.00%
Expected Return on Plan Assets	**8.00%**	8.00%
Rate of Compensation Increase	**5.00%**	5.00%

(9) Retirement Benefits (Continued)

Pension Plans (Defined Benefit) (Continued)

Gas South (Continued)

As of April 30, 2011, plan assets were comprised entirely of equity securities, bonds or money market funds. The current asset allocation adheres to the Corporation's overall investment strategy for plan assets. The fair value measurement is based on quoted market prices in active markets for identical assets. This is considered a Level 1 fair value measurement, measured utilizing the market approach, in accordance with U.S. GAAP. The expected rate of return on plan assets is determined by those assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

The Corporation expects to contribute approximately $225,000 to the pension plan for the year ended April 30, 2011.

The Corporation's expected benefit payments under the plan for the next ten years are as follows:

Year	Amount
2012	$ 9,600
2013	9,800
2014	16,600
2015	25,900
2016	28,200
2017-2021	207,900

Employee Savings Plans

CEMC

CEMC's employee savings plan qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the plan, participating employees may defer a portion of their pretax earnings up to the Internal Revenue Service annual contribution limit. CEMC did not match any of the employee contributions to the savings plan during the years ended April 30, 2011 and 2010.

CEMC has a nonqualified executive deferred compensation arrangement. Participation is limited to a select group of management and highly compensated employees. CEMC made matching contributions of $82,054 and $104,061 for the years ended April 30, 2011 and 2010.

Gas South

Gas South adopted a deferred salary arrangement under Section 401(k) of the Internal Revenue Code for all eligible employees with at least one month of service (as defined in the plan agreement). Gas South provides a 75 percent matching contribution up to 6 percent of an employee's base salary after the completion of 1 year of employment. Participants are immediately vested in their voluntary contributions and earnings thereon, as well as Gas South's matching contributions. Matching contributions made to the plan for the years ended April 30, 2011 and 2010 totaled approximately $211,000 and $249,000, respectively.

Postretirement Healthcare Plans

Pre-1991 Employees

The Corporation has set aside assets in an irrevocable trust to provide certain postretirement medical and life insurance benefits to employees who were hired prior to September 1, 1991 and have twelve years of service or attain age 55 while employed by Cobb Electric or CEMC. The plan also covers directors whose term exceeds twelve years. The plan is considered a pre-funded defined contribution plan. As a result, the board of directors has the authority to change benefit levels to utilize existing trust assets.

Based on an April 2008 actuarial study, the Corporation estimated the fair value of its obligation under the plan at $14,000,000. A January 2011 actuarial study indicated the obligation would be approximately $20,000,000, which would require an additional

(9) Retirement Benefits (Continued)

Postretirement Healthcare Plans (Continued)

Pre-1991 Employees (Continued)

$5,000,000 contribution to the plan based on the current and future retiree information provided. Additionally, benefit levels were frozen at levels in effect on December 31, 2010. Trust assets totaled $19,845,720 as of April 30, 2011, which includes a $5,000,000 accrued contribution which was funded on August 3, 2011. The plan will terminate when trust assets are exhausted. Accordingly, there is no assurance those eligible to receive benefits will receive the benefits currently held in the trust.

Post-1991 Employees

The Corporation has set aside assets to provide certain postretirement medical benefits to employees who were hired on or after September 1, 1991, who will complete twelve years of unbroken continuous service with Cobb Electric or CEMC and terminate employment with the Corporation on or after January 1, 2006, after reaching 55 years of age. In December 2005, the Corporation estimated the fair value of its obligation under this plan was $4,500,000. The obligation is fully funded as of April 30, 2011. The plan is considered a pre-funded defined contribution plan. The board of directors has the authority to terminate the plan, as well as change benefit levels to utilize existing plan assets. Plan assets totaled $4,966,963 as of April 30, 2011. The plan will terminate when plan assets are exhausted. Accordingly, there is no assurance those eligible to receive benefits will receive the benefits currently being provided by the plan. Assets of the trust are subject to the general creditors of the Corporation.

(10) Deferred Credits

Deferred credits are comprised of the following as of April 30:

	2011	2010
Unamortized Gain on Early Extinguishment of Debt	**$ 4,817,369**	$ 5,429,989
Overrecovery of Fuel Cost	**4,500,000**	-
Deferred Gain - Catalyst Recovery	**-**	984,870
Deferred Rental Deposit	**13,915**	13,200
Labor Loads	**-**	36,450
Deferred Rent	**297,279**	296,993
	$ 9,628,563	$ 6,761,502

Unamortized Gain on Early Extinguishment of Debt

The gain on early extinguishment of debt represents the discount recognized by the Corporation as a result of the prepayment of Rural Utilities Service (RUS) mortgage notes. Management has elected to defer recognition of this gain in accordance with U.S. GAAP. The gain will be recognized as a reduction of interest expense on a straight-line basis over the life of the extinguished RUS debt. A reduction of interest expense of $612,620 and $630,405 was recognized for the years ended April 30, 2011 and 2010, respectively.

Overrecovery of Fuel Cost

Cobb Electric sold more electricity than was budgeted for the calendar year ended December 31, 2010 and as a result there was an excess recovery of the cost of purchased power and fuel of approximately $14,500,000. The board of directors adopted a resolution to return the $14,500,000 to the Cobb Electric's members during the 2011 calendar year. The Corporation had returned $10,000,000 as of April 30, 2011.

Deferred Gain - Catalyst Recovery

On May 20, 2009, Gas South received approximately $984,870 from AGL for the unsettled imbalances owed by a bankrupt natural gas marketer (the plaintiff). Gas South was a long marketer at the time of the bankruptcy filing. Gas South had written off its share of the unsettled imbalance during the year ended April 30, 2009. As of April 30, 2010, management did not believe that this matter was fully resolved, as all appeals had not been exhausted. As a result, the amount received was recorded as a deferred credit in the consolidated balance sheets pending resolution of the appeals process. Subsequently, the plaintiff appealed to the Superior Court

(10) Deferred Credits (Continued)

Deferred Gain - Catalyst Recovery (Continued)

of Fulton County and on June 25, 2010, that court ruled against the plaintiff. On July 26, 2010, the plaintiff appealed to the Georgia Court of Appeals. On October 29, 2010, Gas South received a written opinion from its legal counsel that the plaintiff's position has little, if any, merit. Accordingly, Gas South recognized the gain on this settlement in October 2010.

