

FINANCIAL STATEMENTS WITH
REPORT OF INDEPENDENT AUDITORS
EAST TEXAS ELECTRIC COOPERATIVE, INC.
December 31, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
East Texas Electric Cooperative, Inc.
Nacogdoches, Texas

We have audited the accompanying balance sheets of East Texas Electric Cooperative, Inc. (the "Cooperative") as of December 31, 2010 and 2009 and the related statements of revenue and patronage capital and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Texas Electric Cooperative, Inc. as of December 31, 2010 and 2009 and the results of its operations and its 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 our report dated April 15, 2011, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. 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 read in conjunction with this report in considering the results of our audit.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 15, 2011

EAST TEXAS ELECTRIC COOPERATIVE, INC.
BALANCE SHEETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Utility plant		
Utility plant in service	\$ 528 242 995	\$ 224 450 620
Less accumulated provision for depreciation	57 251 009	44 039 334
	470 991 986	180 411 286
Construction work in progress	111 636 059	243 211 459
	582 628 045	423 622 745
Investments and Other assets:		
Investments in associated organizations	39 038 335	32 913 869
Funds held in escrow	9 798 500	9 798 500
	48 836 835	42 712 369
Current Assets:		
Cash and cash equivalents	20 955 878	9 975 729
Accounts receivable from member cooperatives	20 000 331	20 357 969
Accounts receivable - Other	602 145	670 730
Inventory	10 256 806	8 240 898
Other current assets	273 187	230 837
	52 088 347	39 476 163
Deferred debits	4 161 518	5 471 514
	\$ 687 714 745	\$ 511 282 791
EQUITIES AND LIABILITIES		
Equity and Margin:		
Memberships	\$ 15 000	\$ 15 000
Patronage capital	42 376 887	29 655 757
	42 391 887	29 670 757
Long-term debt, less current maturities	613 779 152	441 630 062
Current Liabilities:		
Accounts payable - Purchased power	16 136 285	22 088 362
Accounts payable - Other	684 742	10 316 126
Accrued expenses	5 057 634	1 722 199
Current maturities of long-term debt	9 665 045	4 446 115
	31 543 706	38 572 802
Deferred credits	-	1 409 170
	\$ 687 714 745	\$ 511 282 791

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

EAST TEXAS ELECTRIC COOPERATIVE, INC.
STATEMENTS OF REVENUE AND PATRONAGE CAPITAL
For the Years Ended December 31, 2010 and 2009

	2010	2009
Operating Revenues:		
Power sales - Members	\$ 227 008 897	\$ 167 434 457
Other electric revenues	8 048 976	3 045 785
	235 057 873	170 480 242
Operating Expenses:		
Purchased power	151 006 918	118 569 825
Power Generation:		
Fuel	27 983 653	19 640 196
Other production expenses	13 767 311	6 480 199
Transmission	957 435	889 675
Administrative and general	6 582 976	5 439 351
Depreciation	13 211 676	6 412 255
	213 509 969	157 431 501
OPERATING MARGINS BEFORE INTEREST EXPENSE	21 547 904	13 048 741
Interest expense	10 877 046	7 570 703
OPERATING MARGINS	10 670 858	5 478 038
Nonoperating Margins:		
Interest income	1 179 990	798 372
Capital credits and patronage capital allocations	870 282	537 421
NET MARGINS	12 721 130	6 813 831
Patronage capital at beginning of period	29 655 757	22 841 926
PATRONAGE CAPITAL AT END OF PERIOD	\$ 42 376 887	\$ 29 655 757

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

EAST TEXAS ELECTRIC COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2010 and 2009

	2010	2009
Operating Activities:		
Net margin	\$ 12 721 130	\$ 6 813 831
Adjustments to Reconcile Net Margin to Net Cash		
Provided by Operating Activities:		
Depreciation	13 211 676	6 412 255
Patronage capital credits - Non-cash	(860 803)	(536 914)
Cash Provided by (Used for) the Change in:		
Accounts receivable - Members	357 638	(2 957 881)
Accounts receivable - Other	68 585	(501 555)
Inventory	(2 015 908)	(842 895)
Other current assets	(42 350)	(223 401)
Deferred charges	1 309 996	(1 351 676)
Accounts payable	(5 952 077)	2 942 029
Accounts payable - Other	(9 631 384)	6 679 101
Accrued expenses	3 335 435	431 329
Deferred credits	(1 409 170)	285 848
NET CASH PROVIDED BY OPERATING ACTIVITIES	11 092 768	17 150 071
Investing Activities:		
Capital expenditures (including interest capitalized)	(172 216 976)	(163 349 793)
Purchase of CFC loan certificates	(22 952 796)	(18 503 283)
Redemption of CFC loan certificates	17 261 257	106 333
Proceeds from retirement of patronage capital credits	427 876	268 457
NET CASH USED BY INVESTING ACTIVITIES	(177 480 639)	(181 478 286)
Financing Activities:		
CFC loan advances	190 155 465	162 929 910
RUS loan advances	137 476 000	-
Loan payments to CFC	(139 074 032)	(1 705 135)
Loan payments to RUS	(2 834 319)	(2 518 741)
Clean Renewable Energy Bonds	(637 500)	(637 500)
Net activity - CoBank line of credit	(7 717 594)	7 717 594
NET CASH PROVIDED BY FINANCING ACTIVITIES	177 368 020	165 786 128
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10 980 149	1 457 913
Cash and cash equivalents, beginning of year	9 975 729	8 517 816
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 20 955 878	\$ 9 975 729
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year For:		
Interest	\$ 15 710 259	\$ 14 186 217

