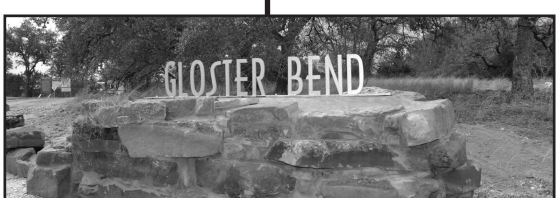


LCRA FY 2010 Annual Report



The Board of Directors is composed of 15 members appointed by the governor. Directors represent counties in the electric and water service areas. The directors meet regularly to set strategic corporate direction for the general manager and staff, to approve projects and large expenditures, and to review progress on major activities and industry issues.

Message from LCRA Leadership

Fiscal year 2010 was a special one for the Lower Colorado River Authority: We celebrated 75 years of providing energy, water, and community services to the people of Texas.

The year was also significant because of our achievements. Here are some highlights:

LCRA continued to work with its wholesale electric customers to secure long-term contracts for them to buy electric power from LCRA until 2041. At the close of our fiscal year, 32 of our 43 wholesale electric customers, representing about two-thirds of our total load, had signed agreements. Negotiations continue with the remaining 11 customers.

We continued to develop our generation portfolio as our customers' growing demand for electricity continued to set new summer and winter peaks. Our ability to meet peak demands will be greatly enhanced by our new Winchester Power Park, the natural gas-fired peaking unit that went on-line in summer 2010. We significantly increased our commitment to renewable energy with the purchase of wind power from the Papalote Creek II wind power facility. The first of its generators went on-line at the end of our fiscal year, and the plant is expected to be fully operational by the end of calendar year 2010. We began studies for a more efficient facility to replace the Thomas C. Ferguson Power Plant. The Sandy Creek Energy Station near Waco remains on track for 2012 operations.

LCRA also completed its market readiness milestones necessary to participate when the Electric Reliability Council of Texas (ERCOT) implements its new nodal market system in December 2010.

LCRA Transmission Services Corporation (LCRA TSC) continues to work with the Public Utility Commission of Texas to plan for design and siting of additional transmission lines and facilities as part of the commission's Competitive Renewable Energy Zones projects. This is in addition to the various projects LCRA TSC continued to build and implement to support our own system reliability needs as well as that of the portion of Texas' transmission network controlled by ERCOT.

We continued to manage the basin's water resources to meet essential needs despite a two-year drought (which rivaled the Drought of Record of the 1950s) that lingered through the first part of our fiscal year. The return of rains in fall 2009 replenished lakes Travis and Buchanan, our water-supply reservoirs. Early in 2010, the Texas Commission on Environmental Quality approved an update to our Water Management Plan that had been pending for several years. The amended plan will allow LCRA to keep more water in the Highland Lakes when serious drought conditions return. LCRA is working with stakeholders to incorporate what we have learned from the recent drought into the next revision of the plan.

The end of the drought also resulted in more visitors to many LCRA lakeside parks. For example, attendance at LCRA's five Lake Travis recreational areas increased by 40 percent from January 1 through Labor Day of 2010, compared to the same period a year earlier. LCRA's network of 42 parks provides valuable public access to the Highland Lakes and lower Colorado River.

In meeting our stakeholders' needs, LCRA is fortunate to have a staff and Board of Directors that are as committed to fiscally conservative and cost-effective approaches as they are to LCRA's public service mission. That combination of fiscal prudence and public-spiritedness has been instrumental in LCRA's 75-year success story. And it will serve as the guiding force as we continue to carry out our mission of providing reliable, cost-effective electric and water services, and using our leadership role to protect and harness our region's natural resources for the good of the people of Texas.

R A Klein — Rebecca A. Klein, Board Chair

Ths G Mason — Thomas G. Mason, General Manager

Report of Management

The management's discussion and analysis, the financial statements and related footnotes included herein are the responsibility of LCRA's management, as is other information contained in this annual report. The financial statements are prepared in conformity with generally accepted accounting principles applied on a consistent basis and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management has developed and maintains a system of accounting and controls, including an internal audit program, designed to provide reasonable assurance that LCRA's assets are protected from improper use, and that accounting records provide a reliable basis for the preparation of financial statements. This system is continually reviewed, improved and modified in response to changing business conditions and operations, and to recommendations made by the independent auditors and LCRA Auditing Services. Due to the inherent limitations of the effectiveness of internal controls, no internal control system can provide absolute assurance that errors and irregularities will not occur. However, management strives to maintain a balance, recognizing that the cost of such a system should not exceed the benefits derived.

LCRA's Board of Directors, appointed by the Governor of Texas, oversees LCRA's financial reporting activities through the Audit Committee and the Finance and Administration Committee, which are composed wholly of Board members. The duties of these committees include keeping informed of the financial condition of LCRA, and reviewing its financial policies and procedures, its internal accounting controls, and the objectivity of its financial reporting. Both LCRA's independent auditor and LCRA Auditing Services may meet directly with the Audit Committee without management concurrence.

The Independent Auditors' Report, included herein, does not limit the responsibility of management for information in the financial statements and elsewhere in the annual report.

V. Brady Edwards	Craig Sloan	Thos G. Mason
Brady Edwards	Craig Sloan	Thomas G. Mason
Chief Financial Officer	Controller	General Manager

LOWER COLORADO RIVER AUTHORITY

FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2010 AND 2009

With Independent Auditors' Report

Lower Colorado River Authority
Financial Statements
Years Ended
June 30, 2010 and 2009

Table of Contents

Overview of the Financial Statements

In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, Lower Colorado River Authority (LCRA) is considered a special-purpose government engaged only in business-type activities. Statement No. 34 requires the following components in a governmental entity's annual report:

Management's Discussion and Analysis

The purpose is to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions or conditions.

Balance Sheets

Assets and liabilities of proprietary funds should be presented to distinguish between current and long-term assets and liabilities.

Statements of Revenues, Expenses and Changes in Equity

This statement provides the operating results broken into the categories of operating revenues and expenses, nonoperating revenues and expenses, costs to be (prior costs) recovered from revenues, capital contributions, and extraordinary items.