(11) Income Taxes

Income tax (benefit) expense, computed at an effective rate of 37.96 percent, is comprised of the following as of April 30:

	2011	2010
Current Tax Expense		
Federal	$ 1,430,501	$ 2,392,299
State	327,951	469,117
	1,758,452	2,861,416
Deferred Tax (Benefit) Expense		
Federal	(4,958,390)	136,329
State	(930,862)	25,594
	(5,889,252)	161,923
	$ (4,130,800)	$ 3,023,339

Deferred tax (liabilities) and assets are comprised of the following components as of April 30:

	2011	2010
Accumulated Depreciation and Amortization	$ 193,107	$ (9,026,521)
Net Operating Loss (NOL) Carryforwards	4,547,465	4,946,357
Deferred Revenue	-	1,608,714
Risk Management Liability, Net	235,115	1,932,161
Bad Debts	(1,296,168)	(1,320,763)
Other, Net	1,012,806	2,360,171
	$ 4,692,325	$ 500,119

The Corporation has federal regular tax NOLs of $11,979,623 as follows:

Year	NOL	Expiration
12/2005	$ 4,118,425	12/2025
12/2006	2,153,100	12/2026
12/2007	5,708,098	12/2027
	$ 11,979,623	

The Corporation had cash payments of federal and state income taxes of $5,055,000 and $4,635,197 for the years ended April 30, 2011 and 2010. The Corporation has an overpayment of $3,970,468 related to its federal and state income tax liabilities as of April 30, 2011. This amount is included in prepaid income taxes in the consolidated balance sheets.

(12) Assets and Liabilities Held for Sale

	2011	2010
Assets Held for Sale		
Current Assets	**$ 1,017,493**	$ 1,374,358
Property and Equipment, Net	**6,236**	16,895
Investments in Unconsolidated Subsidiaries	**2,892**	1,392,961
Other Assets	**1,000**	425,689
	$ 1,027,621	$ 3,209,903
Liabilities Held for Sale		
Current Liabilities	**$ 198,198**	$ 115,701

Investments in Unconsolidated Subsidiaries

CEMC's investments in Energy Consulting Group, LLC (ECG) and Marable-Pirkle Services (MPS) were transferred to the Trust on December 4, 2008, in accordance with the Joint Proposal (See Note 17). The transactions for the year ended April 30, 2011 are as follows:

	Ownership Percentage	Balance at April 30, 2010	Capital Investment	Distributions	Equity in Earnings	Impairment	Balance at April 30, 2011
ECG	25%	$ 642,960	$ -	$ (20,495)	$ (619,573)	-	$ 2,892
MPS	30%	750,001	-	-	-	(750,001)	-
		$ 1,392,961	$ -	$ (20,495)	$ (619,573)	(750,001)	$ 2,892

In accordance with U.S. GAAP, the Corporation recognized an impairment charge of $750,001 related to its investment in MPS.

Amounts due from ECG, included in other current assets in the consolidated balance sheets, are $33,728 and $23,176 as of April 30, 2011 and 2010, respectively. Amounts due from MPS, included in other assets in the consolidated balance sheets, are $-0- and $52,554 as of April 30, 2011 and 2010, respectively. Equity in earnings of ECG is presented as operations from assets available in the consolidated statements of operations.

(13) Noncontrolling Interest

The Trust owned 93 percent of Allied Utility Network, LLC (AUN) as of April 30, 2010. In accordance with the terms of the amended Operating Agreement, the Trust funded 100 percent of losses, but shared in 93 percent of income until AUN was sold or liquidated. AUN ceased operations in October 2010 and was dissolved.

(14) Operating Revenues and Cost of Revenues

	2011	2010
Operating Revenues		
Electric Revenue	**$ 431,649,468**	$ 427,517,150
Gas Revenue	**238,655,557**	256,750,804
Other Revenue	**4,036,686**	6,181,552
	$ 674,341,711	$ 690,449,506
Cost of Revenues		
Purchased Power	**$ 291,623,830**	$ 276,098,789
Purchased Gas	**175,337,583**	191,921,525
Other	**3,087,660**	3,123,931
	$ 470,049,073	$ 471,144,245

(15) Commitments

Cobb Electric entered into a Wholesale Power Contract with Oglethorpe Power Corporation (An Electric Membership Corporation) (OPC) in 1997. The Wholesale Power Contract was amended in 2003 and its term has been extended through December 31, 2050. Under the Wholesale Power Contract, Cobb Electric is obligated, on a “take or pay” basis, for a fixed percentage of capacity costs (referred to as a “percentage capacity responsibility”) of certain of OPC’s generation and purchased power resources. Cobb Electric will be assigned only a percentage capacity responsibility for any future OPC resource if Cobb Electric elects to participate in the resource. Cobb Electric’s percentage capacity responsibility in each of OPC’s existing generation and purchased power resources ranges from 2.13 percent to 18.09 percent with an aggregate capacity cost responsibility totaling approximately $114,364,000 and $102,492,000 for the years ended April 30, 2011 and 2010, respectively.

OPC has substantially similar Wholesale Power Contracts with each of its members. The Wholesale Power Contracts provide that each OPC member, including Cobb Electric, is jointly and severally responsible for all costs and expenses of all existing OPC generation and purchased power resources.

Cobb Electric is required, under the terms of the Wholesale Power Contract, to pay OPC for capacity and energy furnished in accordance with rates established by OPC. OPC’s monthly charges for capacity and nonenergy charges are based upon OPC’s annual budget, and may be adjusted by OPC’s board of directors. Energy charges to Cobb Electric under the Wholesale Power Contract reflect a pass-through of OPC’s actual energy costs, including fuel costs, variable operations and maintenance costs and purchased power costs. Cobb Electric’s energy costs for the years ended April 30, 2011 and 2010 totaled approximately $84,409,000 and $78,263,000, respectively.

Cobb Electric is a member of Georgia Transmission Corporation, a transmission cooperative, and entered into a Member Transmission Service Agreement. This agreement, and an approved extension, requires the Corporation to take transmission related services through December 31, 2060. Transmission services under this agreement were approximately $26,682,000 and $25,491,000 for the years ended April 30, 2011 and 2010, respectively.