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

EAST TEXAS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations:

East Texas Electric Cooperative, Inc. ("Cooperative") is an electric generating and transmission cooperative formed and operating pursuant to the Texas Electric Cooperative Corporation Act. The Cooperative was created on behalf of its members, Northeast Texas Electric Cooperative, Inc. ("NTEC"), Sam Rayburn G & T Electric Cooperative, Inc. ("SRG&T"), and Tex-La Electric Cooperative of Texas, Inc. ("Tex-La") ("Members") for the purpose of providing wholesale electric service. Currently, the Cooperative supplies a portion of each Member's power needs. Each of the Members in turn provides wholesale electric power to their member distribution cooperatives.

Use of Estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statements.

System of Accounts:

The Cooperative maintains its accounting records in accordance with the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts as adopted by the USDA Rural Development's Rural Utilities Service ("RUS"), which conforms with U.S. generally accepted accounting principles in all material respects. The more significant accounting policies are described below.

Revenue Recognition:

Revenues from the sale of electricity are recorded based on billings to Members.

Cash Flows Statement:

For purposes of reporting cash flows, cash and cash equivalents consist of cash and temporary cash investments with original maturities of three months or less.

Accounts Receivable:

The Cooperative considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made.

Utility Plant:

The utility plant is stated at original cost. The cost of additions to the electric plant includes contracted work, direct labor, materials, allocable overhead and interest on debt used for construction. The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of units replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Depreciation of the utility plant is provided on the composite straight-line method over the estimated useful lives of the various components. The method and rates are prescribed by RUS or as approved for rate-making purposes. The annual depreciation rates are:

Transmission	2.75%
Production plant	3.226% - 6.67%
Load dispatching equipment	6.67%

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset. At December 31, 2010, the Cooperative had not recognized any losses resulting from the impairment of long-lived assets.

Investments in Associated Organizations:

Investments in patronage capital credits of associated organizations are accounted for under the equity method. Patronage capital is recorded at the stated amount of the certificate when allocated by the associated organization.

Inventories:

Inventory consists of fuel stock (primarily coal) for operation of the electric plants. Fuel inventory is carried at weighted average cost. Materials and supplies inventory used for the operation of the electric plants is valued at average cost and is stated at the lower of average cost or market.

Allowance for Borrowed Funds Used During Construction:

The Cooperative capitalizes the carrying costs on certain significant construction and development projects while in progress. Interest is capitalized based on the debt specifically borrowed to finance projects during construction and is reflected as a credit to interest expense in the Statement of Revenue and Patronage Capital. For the years ended December 31, 2010 and 2009, capitalized interest was approximately \$6,567,000 and \$7,612,000, respectively.

Income Taxes:

The Cooperative is exempt from Federal income tax under the provisions of Section 501(c)(12) of the Internal Revenue Code of 1986.

Comprehensive Income:

Professional standards have been established for the reporting and display of comprehensive income and its components in the financial statements. There were no items of other comprehensive income in 2010 and 2009, and thus, net income is equal to comprehensive income for each of those years.

Deferred Debits/Credits:

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 980: *Regulated Operations* (formerly FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*), certain costs have been capitalized as deferred assets that would otherwise be charged to expense. Such deferred assets are recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent Events:

Management has evaluated subsequent events through April 15, 2011 the date the financial statements were available to be issued.

Reclassifications:

Certain reclassifications have been made to the prior period's financial statements to conform to the classifications used for the current year. There were no changes to net margins or total equities as previously reported.