Statements of Cash Flows

Sources and uses of cash are classified using the direct method as resulting from operating, noncapital financing, capital, and related financing or investing activities.

Notes to the Financial Statements

The notes explain information in the financial statements and provide additional detailed information.

Financial Highlights

Condensed Balance Sheets

	June 30, 2010	June 30, 2009 *(As adjusted, see Note 1)*	June 30, 2008	2010 vs 2009	2009 vs 2008
	(Dollars in Thousands)				
Current assets	**$ 471,909**	$ 481,865	$ 473,586	(2%)	2%
Capital assets, net	**3,455,693**	3,244,069	2,827,370	7%	15%
Other long-term assets	**576,595**	496,070	578,361	16%	(14%)
Total Assets	**$ 4,504,197**	$ 4,222,004	$ 3,879,317	7%	9%
Current liabilities	**$ 534,268**	$ 415,959	$ 467,322	28%	(11%)
Long-term liabilities	**2,984,665**	2,931,331	2,593,228	2%	13%
Total Liabilities	**3,518,933**	3,347,290	3,060,550	5%	9%
Equity - Invested in capital assets, net of related debt	**626,528**	592,382	581,694	6%	2%
Equity - Restricted for debt service	**41,488**	-	-	100%	-
Equity - Restricted for capital projects	**9,029**	213	-	4139%	100%
Equity - Restricted other	**13,121**	25,053	31,873	(48%)	(21%)
Equity - Unrestricted	**295,098**	257,066	205,200	15%	25%
Total Equity	**985,264**	874,714	818,767	13%	7%
Total Liabilities and Equity	**$ 4,504,197**	$ 4,222,004	$ 3,879,317	7%	9%

2010 Compared to 2009

At June 30, 2010, current assets decreased $10.0 million, or 2 percent, from June 30, 2009. The decrease was primarily a result of a decrease in coal inventory, which was a consequence of management's decision to reduce the number of days in coal inventory to desired levels. Compared to fiscal year (FY) 2009, net capital assets increased $211.6 million, or 7 percent, as a result of increases in construction work in progress and utility plant in service primarily related to new generation and transmission assets, offset by sales of water system assets. Other long-term assets increased $80.5 million, or 16 percent, compared to the previous year, resulting from an increase in restricted and unrestricted investments primarily because of new debt service reserve funds that did not exist in the prior year.

Current liabilities increased $118.3 million, or 28 percent, as a result of a higher tax-exempt commercial paper balance at June 30, 2010, compared to June 30, 2009. The increase in tax-exempt commercial paper is offset by a decrease in regulatory credits for future recovery as a result of recognizing $64.2 million of revenues collected through the fuel and power cost recovery rate that had previously been deferred as a regulatory liability associated with the fuel-related operating reserve. In addition, the increase in current liabilities is related to an accrual at year end for above-budget generation net revenues of $29.1 million that will be credited to customers in FY 2011 in accordance with Board policy. No such accrual was made in the prior year.

Equity – Restricted for debt service equity classification increased $41.5 million from FY 2009 because debt service reserves were funded in FY 2010 with LCRA revenue funds. At the end of FY 2009, the net balance in this classification was zero because all debt service reserve funds were funded with a portion of debt proceeds.

Equity – Restricted for capital projects, a newly material classification for FY 2010, increased $8.8 million due primarily to sales proceeds from water asset divestitures made during FY 2010.

Equity – Restricted other decreased $11.9 million, or 48 percent, due to the accrual of a liability related to the probable cancellation of the LCRA San Antonio Water System (SAWS) Water Project. This accrual offsets an increase in a reserve created to fund the payment of the contractual obligation. See more discussion on the accrual of this obligation in the Extraordinary Item section below.

2009 Compared to 2008

Compared to fiscal year 2008, net capital assets increased $416.7 million, or 15 percent, as a result of increases in construction work in progress and utility plant in service primarily related to new generation and transmission assets.

Current liabilities decreased $51.4 million, or 11 percent, primarily resulting from issuing $400.9 million of commercial paper to fund capital costs, offset by refunding $484.8 million of the commercial paper. Conversely, long-term liabilities increased $338.1 million, or 13 percent, due to refunding short-term commercial paper to long-term bonds. Furthermore, the decrease in current liabilities was partially offset by accruals for wages of $10 million and unbilled revenue of $20 million due to a new policy adopted in FY 2009. See Note 1, Cumulative Effect of Accounting Change, for additional details. The unbilled revenue will be recovered in future rates and thus is reflected as a regulatory liability in FY 2009.

Lower Colorado River Authority
Management's Discussion and Analysis
Years Ended June 30, 2010, 2009 and 2008

Condensed Statements of Revenues, Expenses and Changes in Equity

	Year Ended June 30,			2010 vs 2009	2009 vs 2008
	2010	2009 (As adjusted, see Note 1)	2008	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)
	(Dollars in Thousands)				
Operating revenues	**$ 1,244,428**	$ 1,311,880	$ 1,187,825	(5%)	10%
Operating expenses	**(947,736)**	(1,097,458)	(1,036,087)	14%	(6%)
Operating income	**296,692**	214,422	151,738	38%	41%
Interest and other income	**15,986**	15,642	24,072	2%	(35%)
Interest and other expenses	**(174,269)**	(163,572)	(158,313)	(7%)	(3%)
Costs to be (Prior Costs) recovered from revenues	**(12,871)**	(18,802)	27,761	32%	(168%)
Income before capital contributions, loss on early defeasance of debt, and extraordinary item	**125,538**	47,690	45,258	163%	5%
Capital contributions	**11,777**	11,606	5,617	1%	107%
Loss on early defeasance of debt	**(8,451)**	-	-	100%	
Extraordinary Item	**(18,314)**	-	-	100%	-
Change in equity	**110,550**	59,296	50,875	86%	17%
Equity, Beginning of Year (See Note 1, Implementation of new accounting principle and Cumulative effect of change in accounting method)	**874,714**	815,418	767,892	7%	6%
Equity, End of Year	**$ 985,264**	$ 874,714	$ 818,767	13%	7%

2010 Compared to 2009

Operating revenues decreased $67.5 million, or 5 percent, in FY 2010 compared to FY 2009. The primary reason for the decrease is due to lower electric revenues due to lower rates which resulted from the decreased cost of fuel passed on to customers. These lower rates were partially offset by higher volume of energy sales and the recognition of $64.2 million in revenues collected through the fuel and power cost recovery rate that had previously been deferred as a regulatory liability associated with the fuel-related operating reserve.