The Corporation entered into a power purchase agreement dated November 1, 1998 with Smarr EMC for a facility known as the Smarr Energy Facility. The agreement is in effect through December 31, 2014. Under the terms of the agreement, the Corporation is responsible for 18.088 percent of the Smarr Energy Facility fixed costs. In addition, the Corporation entered into a separate power purchase agreement dated January 1, 2000 with Smarr EMC for a facility known as Sewell Creek. This agreement exists until December 31, 2015 and required a guaranty equal to the Corporation’s participation in the project. The Corporation is liable for 3.61 percent of the outstanding indebtedness of Smarr EMC related to the Sewell Creek Facility. The total balance of indebtedness for the facility at December 31, 2010 was approximately $64,600,000.

The Corporation is party to an agreement to purchase capacity and energy through an assignment and assumption agreement with a contractual term that extends through December 31, 2014. The Corporation incurred costs of approximately $13,257,000 and $8,606,000 for the years ended April 30, 2011 and 2010.

The Corporation entered into a block purchase agreement dated June 11, 2001 with a third party through December 31, 2014. The cost under the agreement was approximately $10,202,000 and $5,216,000 for the years ended April 30, 2011 and 2010, respectively.

The Corporation entered into an Agency Agreement with CEI in 2008. Under the CEI Contract, the Corporation sells to CEI at cost all capacity and energy which the Corporation is entitled to receive under its contracts with OPC and other power suppliers, and CEI provides at cost all electricity required to serve the load of the Corporation. The energy charges of the Corporation under the CEI Contract for the years ended April 30, 2011 and 2010 were approximately $32,978,000 and $39,108,000, respectively, other than its contracted resources which are disclosed separately. The Corporation has also contracted with CEI to be the counterparty for all purchases and sales of electricity (including forward purchases and sales and hedges of electricity).

Under current law, the Corporation has the ability to recover these costs from its members.

(16) Concentrations Gas Supply

Gas South has one service provider that accounted for 95 and 96 percent of all wholesale for retail natural gas purchases by Gas South for the years ended April 30, 2011 and 2010, respectively.

Financial Instruments

The Corporation maintains interest-bearing cash balances in multiple financial institutions; those cash balances throughout the year periodically exceed the federally insured deposits limit of $250,000. The Corporation’s noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account at all federally insured institutions through December 31, 2012.

In addition, at April 30, 2011, medium-term notes of NRUCFC in the amount of $9,257,000, which were held by the Corporation, were included in other investments. The Corporation also had $900,205 in NRUCFC commercial paper which is included in cash and cash equivalents and short-term investments. The amounts are not secured or otherwise subject to federally insured deposit liability coverage.

The Corporation serves customers in the state of Georgia. The geographic concentration of the Corporation's customers results in a concentration of credit risk with respect to the collection of accounts receivable. Credit evaluations are performed on most potential customers before accepting them for service. Depending upon the results of the credit evaluation, a deposit may be required. If a customer does not pay its bill based on the terms of its Cobb Electric service agreement, the Cobb Electric may require a consumer deposit as a condition for continued service.

(17) Derivative Litigation and Settlement Charges

On October 30, 2008, the Corporation entered into a Joint Proposal for Resolution of Derivative Litigation (Joint Proposal) in the civil case *Edgar "Bo" Pounds individually and on behalf of the estate of Mary Jean Pounds, Joseph Thompson, Franklin Smith, Eagle Eye Forensics, LLC, Dianne Brackin, and William Sharp, Derivatively on behalf of Cobb Electric Membership Corporation v. Dwight Brown, Don Barnett, David McGinnis, Kay Anderson, Al Fortney, Jr., Frank Boone, Sarah Brown, Larry Chadwick, Henry Balkom III, and Cobb Energy Management Corporation*. The Joint Proposal was approved by the Cobb County Superior Court (the Court) in December 2008. The provisions of the Joint Proposal and corporate actions taken are as follows:

1) Cobb Electric purchased all shares of CEMC stock which it did not previously own at the price agreed upon in the settlement, and became the sole owner of CEMC on December 4, 2008.

2) As discussed in *Note 1*, ownership interests of certain CEMC subsidiary organizations were transferred to the Trust.

3) As part of the settlement, Cobb Electric agreed that certain corporate governance policies and provisions adopted by the Cobb Electric board of directors on September 4, 2008 will remain for five years.

4) Pursuant to the terms of the settlement, the parties agreed that a special meeting of the members would be called to vote on whether the bylaws of Cobb Electric should be amended to provide for mail-in ballots in the election of directors and to restrict prospectively the payment to directors of certain retirement benefits. After the settlement was finalized and approved by the Court, a dispute arose between plaintiffs and the defendants concerning the rules which would govern the special meeting described above. A special master ruled in favor of the plaintiffs concerning this dispute and Cobb Electric appealed the ruling to the trial court judge. On May 14, 2009, the Court agreed with Cobb Electric concerning the rules under which the special meeting would be conducted. Plaintiffs then appealed the trial court judge's ruling to the Georgia Court of Appeals, which stayed the Court proceedings. On April 13, 2010, the Court of Appeals affirmed in part and reversed in part the Court's decision. Cobb Electric filed a petition for writ of certiorari to the Georgia Supreme Court. On June 13, 2011, the Georgia Supreme Court remanded the case back to the Cobb County Superior Court to structure a method for holding elections that adheres to the Joint Proposal. Because the relief plaintiffs are seeking is injunctive only, the Cobb County Superior Court's resolution of the issue will not subject the Corporation to any materially adverse financial results.

5) The Joint Proposal included a provision for the adoption of a succession plan for Cobb Electric's then Chief Executive Officer, Dwight T. Brown, to assure the orderly transition to a replacement President and Chief Executive Officer subsequent to February 28, 2011, the date on which Mr. Brown's Cobb Electric employment contract was to, and subsequently did, expire. On February 28, 2011, Cobb Electric filed a declaratory judgment action seeking a ruling from the Court as to whether retaining Mr. Brown as President and Chief Executive Officer subsequent to February 28, 2011 would violate the terms of the Joint Proposal. On June 24, 2011, the Court ruled that rehiring Mr. Brown would violate the terms of the Joint Proposal. As a result, Cobb Electric hired a new President and Chief Executive Office on July 11, 2011.

(18) Indictment of Former President and Chief Executive Officer

On January 6, 2011, a grand jury returned an indictment of then President and Chief Executive Officer of Cobb Electric. On March 12, 2011, the indictment was dismissed because it had not been properly presented in open court. The dismissal is currently on appeal. On July 7, 2011, a separate grand jury returned an indictment of the former President and Chief Executive Officer of Cobb Electric, alleging thirty-five felony criminal accounts. Cobb Electric is continuing to cooperate with the investigation.