NOTE 2 - UTILITY PLANT

The following summarizes utility plant at December 31, 2010 and 2009:

	2010	2009
Utility Plant, at Cost:		
Transmission	\$ 43 622 823	\$ 43 606 524
Production plant	484 398 921	180 622 845
Load dispatching equipment	221 251	221 251
	528 242 995	224 450 620
Less accumulated depreciation	57 251 009	44 039 334
	470 991 986	180 411 286
Construction work in progress	111 636 059	243 211 459
	\$ 582 628 045	\$ 423 622 745

The Cooperative has an undivided ownership in and is responsible for providing its share of the costs for its jointly owned and other power plant facilities that are currently in operation. The Cooperative's share of each operating facility at December 31, 2010, is as follows:

Nelson Unit 6 (50Mw)	9.10%
Independence Steam Electric Station Unit 2 (" ISES 2") (60Mw)	7.13%
Plum Point Energy Station (" Plum Point") (50Mw)	7.52%
Harrison County Power Project ("HCPP") (248Mw)	45.00%
Hardin County Units 1 and 2 (150Mw)	100.00%
San Jacinto Units 1 and 2 (150Mw)	100.00%

In connection with the Cooperative's ownership interest in Nelson Unit 6, ISES 2, and Plum Point, the Cooperative receives its proportionate share of sulfur dioxide ("SO2") allowances. Each allowance represents the right to emit one ton of SO2 pollution in a specified calendar year. The allowances may be used to permit current emissions, sold on the open market, or held in reserve to cover emissions in future years. The Cooperative has the intention of holding these allowances for future use.

The Cooperative owns a 7.52% undivided ownership interest (50 Mw) in Plum Point. Plum Point is a 665Mw pulverized coal-fired power generation facility in Mississippi County, Arkansas. The estimated cost of the Cooperative's interest was approximately \$105.0 million. The Cooperative's share of the Plum Point costs through December 31, 2010 was approximately \$95,059,000. The Plum Point Energy Station met its in-service criteria on August 13, 2010. Plum Point entered commercial operation on September 1, 2010.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 2 - UTILITY PLANT - CONTINUED

In 2007, the Cooperative executed an Ownership Interest Purchase Agreement ("OIPA") with Warren Power, LLC for the purchase of the remaining 75% of the Warren Power Facility ("Facility"). The Cooperative had acquired 25% of the Facility in 2004. The Facility, at the time the Cooperative purchased the remaining 75% interest, consisted of a 300Mw gas-fired power plant originally located in Vicksburg, Mississippi. The Cooperative elected to dismantle the Facility and relocate the Facility's four turbines to two separate locations in Texas. The Cooperative has constructed four separate simple cycle combustion plants that total 300Mw's of capacity, two units in San Jacinto County ("San Jacinto Plant") and the other two units in Hardin County ("Hardin Plant"). The San Jacinto Plant began commercial operation in July 2009. The Hardin Plant began commercial operation in January 2010.

In 2010, the Cooperative's Board of Directors passed a resolution approving the acquisition by the Cooperative and one of its Members, NTEC, of the remaining 335Mw of Harrison County Power Plant (HCPP), which was owned by an Entergy affiliate. The Cooperative closed on this acquisition on December 31, 2010. The Cooperative, which originally owned a 9.10% interest in the plant, acquired fifty-nine percent (59%) of the remaining 335Mw and NTEC acquired forty-one percent (41%). The Cooperative and NTEC now own 100% of HCPP with ETEC owning 45% (248Mw) and NTEC owning 55% (302Mw). The Cooperative financed the acquisition using interim financing from CFC and intends to secure long-term financing from RUS.

In addition to the above plants that are currently in operation, the Cooperative has additional significant investments in the following power plant projects under development:

John W. Turk Power Plant (50Mw)	8.33%
Woodville Biomass Facility (50Mw)	100.00%
Lake Livingston Hydropower Facility (24Mw)	100.00%

In March 2009, the Cooperative closed on its purchase of 8.3% (50Mw) of the John W. Turk ("Turk") power plant. The generating facility is a 600Mw coal-fired ultra supercritical steam turbine generating unit with related facilities located in Hempstead County, Arkansas. The Cooperative's undivided interest is estimated to cost \$179,000,000 and the plant's commercial operation date is set for 2012. The plant is approximately 52% complete as of December 31, 2010. Turk is being developed by Southwestern Electric Power Company ("SWEPCO").

The Cooperative is developing a 50Mw biomass facility near Woodville, Texas. The facility, which is targeted to begin commercial operation in 2014, is estimated to cost approximately \$200,000,000. The Cooperative has acquired land for the facility and entered into a long-term fuel supply agreement. During the year ended December 31, 2009, the Cooperative was approved to receive \$40,000,000 in Clean Renewable Energy Bonds ("CREBS") and received an additional allocation of CREBS of \$15,000,000 subsequent to the year ended December 31, 2010. The Cooperative intends to finance a portion of the project utilizing the CREBS and apply to RUS for their remaining financing needs.