Operating expenses decreased $149.7 million, or 14 percent, primarily because of lower fuel expenses caused by low natural gas prices.

Prior costs to be recovered from revenues decreased net income $12.9 million, compared to $18.8 million in the previous fiscal year. This increase was due to more costs recovered through rates this year compared to prior year.

The loss on early defeasance of debt in FY 2010 was due to pay downs of debt with proceeds from capital assets that were sold during the fiscal year.

The Extraordinary Item in FY 2010 is discussed fully in a separate section below.

In FY 2010, LCRA adjusted FY 2009 beginning equity to reflect the implementation of *GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets* (Statement 51). See Note 1, Implementation of New Accounting Principle, for additional details.

2009 Compared to 2008

In FY 2009, there was an increase in operating revenues of $124.0 million, or 10 percent, primarily resulting from an increase in electric revenues due to an increase in rates and fuel costs passed on to customers. There was a corresponding increase of $61.3 million, or 6 percent, in operating expenses compared to FY 2008. This increase is primarily driven by an increase in fuel expense of $84.9 million due to losses in the Energy Price Risk Management program, offset by a decrease in purchased power of $42.9 million.

Interest and other income decreased $8.4 million, or 35 percent, due to falling interest rates during FY 2009.

Prior costs to be recovered from revenues decreased net income $18.8 million in FY 2009 compared to an increase to net income of $27.8 million in FY 2008, for a total decrease of $46.6 million, or 168 percent. The decrease was due to less costs recovered through rates this year compared to prior year.

Capital contributions increased $6.0 million, or 107 percent, in FY 2009 related to recognition of previously deferred revenues for the LCRA-SAWS Water Project.

In FY 2009, LCRA management adopted a policy to accrue labor charges related to a current fiscal year that is paid in the following fiscal year. This policy change caused a reduction of $6.4 million to FY 2009 beginning equity. In addition, LCRA management adopted a policy to accrue unbilled revenues associated with wholesale electric generation, which are billed in the following fiscal year. The unbilled revenues accrued for FY 2009 totaled $20 million. LCRA management had previously considered these accruals to be immaterial to financial statement presentation. As a result, the LCRA Statement of Revenues, Expenses, and Changes in Equity has included the effects of this change in accounting method on beginning equity as shown.

Extraordinary Item

In 2002, LCRA signed an agreement with the San Antonio Water System (SAWS) to study the feasibility of transferring surface water from the Colorado River basin to San Antonio. The contract and the legislation authorizing the contract both imposed stringent requirements on any subsequent sale of water from LCRA to San Antonio.

The series of comprehensive studies conducted and paid for by SAWS pursuant to the contract showed in 2009 that a transfer of water to San Antonio could not meet the legislative and contractual requirements, due in part to continuing growth in LCRA's service area.

SAWS sued LCRA alleging breach of contract and sought $1.23 billion in damages. In February of this year, a Travis County district court found that SAWS' claims were barred under the legal principle of governmental immunity. SAWS is appealing the district court decision.

The contract provides that if the contract is terminated, LCRA must reimburse SAWS 50 percent of the amount SAWS paid toward the feasibility studies. To date, SAWS has not terminated the agreement. LCRA believes that termination of the SAWS contract is probable and, as a result, has accrued an $18.8 million liability for the 50 percent share of costs through June 30, 2010, to be refunded to SAWS in accordance with the contract. LCRA has also recorded its share of the study phase expenses, shown as an extraordinary item, for $18.3 million.

Capital Expansion and Improvement Program

LCRA's capital improvement and expansion program for FY 2011 through FY 2015 is $2.4 billion, with $1.9 billion, or 78 percent, to be debt funded. The majority of forecasted capital costs is for expansion of transmission services, dam improvements and generation facilities as well as additional corporate infrastructure and facilities. LCRA Transmission Services Corporation (LCRA TSC) continues to increase its transmission system investment due to the need for additional electric transmission capability statewide.

The capital budget is expected to be applied as follows:

(1) $1 billion for transmission projects.

(2) $1 billion for generation and system improvements.

(3) $181 million for dam improvements and modernization, and improvements to water and wastewater utilities and facilities.

(4) $168 million for parks and corporate facilities.

LCRA's forecasted capital program includes funds to be used to respond to regulatory requirements and for projects assigned to LCRA TSC by the Public Utility Commission of Texas (PUC) to meet the Competitive Renewable Energy Zones (CREZ) objectives. The capital program also includes funds for the purchase of 100 megawatts (MW) of additional base load power production capacity by 2012 and the installation of sulfur-dioxide (SO_2) scrubbers for two coal-fired generating units jointly owned by LCRA and the City of Austin. The scrubbers must be installed by October 2012, under the provisions of a flexible air quality permit received from the Texas Commission on Environmental Quality in 2002. Rehabilitation of the floodgates at the Buchanan Dam, as well as construction of a new office building at the Dalchau Service Center, are also included in the five-year plan. In addition, the capital plan includes spending for the development of power generation options in the western part of LCRA's service territory.

The capital program will be funded by cash provided by operating activities and proceeds from long-term bonds (including LCRA bonds and LCRA bonds issued on behalf of LCRA TSC) and commercial paper issuances.

The forecasted capital program is subject to periodic review and revision and could change significantly because of a number of factors including economic conditions and regulatory constraints.

Capital Asset Activity

Fiscal Year 2010

- $482.9 million was expended for construction activities in FY 2010. The majority of these costs were for purchase and construction of additional generation and transmission facilities and improvements to existing generation facilities. $0.8 million of donated assets were received during FY 2010 for a total increase in Construction Work in Progress of $483.7 million.

- $138.9 million of depreciation expense and $133.2 million of asset retirements were recorded in FY 2010 on plant in service.

- In December 2009, LCRA sold the Brushy Creek Regional Wastewater system. The assets taken off the books had a net book value of $107.8 million. The gain recorded on the sale totaled $6.8 million. In February 2010, LCRA sold the wastewater system in Hutto. Those assets had a net book value of $6.0 million. The gain recorded on the sale totaled $1 million.