(19) Other Litigation

On January 15, 2010, plaintiffs filed their original class action complaint in the civil case *The Estate of Joseph G. Shea, et al. v. Cobb Electric Membership Corporation*. On March 29, 2010, the plaintiffs filed their First Amended and Restated Class Action Complaint, and, on April 28, 2010, plaintiffs amended the First Amended Complaint to assert an additional claim. Plaintiffs seek to represent a class consisting of certain former members of Cobb Electric, claiming that they are entitled to distributions of all or part of the patronage allocated to them individually. Plaintiffs assert claims against Cobb Electric for breach of contract, breach of fiduciary duty, unjust enrichment, fraudulent concealment, and injunctive and declaratory relief. On May 6, 2010, Cobb Electric moved to dismiss all of the plaintiffs' claims. Plaintiffs have filed a motion to disqualify the judge because he is a member of Cobb Electric. Plaintiffs motion to disqualify the judge was denied. Oral arguments on the motion to dismiss will be held on August 29, 2011.

The Corporation is also involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a materially adverse effect on the Corporation's future financial position or results from operations.

(20) Legal Expenditures

Legal expenditures directly related to *Notes 17-19,* net of reimbursements, included as a component of administrative, selling and general costs in the consolidated statements of operations for the years ended April 30, 2011 and 2010 are $2,137,954 and $2,438,879, respectively.

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August 11, 2011

REPORT OF INDEPENDENT ACCOUNTANTS
ON SUPPLEMENTARY INFORMATION

The Board of Directors
Cobb Electric Membership Corporation

We have audited the financial statements of Cobb Electric Membership Corporation and Subsidiaries as of and for the years ended April 30, 2011 and 2010, and our report thereon dated August 11, 2011, which expressed an unqualified opinion on the consolidated financial statements, appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying information on pages 31 through 36 is presented for purposes of additional analysis and is not a required part of the basic 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. Such information has been subjected to the auditing procedures applied in the audits of the basic 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 basic consolidated financial statements taken as a whole.

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

Consolidating Balance Sheet April 30, 2011

ASSETS

	Cobb Electric Membership Corporation	Gas South, LLC	Joint Venture	Cobb Energy Management Corporation	ProCore Solutions, LLC	Cobb Energy Right of Way, LLC	Cobb Energy Management Corporation Liquidating Trust	Eliminations	Total
Utility Plant									
Utility Plant in Service, at Cost	$ 787,220,827	$ -	$ -	$ 8,489,769	$ -	$ -	$ -	$ -	$ 795,710,596
Construction Work in Progress	9,279,672	-	-	17,000	5,219	-	-	-	9,301,891
Gross Utility Plant	796,500,499	-	-	8,506,769	5,219	-	-	-	805,012,487
Accumulated Provision for Depreciation	(197,699,047)	-	-	(1,899,901)	-	-	-	-	(199,598,948)
	598,801,452	-	-	6,606,868	5,219	-	-	-	605,413,539
Other Property and Investments									
Investments in Associated Organizations	151,058,729	-	-	140,526	-	15,707	-	-	151,214,962
Investments in Consolidated Subsidiaries	72,949,720	-	-	(2,909,065)	-	-	250,000	(70,290,655)	-
Nonutility Plant, Net	-	318,850	-	-	89,721	697,887	-	-	1,106,458
Notes Receivable	13,243,902	-	-	-	-	-	-	-	13,243,902
Other Investments	12,553,597	-	-	-	-	-	-	-	12,553,597
	249,805,948	318,850	-	(2,768,539)	89,721	713,594	250,000	(70,290,655)	178,118,919
Intercompany Receivables (Payables)	25,636,739	(2,141,069)	-	(22,759,886)	(196,327)	(883,574)	(367)	344,484	-
Current Assets									
Cash and Cash Equivalents	8,737,091	41,501,070	-	2,944,508	1,179,149	148,781	299,915	-	54,810,514
Short-Term Investments	980,270	-	-	-	-	-	-	-	980,270
Accounts Receivable, Net	7,631,081	29,154,772	-	19,452	1,980,208	56,053	262,362	(1,112,702)	37,991,226
Gas Inventory	-	2,622,232	-	-	-	-	-	-	2,622,232
Materials and Supplies	2,576,245	-	-	-	-	-	-	-	2,576,245
Prepaid Income Taxes	3,970,468	-	-	-	-	-	-	-	3,970,468
Other Prepayments	1,946,464	2,205,490	-	101,296	103,700	36,264	-	-	4,393,214
Assets Held for Sale	-	-	-	-	-	-	1,027,621	-	1,027,621
Deferred Tax Assets	1,651,958	-	-	-	-	-	-	-	1,651,958
Other Current Assets	934,500	146,316	-	17,221	-	-	-	-	1,098,037
	28,428,077	75,629,880	-	3,082,477	3,263,057	241,098	1,589,898	(1,112,702)	111,121,785
Deferred Tax Assets	11,672,410	-	-	-	-	-	-	-	11,672,410
Other Assets	483,469	19,884,669	-	10,421,656	-	-	-	(2,899,945)	27,889,849
Total Assets	$ 914,828,095	$ 93,692,330	$ -	$ (5,417,424)	$ 3,161,670	$ 71,118	$ 1,839,531	$ (73,958,818)	$ 934,216,502