As a means to secure additional power and diversify its portfolio, the Cooperative has decided to develop, own and operate, in cooperation with the Trinity River Authority of Texas ("Authority") and the City of Houston, Texas, a hydropower facility with an installed capacity of approximately 24Mw to be located at the Lake Livingston Dam. The estimated total cost to construct the hydropower facility is \$86,000,000. The project is in the initial stages of development as of December 31, 2010. The Cooperative has been approved to receive \$35,200,000 in CREBS and subsequent to the year ended December 31, 2010, the Cooperative received an additional CREBS allocation of \$15,000,000. The Cooperative intends to finance the project with the use of allocated CREBS related to the project and to apply to RUS for their remaining financing needs.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 3 - INVESTMENTS

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

	2010	2009
National Rural Utilities Cooperative Finance Corporation (CFC):		
Patronage capital and Membership	\$ 2 198 571	\$ 1 770 695
Loan capital term certificates (Note 6)	36 833 713	31 142 174
CoBank		
Patronage capital and Membership	6 051	1 000
	\$ 39 038 335	\$ 32 913 869

NOTE 4 - FUNDS HELD IN ESCROW

During the year ended December 31, 2009, the Cooperative, through CFC, issued \$10,200,000 in CREBS. Bond proceeds of \$401,500 were used to pay debt issuance costs and the remaining \$9,798,500 is held in escrow by CFC. As of December 31, 2010, the funds held in escrow are fully available for use on construction of the Lake Livingston Hydropower facility.

NOTE 5 - DEFERRED DEBITS/CREDITS

The following is a summary of the amounts recorded as deferred debits/credits as of December 31, 2010 and 2009:

	2010	2009
DEFERRED DEBITS		
ISES settlement - Note 12	\$ -	\$ 100 000
Incentive heat rate	-	3 310 284
Preliminary survey and investigation charges	-	1 686 915
Debt issuance costs	349 221	374 315
Transmission credits	2 758 335	-
Overhead and maintenance	1 053 962	-
	\$ 4 161 518	\$ 5 471 514
DEFERRED CREDITS		
Overhead and maintenance	\$ -	\$ 1 309 170
ISES settlement - Note 12	-	100 000
	\$ -	\$ 1 409 170

The Cooperative had an Agreement for Partial Requirements Wholesale Electric Service ("Agreement") with Entergy Gulf States ("EGS"). The Agreement had an incentive provision whereby the Cooperative and EGS split the savings associated with any heat rate improvements in gas-fired resources on EGS's system. The Cooperative was responsible for reimbursing EGS for one-half of the total cost savings. For the year ended December 31, 2009 this amounted to \$2,847,884. Approximately \$462,400 related to the 2008 incentive provision was unamortized as of December 31, 2009. The full amount deferred at December 31, 2009 was amortized and collected from the Cooperative's Members in 2010. The incentive provision of the Agreement was not in effect for the year ended December 31, 2010.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 5 - DEFERRED DEBITS/CREDITS - CONTINUED

The Cooperative capitalizes certain expenditures related to preliminary surveys, plans, and investigations made for the purpose of determining the feasibility of utility projects. When the projects are determined to be feasible and the Cooperative elects to move forward with the projects, the preliminary charges are reclassified to construction work in progress. During the year ended December 31, 2010 approximately \$1,380,000 was reclassified to construction work in progress related to the HCPP acquisition and Biomass Facility as the Cooperative elected to move forward with these projects. Approximately \$307,000 of preliminary investigation and feasibility costs were written off during the year ended December 31, 2010 related to projects the Cooperative no longer deemed feasible.

Debt issuance costs represent the unamortized costs associated with the issuance of CREBS. The costs are being amortized over the life of the bonds.

As part of the acquisition of HCPP, the Cooperative was assigned certain transmission credits that were previously owned by Entergy. The credits relate to an agreement between Entergy and SWEPCO in which certain upgrades were made to SWEPCO's transmission system in return for transmission service credits in accordance with the FERC's policy and applicable provisions of the Open Access Transmission Tariff. The Cooperative is entitled to a refund in an amount equal to the equivalent Point-to-Point transmission service rate, on a dollar-for-dollar basis, until the amount spent has been fully offset.

The Board of Directors approves the Cooperative's rates, which allows recovery of overhead and maintenance ("O & M") expenses, including administrative and general expenses incurred by the Cooperative on behalf of the Members. Under this provision, the difference in the allowable customer charge computed under the Cooperative's rate and the actual amount of O & M expenses incurred by the Cooperative is to be accumulated by the Cooperative in a deferred account. The allowable customer charge is a monthly average of O & M expenses as budgeted by the Cooperative at the beginning of each twelve-month billing period. Subsequent periods reflect the adjustments between actual and estimated O & M expenses.

NOTE 6 - PATRONAGE CAPITAL

Patronage capital at December 31, 2010 and 2009 consists of the following:

	2010	2009
Assignable patronage capital	\$ 12 721 130	\$ 6 813 831
Assigned patronage capital	29 655 757	22 841 926
	\$ 42 376 887	\$ 29 655 757

The by-laws of the Cooperative provide that all amounts received and receivable from the furnishing of electric energy in excess of the sum of operating costs and expenses are to be assigned to Members' patronage capital credit accounts on a patronage basis. The by-laws permit the offsetting of current year operating margins against operating deficits of prior years. Subsequent to the year ended December 31, 2010, the Cooperative amended its by-law concerning patronage capital to further clarify how the Board may deal with losses. The amended by-law provides the Board the ability to allocate losses to members, offset losses with margins from future years, or offset losses with certain nonoperating margins from current or future years.