- For additional detail, see Capital Asset Activity table in Note 7 of the Notes to the Financial Statements.

Fiscal Year 2009

- $447.5 million was expended for construction activities in FY 2009. The majority of these costs were for purchase and construction of additional generation and transmission facilities and improvements to existing generation facilities.

- $137 million of depreciation expense and asset retirements were recorded in FY 2009 on plant in service.

- For additional detail, see Capital Asset Activity table in Note 7 of the Notes to the Financial Statements.

Debt Activity

Fiscal Year 2010

- During FY 2010, LCRA issued $323.3 million of tax-exempt commercial paper, of which $136.6 million was on behalf of LCRA TSC. In addition, LCRA issued $0.4 million of taxable commercial paper. The proceeds were used to fund various capital projects and refund debt.

- In FY 2010, LCRA made $124 million of scheduled debt payments and $146.2 million of interest payments.

- In FY 2010, LCRA repaid $43.4 million of tax-exempt commercial paper.

- In December 2009, LCRA used the proceeds from the sale of the Brushy Creek Wastewater System to pay down $111.2 of debt and $4.4 million of deferred interest related to the construction of the facility.

- On Jan. 28, 2010, LCRA issued $423.2 million of LCRA Series 2010 Refunding Revenue Bonds. The proceeds from the issue were used to pay down a portion of LCRA Series 1999A, 1999B, 1999E and 1999F bonds.

- In February 2010, LCRA used the proceeds from the sale of the Hutto Wastewater facility to pay down $4.5 million of debt related to the construction of the facility.

- On May 18, 2010, LCRA TSC issued $200 million of LCRA TSC Series 2010 Refunding Revenue Bonds. The proceeds from the bond issuance were used as follows:

    - to refund tax-exempt commercial paper ($136.6 million);
    - to create the LCRA TSC 2010 debt service fund ($10.9 million); and
    - to increase the LCRA TSC construction fund ($61.2 million).

- For additional detail, see Note 3 of the Notes to the Financial Statements.

Fiscal Year 2009

- During FY 2009, LCRA issued $400.1 million of tax-exempt commercial paper, of which $104.2 million was on behalf of LCRA TSC. In addition, LCRA issued $0.8 million of taxable commercial paper. The proceeds were used to fund various capital projects and refund debt.

- In FY 2009, LCRA made $111.6 million of scheduled payments and $140 million of interest payments.

- In FY 2009, LCRA repaid $4.9 million of tax-exempt commercial paper.

- On Dec. 18, 2008, LCRA issued $209.6 million of LCRA Series 2008A Refunding Revenue Bonds. The proceeds from the issue were used to refund $205.5 million of tax-exempt commercial paper.

- On June 29, 2009, LCRA issued $171.5 million of LCRA Refunding Revenue Bonds, Series 2009. The proceeds from the bond issuance were used to refund $169.8 million of tax-exempt commercial paper and $0.2 million of taxable commercial paper.

Debt Activity (continued)

- On June 29, 2009, LCRA TSC issued $118.6 million of LCRA Transmission Contract Refunding Revenue Bonds. The proceeds from the bond issuance were used to refund $109.3 million of tax-exempt commercial paper.

- For additional detail, see Note 3 of the Notes to the Financial Statements.

Contacting LCRA's Management

This financial report is designed to provide readers with a general overview of LCRA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Lower Colorado River Authority, P.O. Box 220, Austin, Texas 78767.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Lower Colorado River Authority
Austin, Texas

We have audited the accompanying balance sheets of the Lower Colorado River Authority (LCRA) as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of LCRA'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 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 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.

As discussed in Note 1, LCRA adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective July 1, 2009. The financial statements for the year ended June 30, 2009 were restated to reflect the adoption of GASB Statement No. 51. In addition, as discussed in Note 1 to the financial statements, LCRA has changed its accounting policy for unbilled revenue and accrued labor charges as of July 1, 2008.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCRA as of June 30, 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 a report on our consideration of LCRA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

To the Board of Directors
Lower Colorado River Authority

The Management's Discussion and Analysis and Schedules of Funding Progress information enclosed in this report are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 30, 2010

LOWER COLORADO RIVER AUTHORITY
BALANCE SHEETS
(Dollars in Thousands)

	June 30, 2010	June 30, 2009 *(As adjusted, see Note 1)*
Assets		
Current Assets:		
Cash and cash equivalents	$ 117,456	$ 99,808
Investments	99,246	92,175
Receivables, net	161,303	177,086
Accrued interest receivable	1,331	1,036
Inventories	88,378	108,963
Other	4,195	2,797
Total current assets	471,909	481,865
Long-term Assets:		
Restricted cash and cash equivalents	27,266	48,387
Restricted investments	166,737	76,568
Unrestricted investments	71,415	37,087
Capital assets:		
Utility plant in service	4,170,912	3,927,577
Construction work in progress	585,890	571,597
Oil and gas property	28,158	28,158
Other physical property	61,936	58,811
Less accumulated depreciation	(1,485,984)	(1,436,855)
Water rights	94,781	94,781
Capital assets, net	3,455,693	3,244,069
Other	18,176	10,277
Deferred charges		
Costs to be recovered from future revenues	235,686	242,951
Unamortized debt expense	41,762	37,273
Contract extension settlement with major customers	5,034	5,809
Other	10,519	37,718
Deferred Charges, net	293,001	323,751
Total long-term assets	4,032,288	3,740,139
Total Assets	$ 4,504,197	$ 4,222,004

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

LOWER COLORADO RIVER AUTHORITY
BALANCE SHEETS
(Dollars in Thousands)