Consolidating Balance Sheet April 30, 2011

EQUITIES AND LIABILITIES

	Cobb Electric Membership Corporation	Gas South, LLC	Joint Venture	Cobb Energy Management Corporation	ProCore Solutions, LLC	Cobb Energy Right of Way, LLC	Cobb Energy Management Corporation Liquidating Trust	Eliminations	Total
Equities									
Membership Fees	$ 558,030	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 558,030
Patronage Capital	369,457,535	-	-	-	-	-	-	(12,618,450)	356,839,085
Donated Capital	433,963	-	-	-	-	-	-	-	433,963
Other Equities	(11,423,613)	53,605,308	-	-	-	-	(989,523)	(39,475,923)	1,716,249
Class A Common Stock	-	-	-	5,030,573	-	-	17,333	(5,047,906)	-
Class B Common Stock	-	-	-	1,000	-	-	-	(1,000)	-
Additional Paid-in Capital	-	27,130,738	-	12,892,292	-	200,000	25,174,982	(65,398,012)	-
Accumulated Other Comprehensive Income (Loss)	235,115	(598,105)	-	(5,476,517)	-	-	-	-	(5,839,507)
Accumulated Earnings (Deficit)	-	-	-	(31,818,520)	2,647,761	(152,003)	(22,924,867)	52,247,629	-
	359,261,030	80,137,941	-	(19,371,172)	2,647,761	47,997	1,277,925	(70,293,662)	353,707,820
Long-Term Liabilities									
Long-Term Debt	398,635,888	-	-	-	-	-	-	-	398,635,888
Risk Management Liability	-	29,200	-	-	-	-	-	-	29,200
Retirement Benefits	-	(229,750)	-	6,941,856	-	-	-	-	6,712,106
Deferred Tax Liabilities	5,894,561	-	-	-	-	-	-	-	5,894,561
Other	826,922	-	-	3,886	-	-	-	-	830,808
	405,357,371	(200,550)	-	6,945,742	-	-	-	-	412,102,563
Current Liabilities									
Lines-of-Credit	67,350,000	-	-	-	-	-	-	-	67,350,000
Current Portion of Long-Term Debt	17,907,800	-	-	-	-	-	-	-	17,907,800
Current Portion of Risk Management Liability	-	771,910	-	-	-	-	-	-	771,910
Current Portion of Retirement Benefits	-	9,600	-	330,000	-	-	-	-	339,600
Accounts Payable	33,837,145	9,080,786	-	141,354	1,874	23,121	-	(401,803)	42,682,477
Consumer Deposits	12,367,978	-	-	-	-	-	-	-	12,367,978
Accrued and Withheld Taxes	2,841,560	509,680	-	240,038	65,990	-	-	-	3,657,268
Liabilities Held for Sale	-	-	-	-	-	-	561,606	(363,408)	198,198
Deferred Tax Liabilities	2,737,482	-	-	-	-	-	-	-	2,737,482
Other Current and Accrued Liabilities	936,500	3,085,684	-	6,296,614	446,045	-	-	-	10,764,843
	137,978,465	13,457,660	-	7,008,006	513,909	23,121	561,606	(765,211)	158,777,556
Deferred Credits	12,231,229	297,279	-	-	-	-	-	(2,899,945)	9,628,563
Total Equities and Liabilities	$ 914,828,095	$ 93,692,330	$ -	$ (5,417,424)	$ 3,161,670	$ 71,118	$ 1,839,531	$ (73,958,818)	$ 934,216,502

Consolidating Statement of Operations for the Year Ended April 30, 2011

	Cobb Electric Membership Corporation	Gas South, LLC	Joint Venture	Cobb Energy Management Corporation	ProCore Solutions, LLC	Cobb Energy Right of Way, LLC	Cobb Energy Management Corporation Liquidating Trust	Eliminations	Total
Operating Revenues	$ 431,722,766	$ 238,655,557	$ 167,247	$ 72,943,775	$ 21,838,527	$ 1,365,027	$ -	$ (92,351,188)	$ 674,341,711
Operating Expenses									
Cost of Revenues	291,623,830	175,337,583	-	69,624,488	14,304,065	1,289,555	-	(82,130,448)	470,049,073
Distribution Operations	7,353,914	-	-	-	-	-	-	-	7,353,914
Distribution Maintenance	25,009,018	-	-	-	-	-	-	-	25,009,018
Consumer Accounts	22,202,593	11,651,322	-	-	-	-	-	-	33,853,915
Consumer Service and Information	2,597,637	9,699,210	-	67,446	-	-	-	-	12,364,293
Administrative, Selling and General	28,826,474	23,161,201	-	5,296,229	5,360,955	48,950	-	(10,220,740)	52,473,069
Depreciation and Amortization	24,301,212	6,451,810	387,745	1,164,115	15,930	123,631	-	-	32,444,443
Operating Taxes	4,287,100	-	-	98,402	(1,447)	215	-	-	4,384,270
Total Operating Expenses	406,201,778	226,301,126	387,745	76,250,680	19,679,503	1,462,351	-	(92,351,188)	637,931,995
Operating Margins Before Interest Expense	25,520,988	12,354,431	(220,498)	(3,306,905)	2,159,024	(97,324)	-	-	36,409,716
Interest Expense	26,985,935	1,034,780	-	501,073	24	-	-	(500,903)	28,020,909
Operating Margins After Interest Expense	(1,464,947)	11,319,651	(220,498)	(3,807,978)	2,159,000	(97,324)	-	500,903	8,388,807
Nonoperating Margins (Loss)	12,148,048	39,771	-	(12,747)	-	-	-	(10,358,870)	1,816,202
G&T Capital Credits	6,849,514	-	-	-	-	-	-	-	6,849,514
Other Capital Credits and Patronage Allocations	3,351,962	-	-	(6,601)	-	3,499	-	-	3,348,860
Operations from Assets Held for Sale	-	-	-	-	-	-	(2,376,664)	-	(2,376,664)
Gain (Loss) on Disposition of Assets	-	-	-	(668,620)	-	(613)	314,840	-	(354,393)
Net Income (Loss) Before Income Taxes	20,884,577	11,359,422	(220,498)	(4,495,946)	2,159,000	(94,438)	(2,061,824)	(9,857,967)	17,672,326
Income Tax Benefit	4,130,800	-	-	-	-	-	-	-	4,130,800
Net Income (Loss)	$ 25,015,377	$ 11,359,422	$ (220,498)	$ (4,495,946)	$ 2,159,000	$ (94,438)	$ (2,061,824)	$ (9,857,967)	$ 21,803,126