Pursuant to the RUS mortgage and related loan agreements, until the total of equities and margins equal or exceed 30% of total assets, the distribution of capital contributed by members in each year is limited generally to 25% of patronage capital and margins of the preceding year provided that, after giving effect to such distribution, the total equity will equal or exceed 20% of total assets. For the years ending December 31, 2010 and 2009, no patronage capital was retired.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 7 - LONG-TERM DEBT

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

	2010	2009
Federal Financing Bank ("FFB") mortgage notes guaranteed by RUS, fixed rates 3.63% to 5.27%, maturing at various times through 2035	\$ 206 795 686	\$ 72 154 606
CFC Fixed Rate Notes - 3.50% to 7.45%, maturing at various times from 2023 to 2030	53 734 292	55 660 324
CFC Interim Financing Notes - Variable rates, maturing 2012 - 2014	232 547 505	191 926 124
CFC Financing Notes - Capital term certificates, fixed rates from 3.15% to 6.10%, maturing 2012 - 2014	33 231 039	27 426 243
CFC/Regions Syndicated Revolving Credit Facility - Plum Point Project, variable interest rates, maturing 2013	88 210 675	81 629 386
Clean Renewable Energy Bonds - CFC, fixed rate, maturing 2024	8 925 000	9 562 500
CoBank line of credit to be refinanced	-	7 716 994
	623 444 197	446 076 177
Less current maturities	9 665 045	4 446 115
	\$ 613 779 152	\$ 441 630 062

The Cooperative receives a performance discount rate reduction of 0.125% and a volume discount rate reduction of 0.125% on CFC fixed rate notes. The notes feature a level debt service arrangement under which the quarterly payments remain unchanged over the life of the note. The maturity dates fluctuate in response to the discounted interest rates.

In 2004, the Cooperative acquired an ownership interest in HCPP, Nelson 6, and Warren power plants. The Cooperative secured long-term financing from RUS. In 2010, the Cooperative secured long-term financing with RUS to finance its ownership, relocation, and construction of the San Jacinto Plant and Hardin Plant. The RUS mortgage secures an amount up to \$217,476,000, in the form of four separate RUS promissory notes. At December 31, 2010, the RUS notes aggregated \$206,795,686.

In 2008, the Cooperative secured a five-year \$100,000,000 revolving credit facility to provide interim unsecured financing for the Cooperative's acquisition of a 50Mw interest in Plum Point. The credit facility is a syndicated facility whereby CFC committed \$50,000,000 and Regions Bank committed \$50,000,000. The credit facility is structured as an unsecured revolving credit facility. The Cooperative received a lien accommodation from RUS on September 29, 2010. The Cooperative's management is currently evaluating its financing opportunities and expects to repay the credit facility with long-term financing from CFC and CoBank. The Cooperative has drawn \$88,210,675 on this credit facility at December 31, 2010.

In March 2009, the Board of Directors of the Cooperative approved the execution of an interim bridge financing agreement with CFC to provide interim financing for the Cooperative's acquisition of a 50Mw interest in the Turk power plant. The interim bridge financing is for an aggregate amount, not to exceed \$140,000,000, for the ownership in Turk, and an aggregate amount not to exceed \$20,006,000, in order to finance the purchase of CFC Loan Capital Term Certificates. The Cooperative has received a lien accommodation from RUS and expects to repay the interim financing with long-term financing from CFC or other capital market participants. The Cooperative has drawn \$116,058,644 on the interim bridge financing at December 31, 2010.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 7 - LONG-TERM DEBT - CONTINUED

In 2008, the Cooperative was approved to receive \$10,200,000 in CREBS to finance a portion of the Lake Livingston hydropower project. In October 2009, the CREBS were issued by CFC and the funds are in escrow and currently available for use on construction of the hydropower facility (Note 4).

In December 2010, the Board of Directors of the Cooperative approved the execution of an interim bridge financing agreement with CFC to provide interim financing for the Cooperative's acquisition of 59% of the remaining 335Mw interest in HCPP. The interim bridge financing is for an aggregate amount, not to exceed \$131,000,000, for the ownership in HCPP, and an aggregate amount not to exceed \$18,719,900, in order to finance the purchase of CFC Loan Capital Term Certificates. The Cooperative has received a lien accommodation from RUS and expects to obtain long-term financing from RUS. The Cooperative has drawn \$149,719,900 on this interim financing at December 31, 2010.