	June 30, 2010	June 30, 2009 *(As adjusted, see Note 1)*
Liabilities		
Current Liabilities:		
Accounts payable	$ 149,243	$ 137,876
Regulatory credits for future recovery	39,541	85,540
Compensated absences	13,914	12,595
Bonds, notes and loans payable	331,570	179,948
Total current liabilities	534,268	415,959
Long-term Liabilities:		
Accounts payable from restricted assets	51,585	40,800
Bonds, notes and loans payable	2,791,933	2,740,312
Deferred credits and other	141,147	150,219
Total long-term liabilities	2,984,665	2,931,331
Total liabilities	3,518,933	3,347,290
Equity		
Invested in capital assets, net of related debt	626,528	592,382
Restricted for debt service	41,488	-
Restricted for capital projects	9,029	213
Restricted other	13,121	25,053
Unrestricted	295,098	257,066
Total equity	985,264	874,714
Total Liabilities and Equity	$ 4,504,197	$ 4,222,004

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

LOWER COLORADO RIVER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY
(Dollars in Thousands)

	Year Ended June 30, 2010	2009 (As adjusted, see Note 1)
Operating Revenues		
Electric	$ 1,130,031	$ 1,187,543
Water, wastewater and irrigation	65,962	72,924
Other	48,435	51,413
Total operating revenues	1,244,428	1,311,880
Operating Expenses		
Fuel	391,464	555,648
Purchased power	117,333	135,191
Operations	239,080	229,304
Maintenance	58,930	45,676
Depreciation, depletion and amortization	140,929	131,639
Total operating expenses	947,736	1,097,458
Operating income	296,692	214,422
Nonoperating Revenues (Expenses)		
Interest and other income	15,986	15,642
Interest and other expenses	(174,269)	(163,572)
Total nonoperating revenues (expenses)	(158,283)	(147,930)
Income before prior costs recovered from revenues, capital contributions, loss on early defeasance of debt and extraordinary item	138,409	66,492
Prior Costs Recovered from Revenues	(12,871)	(18,802)
Capital Contributions	11,777	11,606
Loss on Early Defeasance of Debt	(8,451)	-
Extraordinary Item (See Note 1, Extraordinary Item)	(18,314)	-
Change in Equity	110,550	59,296
Total Equity, Beginning of Year (See Note 1, Implementation of New Accounting Principle and Cumulative Effect of Change in Accounting Method)	874,714	815,418
Total Equity, End of Year	$ 985,264	$ 874,714

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

LOWER COLORADO RIVER AUTHORITY
STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended June 30, 2010	2009
Cash Flows From Operating Activities		
Received from customers	$ 1,289,870	$ 1,280,222
Payments for goods and services	(668,100)	(772,569)
Payments to employees	(173,177)	(163,717)
Other revenues	1,381	13,097
Net cash provided by operating activities	449,974	357,033
Cash Flows From Noncapital Financing Activities		
Grant proceeds received	1,463	4,022
Other expenses	(1,358)	(1,123)
Net cash provided by noncapital financing activities	105	2,899
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant, equipment and water option	(499,882)	(472,095)
Proceeds from sale of capital assets	134,172	9,505
Debt issue costs	(9,885)	(3,574)
Contributed capital received for capital costs	12,530	5,038
Proceeds from bond issues and commercial paper	993,894	895,871
Debt principal payments	(124,020)	(116,505)
Interest paid	(146,208)	(140,040)
Payments to refund and defease debt	(686,449)	(484,800)
Net cash used in capital and related financing activities	(325,848)	(306,600)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	236,231	374,171
Purchase of investment securities	(374,705)	(423,129)
Interest received	10,632	7,343
Infrastructure financial assistance activity	138	134
Net cash used in investing activities	(127,704)	(41,481)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,473)	11,851
Cash and Cash Equivalents, Beginning of Year	148,195	136,344
Cash and Cash Equivalents, End of Year	$ 144,722	$ 148,195

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

LOWER COLORADO RIVER AUTHORITY
STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended June 30, 2010	2009
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 296,692	$ 214,422
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	140,929	131,639
Changes in assets and liabilities:		
Accounts receivable	13,909	(3,265)
Inventories	20,585	23,085
Other current assets	(1,890)	11,870
Current liabilities	(29,903)	(6,032)
Other deferred charges and long-term assets	(7,664)	4,775
Deferred credits and other long-term liabilities	17,316	(19,461)
Net cash provided by operating activities	$ 449,974	$ 357,033
Noncash Investing Activities		
Investment market adjustments	$ (6,904)	$ (3,103)

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

LOWER COLORADO RIVER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended 2010 and 2009

1. Significant Accounting Policies

Reporting Entity: The Lower Colorado River Authority (LCRA) is a conservation and reclamation district created by the Texas Legislature in 1934. It receives no state tax money and cannot levy taxes. It operates on revenues from the sale of wholesale electricity, water and other services. The LCRA Board of Directors (LCRA Board) is appointed by the governor of the state of Texas, with Senate approval, to serve six-year terms. The financial condition of LCRA is not controlled by or dependent on the state of Texas or any other political subdivision. Under the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* LCRA considers its relationship to the State to be that of a related organization.

GenTex Power Corporation: The GenTex Power Corporation (GenTex), a nonprofit corporation and wholly owned affiliate of LCRA, is governed by a nine-member board appointed by the LCRA Board. GenTex owns a 500-megawatt (MW) gas-fired combined cycle generating unit that began commercial operation in June 2001.

In FY 2000, LCRA entered into an agreement with a public company to jointly construct the generating unit. Each entity had an undivided 50 percent interest in the generating unit. In FY 2004, GenTex purchased the other entity's 50 percent share.

GenTex's share of the initial construction costs of the facility was entirely funded by an LCRA economic development grant. GenTex entered into contracts with LCRA's wholesale customers to sell energy to the customers at a price recovering only operating expenses, excluding depreciation, over the life of the plant. The contracts provide the customers the right of first refusal to purchase the facility and obtain half interest at a price of $975 per customer. Because the initial cost of the facility was funded by an economic development grant provided by LCRA, there is no debt service to recover, and the expected cash flows are intended to recover only the operating costs. The plant is included in the Balance Sheets at the contractual value plus the purchase price of the 50 percent interest acquired in 2004.

Although it is a separate legal entity, GenTex is reported as part of LCRA because its sole purpose is to provide energy to LCRA's 43 long-term wholesale customers in meeting their demands and operating in a competitive market.

LCRA Transmission Services Corporation (LCRA TSC): LCRA TSC was created under the Texas Non-Profit Corporation Act under the Development Corporation Act of 1979. Although it is a separate legal entity, LCRA TSC is reported as part of LCRA because it is governed by a board of directors that is composed in its entirety of the LCRA Board.