Consolidating Balance Sheet April 30, 2010

ASSETS

	Cobb Electric Membership Corporation	Gas South, LLC	Joint Venture	Cobb Energy Management Corporation	ProCore Solutions, LLC	Cobb Energy Right of Way, LLC	Cobb Energy Management Corporation Liquidating Trust	Eliminations	Total
Utility Plant									
Utility Plant in Service, at Cost	$ 715,552,570	$ -	$ -	$ 12,162,870	$ -	$ -	$ -	$ -	$ 727,715,440
Construction Work in Progress	10,715,268	-	-	-	-	-	-	-	10,715,268
Gross Utility Plant	726,267,838	-	-	12,162,870	-	-	-	-	738,430,708
Accumulated Provision for Depreciation	(169,366,806)	-	-	(3,522,683)	-	-	-	-	(172,889,489)
	556,901,032	-	-	8,640,187	-	-	-	-	565,541,219
Other Property and Investments									
Investments in Associated Organizations	142,876,167	-	-	255,208	-	12,529	-	-	143,143,904
Investments in Consolidated Subsidiaries	69,574,062	-	-	12,239,726	-	-	430,000	(82,243,788)	-
Nonutility Plant, Net	-	384,177	-	-	105,652	820,196	-	-	1,310,025
Notes Receivable	11,202,076	-	-	-	-	-	-	-	11,202,076
Other Investments	2,569,223	-	-	-	-	-	-	-	2,569,223
	226,221,528	384,177	-	12,494,934	105,652	832,725	430,000	(82,243,788)	158,225,228
Intercompany Receivables (Payables)	35,849,416	(1,058,486)	2,931,362	(37,655,384)	205,700	(881,913)	(112,109)	721,414	-
Current Assets									
Cash and Cash Equivalents	12,406,690	30,886,640	-	1,916,601	1,107,401	147,132	609,877	-	47,074,341
Short-Term Investments	2,270,124	-	-	-	-	-	-	-	2,270,124
Accounts Receivable, Net	24,686,032	34,040,507	-	65,301	840,722	51,888	470,000	(413,085)	59,741,365
Gas Inventory	-	1,776,784	-	-	-	-	-	-	1,776,784
Materials and Supplies	2,748,140	-	-	-	-	-	-	-	2,748,140
Prepaid Income Taxes	668,584	-	-	-	-	-	-	-	668,584
Other Prepayments	3,657,732	2,355,639	-	559,613	-	35,205	-	-	6,608,189
Assets Held for Sale	-	-	-	-	-	-	3,209,903	-	3,209,903
Deferred Tax Assets	3,866,579	-	-	-	-	-	-	-	3,866,579
Other Current Assets	955,776	37,136	-	16,736	-	-	52,554	-	1,062,202
	51,259,657	69,096,706	-	2,558,251	1,948,123	234,225	4,342,334	(413,085)	129,026,211
Deferred Tax Assets	12,434,428	-	-	-	-	-	-	-	12,434,428
Other Assets	2,964,538	25,512,438	27,467,551	11,055,356	-	-	-	(3,903,427)	63,096,456
Total Assets	$ 885,630,599	$ 93,934,835	$ 30,398,913	$ (2,906,656)	$ 2,259,475	$ 185,037	$ 4,660,225	$ (85,838,886)	$ 928,323,542

Consolidating Balance Sheet April 30, 2010

EQUITIES AND LIABILITIES

	Cobb Electric Membership Corporation	Gas South, LLC	Joint Venture	Cobb Energy Management Corporation	ProCore Solutions, LLC	Cobb Energy Right of Way, LLC	Cobb Energy Management Corporation Liquidating Trust	Eliminations	Total
Equities									
Membership Fees	$ 599,294	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 599,294
Patronage Capital	318,201,769	-	-	-	-	-	-	(1,232,667)	316,969,102
Donated Capital	450,896	-	-	-	-	-	-	-	450,896
Other Equities	218,085	42,245,884	26,495,485	-	-	-	933,848	(50,537,069)	19,356,233
Class A Common Stock	-	-	-	5,030,573	-	-	17,333	(5,047,906)	-
Class B Common Stock	-	-	-	1,000	-	-	-	(1,000)	-
Additional Paid-in Capital	-	36,673,507	-	10,892,292	-	200,000	20,093,482	(67,859,281)	-
Accumulated Other Comprehensive Income (Loss)	1,932,161	(5,083,808)	-	(11,228,164)	-	-	-	-	(14,379,811)
Noncontrolling Interest	-	-	-	-	-	-	426,873	-	426,873
Accumulated Earnings (Deficit)	-	-	-	(26,995,538)	1,788,761	(57,565)	(17,166,787)	42,431,129	-
	321,402,205	73,835,583	26,495,485	(22,299,837)	1,788,761	142,435	4,304,749	(82,246,794)	323,422,587
Long-Term Liabilities									
Long-Term Debt	395,025,028	-	-	-	-	-	-	-	395,025,028
Risk Management Liability	-	200,565	-	-	-	-	-	-	200,565
Retirement Benefits	-	(87,252)	-	12,500,503	-	-	-	-	12,413,251
Deferred Tax Liabilities	13,045,528	-	-	-	-	-	-	-	13,045,528
Other	569,182	-	-	138,388	-	-	-	-	707,570
	408,639,738	113,313	-	12,638,891	-	-	-	-	421,391,942
Current Liabilities									
Lines-of-Credit	86,750,000	-	-	-	-	-	-	-	86,750,000
Current Portion of Long-Term Debt	16,109,900	-	-	-	-	-	-	-	16,109,900
Current Portion of Risk Management Liability	-	4,901,572	-	-	-	-	-	-	4,901,572
Current Portion of Retirement Benefits	-	7,880	-	473,000	-	-	-	-	480,880
Accounts Payable	28,317,654	9,356,182	-	275,550	(33,903)	42,602	-	539,922	38,498,007
Consumer Deposits	11,349,589	-	-	-	-	-	-	-	11,349,589
Accrued and Withheld Taxes	3,442,119	616,376	-	260,041	63,375	-	-	-	4,381,911
Accrued Income Taxes	-	-	-	-	-	-	-	-	-
Liabilities Held for Sale	-	-	-	-	-	-	344,288	(228,587)	115,701
Deferred Tax Liabilities	2,755,360	-	-	-	-	-	-	-	2,755,360
Other Current and Accrued Liabilities	1,420,846	3,822,065	-	5,709,250	441,242	-	11,188	-	11,404,591
	150,145,468	18,704,075	-	6,717,841	470,714	42,602	355,476	311,335	176,747,511
Deferred Credits	5,443,188	1,281,864	3,903,428	36,449	-	-	-	(3,903,427)	6,761,502
Total Equities and Liabilities	$ 885,630,599	$ 93,934,835	$ 30,398,913	$ (2,906,656)	$ 2,259,475	$ 185,037	$ 4,660,225	$ (85,838,886)	$ 928,323,542