The long-term debt agreements with CFC and RUS contain certain restrictive covenants and restrictions on payment of patronage capital. The covenants require the Cooperative to maintain certain minimum average financial ratios computed using the two most favorable annual ratios in a three-year consecutive period. The restrictions on payment of patronage capital are related in general to the Cooperative's equity and assets as defined in the agreements.

Substantially all owned assets of the Cooperative are pledged as collateral for the above-mentioned debt to RUS and CFC.

The approximate annual maturities of long-term debt that are not expected to be refinanced are as follows:

2011	\$	9 665 000
2012	\$	11 942 000
2013	\$	10 580 000
2014	\$	11 034 000
2015	\$	11 509 000

The Cooperative has a \$12,000,000 line of credit with CFC that matures on August 1, 2011. At December 31, 2010 and 2009, no funds were advanced or owed under this line of credit.

The Cooperative also has an additional line of \$12,000,000 with CoBank that matures on December 31, 2011. Outstanding balances under this line at December 31, 2010 and 2009 were \$-0- and \$7,717,994, respectively.

NOTE 8 - OPERATING LEASES AND FACILITIES AGREEMENTS

The Cooperative has accepted an assignment of a transmission lease obligation between one of its Members, NTEC, and a distribution cooperative, Wood County Electric Cooperative, Inc., in connection with a 5Mw load served by the Cooperative. The annual lease payments are based upon an estimate using various factors. An annual true-up of this estimate is performed once actual amounts have been determined. This lease obligation has no fixed term, but will remain in effect until terminated by the mutual agreement of both parties. For the years ended December 31, 2010 and 2009, the total transmission lease payments were \$153,661 and \$158,143, respectively. Estimated lease payments for each of the next five (5) years will approximate \$175,000.

NOTE 8 - OPERATING LEASES AND FACILITIES AGREEMENTS - CONTINUED

The Cooperative has entered into a transmission and interconnection agreement with Rayburn Country and Southwestern Electric Power Company in connection with a 138 kV switching station located near Jacksonville, Texas. Under the agreement, the Cooperative agrees to pay the transmission electric cooperative lease payments equal to \$25,000 per month so long as the transmission electric cooperative provides transmission service to the Cooperative over the Jacksonville to Overton Transmission Line, which is owned by the transmission electric cooperative. This obligation will remain in effect until the earlier of: (1) the date upon which the transmission electric cooperative interconnects with the transmission facilities of the Cooperative or any of its members to serve added load of the transmission electric cooperative, or (2) the agreement terminates. At December 31, 2010 and 2009, total transmission lease payments amounted to \$300,000 and estimated lease payments for each of the next five (5) years will approximate \$300,000.

NOTE 9 - POWER CONTRACTS

The Cooperative has entered into Wholesale Power Contracts (the "Contracts") with each of its Members. Pursuant to the Contracts, the Cooperative has agreed to serve all of the Members' power needs, except for the power supply responsibility that is specifically retained in the Contracts by the Members.

The Cooperative has a Power Supply Agreement with SWEPCO, whereby SWEPCO agrees to provide the Cooperative's requirements at certain points of delivery. SWEPCO, the Cooperative and NTEC entered into an agreement dated November 2, 2009, that replaced an agreement among those parties that expired on December 31 2009. The new agreement has a twenty (20) year term and provides for the sale of partial requirements service for the first five years and 80Mw for the remaining fifteen years.

The Cooperative, SRG&T, and Tex-La have an Agreement for Partial Requirements Service with Entergy to purchase 150Mw. Service under the Agreement commenced on October 29, 2009 and terminates December 31, 2014.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Cooperative, Tex-La, and SRG&T share facilities and personnel. The Cooperative and SRG&T reimburse Tex-La for their proportionate share of related expenses and equipment purchases. The Cooperative's share of cost for the years ended December 31, 2010 and 2009 was \$515,788 and \$453,516 respectively.

The Cooperative has various electrical facilities operating agreements with its Members' distribution cooperative members for the operation and maintenance of certain transmission facilities.

NOTE 11 - RATE MATTERS

In 1999, the Texas Legislature approved Senate Bill 7, which provided for the restructuring of the Texas electric industry for the purpose of creating a competitive electric power market. The legislation provided that the pricing and supply of the generation of electricity would be unregulated beginning in January 2002. Under special provisions for cooperatives, the Cooperative's rates for the sale of wholesale power are no longer regulated by the Public Utility Commission of Texas ("PUCT"). Similarly, the rates of the Members for the sale of electricity are no longer regulated by the PUCT. The law permits cooperatives' boards of directors to set rates.