Fayette Power Project: LCRA's coal-fired generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the City of Austin. LCRA has an undivided 50 percent interest in Units 1 and 2 and wholly owns Unit 3. LCRA's investment is financed with LCRA funds, and its pro-rata share of operations is recorded as if wholly owned. The original cost of LCRA's share of FPP's generation and transmission facilities is recorded in the utility plant accounts of LCRA in accordance with its accounting policies. The equity interest in FPP is calculated pursuant to the participation agreement and is reported in various asset and liability accounts within LCRA's financial statements. Additionally, operation (fuel handling) expense related to unloading, stackout and handling of fuel along with the disposal of ash are considered common to Units 1, 2 and 3, and are allocated to LCRA and Austin according to the number of tons of coal received.

Basis of Accounting: The accompanying financial statements of LCRA, a governmental entity, have been prepared using proprietary fund and accrual basis accounting.

LCRA complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, LCRA also complies with the pronouncements of the Financial Accounting Standards Board that do not conflict with GASB pronouncements.

In July 2009, the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) became the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles. The FASB ASC restructured accounting and reporting standards, superseding existing FASB, AICPA, EITF and related literature. LCRA adopted FASB ASC beginning with the year ending June 30, 2010.

LCRA's accounts are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LCRA considers electric revenues and costs that are directly related to the generation, purchase, transmission and distribution of electricity to be operating revenues and expenses. Water and wastewater revenues and other services related to environmental laboratory operations, licensing and recreation, and the costs directly related to these services, are also considered operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as non-operating.

Newly Adopted Standards for FY 2010: In FY 2010, LCRA implemented *GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets* (Statement 51). This statement provides guidance regarding how to identify, account for, and report intangible assets. The statement characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life beyond a single reporting period. Statement 51 requires that intangible assets within the scope of the statement to be classified as capital assets. Examples of intangible assets are easements, water rights and computer software. See Implementation of New Accounting Principle section for the impact of Statement 51.

In FY 2010, LCRA implemented *GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments* (Statement 53). This statement is intended to improve how state and local governments report information about derivative instruments in their financial statements. Specifically, Statement 53 requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. In addition, this standard addresses hedge accounting requirements. The implementation of Statement 53 did not have a material effect on LCRA's financial position, results of operations, or cash flows (see Note 9, Derivative Instruments, for required disclosures).

Major Customers and Electric Revenues: Sales of electricity to LCRA's two major customers represented approximately 26 percent and 10 percent of total electric revenue for FY 2010, and 27 percent and 10 percent for FY 2009, respectively. No other customer accounts for more than 10 percent of LCRA's total electric revenues in FY 2010.

Electric revenues represented approximately 94 percent of LCRA's operating revenues for both FY 2010 and FY 2009.

ERCOT Settlements Reporting: LCRA reports power balancing transactions, which represent wholesale purchases and sales of power for real-time balancing purposes as measured in 15-minute intervals. These purchases and sales with the Electric Reliability Council of Texas (ERCOT), as the balancing energy clearinghouse agent, are reported net. These amounts have historically represented a net purchase of power to LCRA; however, during FY 2010 and FY 2009, major components of these amounts resulted in net sales of power and ancillary services. These amounts are classified as electric revenues. The amounts included in electric revenues were $6.5 million for FY 2010 and $9.8 million for FY 2009.

Restricted Funds: Restricted funds consist of construction funds derived from debt issues, system revenues that have been designated for specific purposes by the LCRA Board, and other funds with legal or contractual constraints. When both restricted and unrestricted resources are available for use, it is LCRA's policy to use restricted resources first, then unrestricted resources as they are needed.

Allowance for Doubtful Accounts: LCRA accounts receivable balances are subject to risk of non-payment. Allowances to account for that risk have been calculated based on a three-year average of write-offs taken. The write-offs taken in FY 2010 were $1.0 million and in FY 2009 were $0.2 million. These write-off amounts represent an immaterial percentage of total sales in FY 2010 and FY 2009, respectively. Management believes that the allowance for doubtful accounts balance is sufficient as of June 30, 2010, to cover risk of non-payment.

Capital Assets

Utility Plant: Utility plant consists of generating plants, electric transmission and distribution facilities, dams, reservoir land, natural gas production and development, irrigation systems, water and wastewater treatment facilities, telecommunications facilities, and related projects under construction. These assets are recorded at cost, which includes materials, labor, overhead, and interest capitalized during construction. The costs of repairs and minor replacements are charged to operating expense as incurred. Costs of asset replacements and betterments are capitalized. The cost of depreciable plant retired, along with removal expense less salvage value, is charged to non-operating expense on the Statement of Revenues, Expenses and Changes in Equity. Gains and losses upon disposition are recorded in the period incurred.

Intangible Assets: Intangible assets include water rights, easements and internally generated software. Water rights and easements are stated at cost, have an indefinite life, are not amortized, and are now disclosed under the provisions of Statement 51. Internally generated software is amortized over approximately seven years. Easements and software are included in the Utility plant in service line item of the Balance Sheets.

Inventories: Coal is recorded at cost using the last-in, first-out method. Stored natural gas, fuel oil, and materials and supplies are stated at average cost. All nonfuel inventories are stated at the lower of cost or market.

Investments: LCRA's investments are stated at fair value. Any changes, unrealized and realized, in the fair value of financial investments are recorded as investment income.

Refunding and Defeasance of Debt: For debt refunding, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction from or an addition to the debt liability. For debt defeasances, the difference between the carrying amount of the debt and the amount of funds needed to retire the debt is recognized immediately in the Statements of Revenues, Expenses and Changes in Equity, as Loss on early defeasance of debt, if significant. If not significant, the difference is recognized immediately as interest expense.

Compensated Absences: LCRA records employees' earned vacation leave as a liability and accrues for certain salary-related expenses associated with the payment of compensated absences.