Consolidated Statement of Operations for the Year Ended April 30, 2010

	Cobb Electric Membership Corporation	Gas South, LLC	Joint Venture	Cobb Energy Management Corporation	ProCore Solutions, LLC	Cobb Energy Right of Way, LLC	Cobb Energy Management Corporation Liquidating Trust	Eliminations	Total
Operating Revenues	$ 427,688,743	$ 256,750,804	$ 1,003,482	$ 72,252,477	$ 21,712,555	$ 1,429,212	$ -	$ (90,387,767)	$ 690,449,506
Operating Expenses									
Cost of Revenues	276,098,789	191,921,525	-	66,031,295	15,035,880	1,257,679	-	(79,200,923)	471,144,245
Distribution Operations	6,275,273	-	-	-	-	-	-	-	6,275,273
Distribution Maintenance	20,893,786	-	-	-	-	-	-	-	20,893,786
Consumer Accounts	22,141,364	10,947,123	-	-	-	-	-	-	33,088,487
Consumer Service and Information	2,444,446	9,109,613	-	98,294	-	-	-	-	11,652,353
Administrative, Selling and General	24,302,157	23,436,183	-	5,009,959	4,416,855	39,387	-	(11,186,844)	46,017,697
Depreciation and Amortization	20,529,121	6,226,429	2,326,468	1,599,107	7,608	123,813	-	-	30,812,546
Operating Taxes	4,478,240	-	-	75,484	243	-	-	-	4,553,967
Total Operating Expenses	377,163,176	241,640,873	2,326,468	72,814,139	19,460,586	1,420,879	-	(90,387,767)	624,438,354
Operating Margins Before Interest Expense	50,525,567	15,109,931	(1,322,986)	(561,662)	2,251,969	8,333	-	-	66,011,152
Interest Expense	28,279,550	1,138,240	-	622,485	26	10,389	25	(506,407)	29,544,308
Operating Margins After Interest Expense	22,246,017	13,971,691	(1,322,986)	(1,184,147)	2,251,943	(2,056)	(25)	506,407	36,466,844
Nonoperating Margins (Loss)	8,970,931	55,349	-	(1,288,264)	(15,099)	-	-	(9,082,422)	(1,359,505)
G&T Capital Credits	6,305,425	-	-	-	-	-	-	-	6,305,425
Other Capital Credits and Patronage Allocations	2,697,678	-	-	96,240	-	-	-	-	2,793,918
Operations from Assets Held for Sale	-	-	-	-	-	-	305,606	-	305,606
Gain (Loss) on Disposition of Assets	-	3,500	-	(3,013)	-	(741)	1,658,463	-	1,658,209
Net Income (Loss) Before Income Taxes	40,220,051	14,030,540	(1,322,986)	(2,379,184)	2,236,844	(2,797)	1,964,044	(8,576,015)	46,170,497
Income Tax Expense	(3,023,339)	-	-	-	-	-	-	-	(3,023,339)
Net Income (Loss)	$ 37,196,712	$ 14,030,540	$ (1,322,986)	$ (2,379,184)	$ 2,236,844	$ (2,797)	$ 1,964,044	$ (8,576,015)	$ 43,147,158

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August 11, 2011

REPORT OF INDEPENDENT ACCOUNTANTS
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 Board of Directors
Cobb Electric Membership Corporation

We have audited the consolidated financial statements of **Cobb Electric Membership Corporation and Subsidiaries** as of and for the year ended April 30, 2011 and have issued our report thereon dated August 11, 2011. Our report includes a reference to other auditors. 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. Other auditors audited the financial statements of Gas South, LLC, a wholly-owned subsidiary, as described in our report on Cobb Electric Membership Corporation and Subsidiaries' consolidated financial statements. The financial statements of Gas South, LLC were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cobb 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 Cobb Electric Membership Corporation and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 consolidated 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.

Internal Control Over Financial Reporting (Continued)

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the board of directors, others within the entity, the United States Department of Energy and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

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August 11, 2011

REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

The Board of Directors
Cobb Electric Membership Corporation

Compliance

We have audited Cobb Electric Membership Corporation and Subsidiaries' 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 each of Cobb Electric Membership Corporation and Subsidiaries' major federal programs for the year ended April 30, 2011. Cobb Electric Membership Corporation and Subsidiaries' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Cobb Electric Membership Corporation and Subsidiaries' management. Our responsibility is to express an opinion on Cobb Electric Membership Corporation and Subsidiaries' compliance based on our audit. Cobb Electric Membership Corporation and Subsidiaries' basic consolidated financial statements include the operations of Gas South, LLC, a wholly-owned subsidiary. We did not audit Gas South, LLC. Those statements were audited by other auditors whose report has been furnished to us.

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 types of 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 Cobb Electric Membership Corporation and Subsidiaries' 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. Our audit does not provide a legal determination of Cobb Electric Membership Corporation and Subsidiaries' compliance with those requirements.

In our opinion, Cobb Electric Membership Corporation and Subsidiaries' complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended April 30, 2011.

Internal Control Over Compliance

Management of Cobb Electric Membership Corporation and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Cobb Electric Membership Corporation and Subsidiaries' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 Cobb Electric Membership Corporation and Subsidiaries' 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, the United States Department of Energy and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

Schedule of Expenditures of Federal Awards For the Year Ended April 30, 2011

Federal Grantor/Program Title	Award Number	Federal CFDA Number	Expenditures
United States Department of Energy			
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis (Direct Grant)	DE - OE0000294	81.122	$8,432,728

See accompanying schedule of expenditures of federal awards.

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Cobb Electric Membership Corporation and Subsidiaries (the Corporation) for the year ended April 30, 2011. The information in the 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 Corporation, it is not intended to and does not present the financial position, changes in equities or cash flows of the Corporation.

(2) Federal Award

The Corporation received approval for a smart grid implementation grant from the United States Department of Energy (the DOE) on April 30, 2010. The purpose of the grant is to incorporate installing communication infrastructure, approximately 190,000 smart meters and 40,000 load control switches to produce an advanced metering infrastructure (AMI) in the service territory of Cobb Electric. The DOE approved grant funding of 50 percent of the project cost at a maximum amount of $16,893,836 under the *American Recovery and Reinvestment Act of 2009*. The Corporation has until April 30, 2012 to request reimbursement for amounts expended from the DOE. After that date, the Corporation is solely responsible for additional AMI implementation costs as incurred.

(3) Summary of Significant Accounting Policies

- Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* wherein certain types of expenditures are not allowable or are limited for reimbursement.

- No pass-through entities exist under the Corporation’s federal grant.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS APRIL 30, 2011

(A) Summary of Audit Results

1) The Report of Independent Accountants expresses an unqualified opinion on the consolidated financial statements of Cobb Electric Membership Corporation and Subsidiaries.

2) There were no significant deficiencies disclosed during the audit of the consolidated financial statements.

3) No instances of noncompliance material to the consolidated financial statements of Cobb Electric Membership Corporation and Subsidiaries were disclosed during the audit.