NOTE 11 - RATE MATTERS - CONTINUED

Investor-owned utilities in the Electric Reliability Council of Texas ("ERCOT") were required to allow their retail customers to select generation suppliers of electricity as of January 2002. The law gives cooperatives' boards of directors sole authority to allow, or not allow, generating suppliers to attempt to sell electricity to retail customers of a cooperative. Allowing retail customer choice is called "opting in". Even if a cooperative's board decides to opt in, retail customers will continue to use the transmission and distribution facilities of the Cooperative's Members. The Cooperative will closely monitor whether any of its Members will decide to opt in and thus evaluate the potential effects of a change in generation sales. The law allows the Cooperative to recover stranded costs if it experiences a loss of load which would impair payment of debt service and payment of purchased power fixed charges. As of December 31, 2010, none of the distribution cooperatives who are served by the Cooperative's Members have elected to opt in.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Power Contract and Other Disputes

In the normal course of business the Cooperative has ongoing disputes with some of its power suppliers. Additionally, some of the billings received by the Cooperative for purchased power are subject to adjustment based on the actual costs of the seller. In 2005, the Cooperative filed a complaint with FERC against Entergy Arkansas related to a billing dispute with regards to the transmission, operating, and ownership agreements associated with the operation and maintenance of the ISES 2 generating plant. The Cooperative contended that EAI provided inaccurate and incomplete information about ISES 2, which led to the Cooperative over scheduling ISES 2, thereby incurring approximately \$2,300,000 in unnecessary ISES 2 replacement energy charges. In 2006, the Cooperative settled the billing dispute and agreed to pay \$1,266,000. At December 31, 2009 approximately \$100,000 was still outstanding on this settlement agreement. This amount was ultimately settled during the year ended December 31, 2010.

The electric utility industry is subject to standards and procedures under government laws and regulations related to environmental and other matters. These standards and procedures are subject to change; as a result, uncertainties and outcomes are not predictable with assurance. The Cooperative is unaware of any noncompliance with current governmental laws and regulations related to environmental matters.

The Cooperative may be involved in various claims and litigation arising in the normal course of business. Although management is unable to predict the outcome of such proceedings, management and the Cooperative's legal counsel does not believe that the ultimate resolution of these matters will have a material adverse effect on the Cooperative's results of operations and financial condition.

Power Supply Resources and Investments in Utility Plant Projects

To ensure adequate power supplies for its Members, the Cooperative enters into purchase commitments with electric energy suppliers. These contracts have various terms covering minimum required megawatts of power to be purchased, prices to be paid and period covered. On an ongoing basis, the Cooperative evaluates its power supply requirement obligations to its Members. At present, the Cooperative anticipates that it must replace, with additional sources of power, approximately 230Mw of power currently purchased under contracts. The Cooperative is currently evaluating several projects including hydroelectric plants, biomass, and further ownership in coal and natural gas-fired generation. The Cooperative is also evaluating purchase power agreements with various power suppliers.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

See Note 2 for a description of the utility plant projects that were in progress as of December 31, 2010. At that date, the Cooperative had commitments of approximately the following amounts, excluding debt service, related to completion of construction for the jointly-owned and other power plant projects that were in progress:

	<u>Total Commitment</u>	<u>Cost as of December 31, 2010</u>	<u>Remaining Commitment</u>
Turk	\$ 179 000 000	\$ 104 000 000	\$ 75 000 000
Woodville Biomass Facility	200 000 000	4 000 000	196 000 000
Lake Livingston Hydropower	86 000 000	4 000 000	82 000 000

Turk Plant

On December 13, 2007, the Cooperative executed the Construction, Ownership and Operating Agreement ("COOA") for its ownership share of Turk. As a result of executing the agreement, receiving an RUS lien accommodation, and receiving all other regulatory approvals, the Cooperative closed on its purchase of Turk and was required to pay approximately \$45,000,000 in accrued project costs. As of December 31, 2010, the Cooperative has incurred approximately \$104,000,000 in project costs related to Turk.

On November 21, 2007, the Arkansas Public Service Commission ("APSC") granted conditional approval for Turk and issued a Certificate of Environmental Compatibility and Public Need ("CECPN") to SWEPCO allowing the construction of Turk. Following an appeal by certain interveners, the Arkansas Supreme Court issued a decision that reversed the APSC's grant of the CECPN. The Arkansas Supreme Court ultimately concluded that the APSC erred in determining the need for additional power supply resources in a separate proceeding. However, the Arkansas Supreme Court approved the APSC's procedure of granting CECPNs for transmission facilities in dockets separate from the Turk Plant CECPN proceeding. SWEPCO filed a notice with the APSC of its intent to proceed with the construction of Turk but that SWEPCO no longer intended to pursue a CECPN to seek recovery of the originally approved portion of Turk costs in Arkansas retail rates. In June 2010, the APSC issued an order which reversed and set aside the previously granted CECPN.

In November 2008, SWEPCO received its air permit approval from the Arkansas Department of Environmental Quality and commenced construction at the site. The Arkansas Pollution Control and Ecology Commission (APCEC) upheld the air permit. In February 2010, the parties who unsuccessfully appealed the air permit to the APCEC filed a notice of appeal with the Circuit Court of Hempstead County, Arkansas. In December 2010, the Circuit Court denied the appeal. In January 2011, the same parties asked the Arkansas Court of Appeals to overturn the Circuit Court's December 2010 decision. A decision from the Arkansas Court of Appeals is pending.