Rates and Regulations: LCRA's electric, water and wastewater rates are set by the LCRA Board at a level sufficient to recover its operating costs, debt service and debt service coverage requirements. LCRA's bond counsel is of the opinion that a Texas court applying Texas law would ultimately conclude that the LCRA Board has the authority to establish and collect such fees and charges. LCRA's transmission service rates remain regulated by the Public Utility Commission of Texas (PUC). While the LCRA Board has original jurisdiction over its water and wastewater rates, the Texas Commission on Environmental Quality has appellate jurisdiction.

Transmission rates within the ERCOT system are determined pursuant to a universal 100 percent "postage stamp" rate that spreads the total annual costs of transmission services among distribution service providers (DSPs) according to their electric loads. The transmission costs are determined pursuant to Transmission Cost of Service (TCOS) rate proceedings required to be filed by all transmission service providers (TSPs), including LCRA TSC. Every electric end-use consumer in the ERCOT system pays a portion of the total costs of maintaining a reliable statewide transmission system. Transmission charges are calculated by multiplying a DSP's share of the statewide electric load by the statewide "postage stamp" rate of each transmission service provider. The load shares and rates are determined by the PUC through its TCOS regulatory process. Additionally, pursuant to a tariff approved by the PUC, LCRA TSC collects revenues for transformation services, providing transformers that "step down" voltage from levels appropriate for transmission to lower levels for distribution. A monthly charge for each transformation delivery point is authorized under the transformation tariff. LCRA TSC also collects monthly metering service revenues based on a per meter charge according to the PUC-approved tariff.

FY 2009 transmission revenues of $217.5 million were the result of rate changes authorized during the fiscal year. The predominant rate of $3.51 per kilowatt (kW) was in place from April 20, 2008, to Oct. 22, 2008. LCRA TSC filed an interim update of wholesale transmission rates with the PUC on July 25, 2008, and PUC commissioners approved the new rate of $3.78 per kW on Oct. 23, 2008.

FY 2010 transmission revenues of $228.1 million were the result of rate changes authorized during the fiscal year. The predominant rate of $3.78 per kW was in place from Oct. 23, 2008, through Sept. 28, 2010. LCRA TSC filed an interim update of wholesale transmission rates with the PUC on July 26, 2010, and the PUC commissioners approved the new rate of $3.94 per kW on Sept. 29, 2010.

Regulatory Assets and Liabilities: LCRA applies the accounting requirements of ASC 980 (Regulated Operations). Accordingly, certain costs may be capitalized as a regulatory asset that would otherwise be charged to expense. A regulatory asset is 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. In addition, rate actions of the regulator may impose a liability on LCRA. A regulatory liability occurs when a regulator requires refunds to customers or provides current rates intended to recover costs that are expected to be incurred in the future. Any regulatory asset is amortized over the life of LCRA's outstanding long-term debt, while a regulatory liability is recognized and charged to income when the associated costs are incurred. LCRA's regulatory assets amounted to $243.9 million and $252.4 million at June 30, 2010 and 2009, respectively. The regulatory assets, which are included under deferred charges, will be recovered through rates in future years, and consist of depreciation of debt-funded assets, costs related to outstanding debt, and costs relating to other postemployment benefits.

Regulatory liabilities amounted to $39.5 million and $85.5 million at June 30, 2010 and 2009, respectively. In FY 2010, LCRA recognized $64.2 million in revenues collected through the fuel and power cost recovery rate that had previously been deferred as a regulatory liability associated with the fuel-related operating reserve. Regulatory liabilities had previously been recorded in the accounts payable and deferred credits line items of the balance sheet, but are now shown as a separate line item. Regulatory liabilities consist mainly of the cumulative over-collection of fuel costs (see Fuel Factor discussion in Note 1).

For the last seven years, LCRA has been engaged with its electric wholesale customers in negotiations for the extension of their long-term power supply contracts. Thirty-two of LCRA's existing customers, representing approximately 60 percent of its load, have entered into amended and restated contracts that extend to 2041. LCRA continues negotiations with remaining customers to define their long-term relationship and develop terms of a contract extension.

Deferred Credits: Deferred credits and other amount to $141.1 million and $150.2 million at June 30, 2010 and 2009, respectively. Deferred credits and other consists of environmental liabilities, supplemental executive retirement program liabilities, the accrual for Other Post Employment Benefits (OPEB), deferred revenues and long-term portion of current liabilities.

Capitalized Interest: Interest is capitalized as a part of the cost of capital assets if the assets are financed by debt proceeds. During FY 2010 and FY 2009, LCRA capitalized $8.2 million and $5.4 million of interest, respectively.

Fuel and Power Cost Recovery Factor (Fuel Factor): Revenues from the sale of electricity include amounts collected through the fuel factor. LCRA records over- or under-recoveries of fuel costs, including unrealized gains or losses on investment derivative contracts entered into as part of its gas price management program, as a deferred asset or liability. These costs are a component of the fuel factor. Over-recoveries may result in refunds to customers and, correspondingly, under-recoveries may result in additional assessments to customers.

Gas Price Management: Spot prices for natural gas ranged from $1.90 to more than $7.70 per million British thermal units (MMBtu) in FY 2010. In an effort to mitigate the financial and market risk associated with these price fluctuations, LCRA entered into futures contracts, swaps and options for energy price risk management purposes. Derivative instruments are recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period. LCRA is using Statement 53 accounting as a component of the fuel factor for its investment derivatives, and gains and losses related to the investment derivative contracts which are deemed to be ineffective hedges are recognized in current earnings. Gains and losses on financial contracts which are effective hedges are deferred on the balance sheets (see Note 9, Derivative Instruments).

Estimation of Fair Value: The estimated market value of long-term debt, based on current market yields, was $3.4 billion and $3.1 billion at June 30, 2010 and 2009, respectively.

Natural Gas Development and Production: LCRA has adopted the full-cost method of accounting for natural gas development and production. Under this method, all costs directly associated with acquisition and development of oil and gas properties are capitalized and depleted to expense over the life of proved reserves on a units-of-production method. For years ended June 30, 2010 and 2009, depletion expense totaled approximately $0.1 million and $0.4 million, respectively.

Contract Extension Settlement with Major Customers: According to the terms of a 1987 settlement with two major customers, their wholesale power contracts were extended to 2016, and in return, LCRA reimbursed the customers for their costs incurred in planning generating facilities. These costs are amortized over the period affected by the contract extension. The amortization expenses were $0.8 million for both FY 2010 and 2009.