4) There were no significant deficiencies disclosed during the audit of the major federal award program.

5) The Report of Independent Accountants on Compliance for the major federal award program of Cobb Electric Membership Corporation and Subsidiaries expresses an unqualified opinion.

6) There were no audit findings relative to the major federal award program for Cobb Electric Membership Corporation and Subsidiaries.

7) The program tested as major program was CFDA No. 81.122, ARRA-Electricity Delivery and Energy Reliability, Development and Analysis.

8) The threshold for distinguishing whether the program was Type A or B was $300,000.

9) Cobb Electric Membership Corporation and Subsidiaries was considered to be a high-risk auditee.

(B) Findings – Audit of Consolidated Financial Statements

- There were no findings related to the audit of the consolidated financial statements.

(C) Findings and Questioned Costs – Major Federal Award Program Audit

- There were no findings or questioned costs related to the major federal awards program.

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August 11, 2011

COMMUNICATION WITH THOSE
CHARGED WITH GOVERNANCE

The Board of Directors
Cobb Electric Membership Corporation

We have audited the consolidated financial statements of **Cobb Electric Membership Corporation and Subsidiaries** (the Corporation) for the year ended April 30, 2011, and have issued our report thereon dated August 11, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 1, 2011. Other auditors audited the financial statements of Gas South, LLC, a wholly-owned subsidiary, as described in our report on Cobb Electric Membership Corporation and Subsidiaries' consolidated financial statements. The financial statements of Gas South, LLC were not audited in accordance with *Government Auditing Standards* or OMB Circular A-133. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Corporation are described in *Note 1* to the consolidated financial statements. We noted no transactions entered into by the Corporation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the consolidated financial statements in the proper period.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the consolidated financial statements were:

- *Construction Work in Progress (CWIP)*

  Management utilizes estimates to determine the allocation of costs to CWIP. The estimates utilize direct labor and material cost as the primary basis for allocation. The allocations utilized are similar to the allocation processes utilized by other electric utilities.

- *Useful Lives of Property, Plant and Equipment*

  Management's estimate of the useful lives assigned to property, plant and equipment are based on U.S. GAAP, industry standards and management's best estimate of the lives of the assets.

- *Allowance for Doubtful Accounts*

  Management's estimate for the allowance for doubtful accounts is based on historical revenues, historical collection rates and an analysis of the collectibility of individual accounts receivable.

Qualitative Aspects of Accounting Practices (Continued)

- *Risk Management Activities*

  The Corporation enters into contracts including options, swaps, futures, forwards and other contractual commitments to manage market risks such as changes in the price of electricity and natural gas. The Corporation recognizes certain derivative instruments on the consolidated balance sheet as assets or liabilities at their fair value. All of the Corporation's derivatives are designated as hedges under U.S. GAAP.

- *Defined Benefit Pension Plans*

  The Corporation provides multiple defined benefit pension plans, whereby a minimum pension benefit is determined by a participant's years of service, final average compensation and the value of the Corporation's contributions. Annual valuations of the accrued postretirement benefit cost and the net periodic postretirement benefit cost are calculated by third-party service organizations.

We evaluated the key factors and assumptions used to develop accounting estimates in determining their reasonableness to the consolidated financial statements taken as a whole.

The disclosures in the consolidated financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the consolidated financial statements were:

- Note 17 - Derivative Litigation and Settlement Charges
- Note 18 - Indictment of Former President and Chief Executive Officer
- Note 19 - Other Litigation

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Attachment-A summarizes uncorrected misstatements of the consolidated financial statements, as well as the net effect of consolidated financial statement line items which we had to adjust, as well as the line items which were adjusted for Gas South, LLC. Management has determined the effect of uncorrected misstatements to be immaterial, both individually and in the aggregate, to the consolidated financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the consolidated financial statements or the audit report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 11, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Corporation's consolidated financial statements or a determination of the type of audit opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants, other than the audit of Gas South, LLC, which was performed by another independent accounting firm.

Other Audit Findings or Issues

We discussed a variety of matters, including the application of accounting principles and auditing standards, with management during our audit. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the board of directors and management of Cobb Electric Membership Corporation and Subsidiaries, and is not intended to be and should not be used by anyone other than these specified parties.

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

Attachment A

	Before Adjustment	Effect of Client Provided Entries (x)	After Adjustment	Effects of Audit Entries Not Posted
ASSETS				
Utility Plant	$ 605,422,739	$ (9,200)	$ 605,413,539	$ 46,802
Other Property and Investments	180,495,969	(2,377,050)	178,118,919	-
Current Assets	113,274,456	(2,152,671)	111,121,785	63,743
Deferred Tax Assets	14,649,049	(2,976,639)	11,672,410	-
Other Assets	28,553,881	(664,032)	27,889,849	(70,235)
Total Assets	**$ 942,396,094**	**$ (8,179,592)**	**$ 934,216,502**	**$ 40,310**
EQUITIES AND LIABILITIES				
Equities	$ 346,752,540	$ 6,955,280	$ 353,707,820	$ (29,051)
Long-Term Liabilities	427,646,242	(15,543,679)	412,102,563	-
Current Liabilities	158,368,749	408,807	158,777,556	69,361
Deferred Credits	9,628,563	-	9,628,563	-
Total Equities and Liabilities	**$ 942,396,094**	**$ (8,179,592)**	**$ 934,216,502**	**$ 40,310**
STATEMENT OF OPERATIONS				
Operating Revenues	$ 674,341,711	$ -	$ 674,341,711	$ -
Operating Expenses	(636,499,108	(1,432,887)	(637,931,995)	(96,799)
Interest Expense	(28,020,909)	-	(28,020,909)	-
Nonoperating Margins	1,208,771	607,431	1,816,202	-
G&T Capital Credits	9,226,564	(2,377,050)	6,849,514	-
Other Capital Credits and Patronage Allocations	3,348,860	-	3,348,860	-
Operations from Assets Held for Sale	(1,752,798)	(623,866)	(2,376,664)	67,748
Loss on Disposition of Assets	(194,393)	(160,000)	(354,393)	-
Income Tax Benefit	587,738	3,543,062	4,130,800	-
Net Income	**$ 22,246,436**	**$ (443,310)**	**$ 21,803,126**	**$ (29,051)**

(x) - Each year, certain information is not available when audit fieldwork begins. The Corporation provides information related to deferred income taxes, employee benefit plans, generation and transmission capital credits, and certain other accruals to ensure fairly stated consolidated financial statements.

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