The wetlands permit required for the construction of Turk was issued by the U.S. Army Corps of Engineers in December 2009. In February 2010, the Sierra Club, the Audubon Society and others filed a complaint in the Federal District Court for the Western District of Arkansas against the U.S. Army Corps of Engineers challenging the process used and the terms of the permit issued to SWEPCO authorizing certain wetland and stream impacts. In May 2010, the parties filed with the Federal District Court for the Western District of Arkansas for a preliminary injunction to halt construction and for a temporary restraining order.

NOTE 12 - COMMITMENTS AND CONTINGENCIES - CONTINUED

In July 2010, the Hempstead County Hunting Club filed a complaint with the Federal District Court for the Western District of Arkansas against SWEPCO, the U.S. Army Corps of Engineers, the U.S. Department of Interior and the U.S. Fish and Wildlife Service seeking an injunction to stop construction of Turk asserting claims of violations of federal and state laws. The plaintiffs' federal law claims challenge the process used and terms of the permit issued to SWEPCO authorizing certain wetland and stream impacts. The plaintiffs' state law claims challenge SWEPCO's ability to construct the Turk Plant without obtaining a certificate from the APSC. In 2010, the motions for preliminary injunction were partially granted and upheld on appeal pending a hearing. According to the preliminary injunction, all uncompleted construction work associated with wetlands, streams or rivers at the Turk Plant must immediately stop. Mitigation measures required by the permit are authorized and may be completed. The preliminary injunction affects portions of the water intake and associated piping and portions of the transmission lines. A hearing to consider the merits of SWEPCO's standing challenges was held in March 2011. In October 2010, the Federal District Court certified issues relating to the state law claims to the Arkansas Supreme Court, including whether those claims are within the primary jurisdiction of the APSC. The Arkansas Supreme Court accepted the request and oral argument is set for May 2011.

In January 2009, SWEPCO was granted CECPN's by the APSC to build three transmission lines and facilities authorized by SPP and needed to transmit power from Turk. Interveners appealed the CECPN decisions in April 2009 to the Arkansas Court of Appeals. In July 2010, the Hempstead County Hunting Club and other appellants filed with the Arkansas Court of Appeals emergency motions to stay the transmission CECPN's to prohibit SWEPCO from taking ownership of private property and undertaking construction of the transmission lines. In July 2010, the Arkansas Court of Appeals issued a decision remanding all transmission line CECPN appeals to the APSC. As a result, a stay was not ordered and construction continues on the affected transmission lines. In January 2011, the appellants filed requests to withdraw their appeals at the Court of Appeals and the APSC postponed a scheduled hearing pending a ruling on those requests. In February 2011, the Court of Appeals dismissed the appeals, and the APSC subsequently closed the remand docket, finding the CECPN decisions final and non-appealable.

As of December 31, 2010, the joint owners and SWEPCO have contractual construction commitments of approximately \$321,000,000. The Cooperative's share of the contractual commitments is approximately \$27,000,000. If the plant is cancelled, the joint owners and SWEPCO would incur contractual construction cancellation fees, based on the construction status of approximately \$121,000,000. The Cooperative's share of the contractual cancellation fees would be approximately \$10,000,000.

NOTE 13 - CONCENTRATIONS OF CREDIT RISK

The Cooperative's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and accounts receivable.

The Cooperative places its cash and cash equivalents on deposit with financial institutions in the United States of America. The Federal Deposit Insurance Corporation (FDIC) insurance coverage limit is \$250,000 for substantially all depository accounts. Also, the FDIC temporarily provides unlimited coverage for non-interest bearing transaction accounts through December 31, 2012. At various times during the year, cash balances may exceed insured limits. The Cooperative has not experienced any losses in such accounts.

The Cooperative's accounts receivable are subject to concentration of credit risk due to the Cooperative's customer base. Substantially all of the accounts receivable balance is due from the Cooperative's three Members. The Cooperative believes the risk of loss related to this credit risk is remote.

EAST TEXAS ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENT - CONTINUED

NOTE 14 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Cooperative's cash and temporary cash investments, trade receivables and payables approximate their fair value because of the short maturities of these financial instruments.

Due to restrictions on repricing of the Cooperative's long-term debt and related assumption, the fair value of these financial instruments is estimated by management to approximate the carrying value.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
East Texas Electric Cooperative, Inc.
Nacogdoches, Texas

We have audited the financial statements of East Texas Electric Cooperative, Inc. as of and for the years ended December 31, 2010 and 2009 and have issued our report thereon dated April 15, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance

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

This report is intended solely for the information and use of the audit committee, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
April 15, 2011