Impairment: LCRA evaluates the carrying value of its property, plant and equipment, and other long-lived assets when major events or changes in circumstances indicate a decline in an asset's service capacity. Impairment is measured using methods that isolate the asset's service capacity that has been rendered unusable. There were no impairments noted as of June 30, 2010.

Depreciation, Depletion and Amortization: LCRA depreciates its plant in service on a straight-line basis over the estimated useful lives of the various classes of these assets. Annual depreciation expense, expressed as a percentage of depreciable plant, was approximately 3 percent for both FY 2010 and FY 2009. Depreciation, depletion and amortization expense for FY 2010 and 2009 were $140.9 million and $131.6 million, respectively.

The estimated useful life of property, plant and equipment by major category is as follows:

Hydraulic Production Plant	5 - 50 years
Steam Production Plant	10 - 40 years
Transmission Plant	5 - 58 years
General Plant	4 - 45 years
Irrigation Plant	5 - 70 years
Sewage and Water Treatment Plant	5 - 50 years
Telecommunication Facilities	7 - 45 years
Intangible Assets	Indefinite

Gains or losses created by refunding transactions are amortized over the shorter of the remaining terms of the new issues or the refunded bonds. Amortization of debt discount and premium is computed using the effective interest method over the life of the related bond issues. Amortization of debt issue cost is computed on the straight-line method over the life of the related bond issues, which approximates the effective interest method. Other deferred charges are amortized on a straight-line basis ranging from 20 to 40 years.

Statements of Cash Flows: All highly liquid investments (including investments in restricted funds) with a remaining maturity at the time of acquisition of 90 days or less are considered cash equivalents.

Extraordinary Item: In 2002, LCRA signed an agreement with the San Antonio Water System (SAWS) to study the feasibility of transferring surface water from the Colorado River basin to San Antonio. The contract and the legislation authorizing the contract both imposed stringent requirements on any subsequent sale of water from LCRA to San Antonio.

The series of comprehensive studies conducted and paid for by SAWS pursuant to the contract showed in 2009 that a transfer of water to San Antonio could not meet the legislative and contractual requirements, due in part to continuing growth in LCRA's service area.

SAWS sued LCRA alleging breach of contract and sought $1.23 billion in damages. In February of this year, a Travis County district court found that SAWS' claims were barred under the legal principle of governmental immunity. SAWS is appealing the district court decision.

The contract provides that if the contract is terminated, LCRA must reimburse SAWS 50 percent of the amount SAWS paid toward the feasibility studies. To date, SAWS has not terminated the agreement. LCRA believes that termination of the SAWS contract is probable and as a result has accrued an $18.8 million liability for the 50 percent share of costs through June 30, 2010, to be refunded to SAWS in accordance with the contract. LCRA has also recorded its share of the study phase expenses, shown as an extraordinary item, for $18.3 million.

Implementation of New Accounting Principle: In FY 2010, LCRA implemented Statement 51. The provisions of the statement require that intangible assets with indefinite useful lives should not be amortized. Amortization of intangible assets with indefinite lives occurred prior to FY 2009. Statement 51 adjustments were applied retroactively as shown in the following tables:

	FY 2009	
	Previously Reported	Adjusted for Statement 51
	(Dollars in Thousands)	
Less accumulated depreciation	$ (1,448,114)	$ (1,436,855)
Water rights	87,397	94,781
Cost to be recovered for future revenues	258,577	242,951
Total Equity, Beginning of Year	812,401	815,418
Total Equity, End of Year	871,697	874,714

<u>Equity at Beginning of Period</u>

FY 2009 Beginning Equity (in thousands)	$ 812,401
Adjustment of prior years' amortization	3,017
FY 2009 Adjusted Beginning Equity	$ 815,418

Change in Accounting Method: In FY 2009, LCRA management adopted a policy to accrue labor charges related to a current fiscal year that is paid in the following fiscal year. This policy change caused a reduction of $6.4 million to FY 2009 beginning equity. In addition, LCRA management adopted a policy to accrue unbilled revenues associated with wholesale electric generation that are billed in the following fiscal year. The unbilled revenues accrued for FY 2009 totaled $20 million. LCRA management had previously considered these accruals to be immaterial to financial statement presentation. As a result, the LCRA Statement of Revenues, Expenses, and Changes in Equity has included the effects of this change in accounting method on beginning equity as shown (dollars in thousands):

FY 2008 Ending Equity	$	818,767
Cumulative Change in Accounting Method		(6,366)
FY 2009 Beginning Equity	$	812,401

Reclassification: Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

Subsequent Event: In September 2010, the Board approved plans to issue LCRA Refunding Revenue Bonds, Series 2010A and Series 2010B in November 2010 for approximately $450 million. LCRA will use the bond proceeds to refund commercial paper and bonds outstanding.

2. Financial Instruments

As of June 30, 2010 and 2009, LCRA had the following investments and maturities:

	June 30, 2010			June 30, 2009		
Investments		**Market Value[1]**	**WAM (Years)[2]**		**Market Value[1]**	**WAM (Years)[2]**
Investments						
U.S. Government Securities	$	329,398	1.41	$	205,829	1.55
Commercial Paper		8,000	0.25		-	-
Cash Equivalents						
Commercial Paper		-	-		16,000	0.10
Investment Pools		144,061	0.20		130,413	0.18
Total	$	481,459	1.03	$	352,242	0.98

Cash and investments as of June 30, 2010 and 2009 consisted of the following:

		2010		2009
Cash	$	661	$	1,783
Investments		481,459		352,242
Total Cash and Investments	$	482,120	$	354,025

[1] Dollars in Thousands
[2] Weighted Average Maturity

External Investments Pools: LCRA investments included an investment pool with TexPool at June 30, 2010 and 2009. The State Comptroller of Public Accounts oversees TexPool and the pool seeks to maintain a $1 value per share as required by the Texas Public Funds Investment Act. There are no minimum balance requirements for TexPool participants, and there is no limit on the number of accounts per participant.

Debt Service Reserve Funds: LCRA has debt service reserve funds which include investments suitable to provide reserves to meet any shortfalls in funds available to make required debt service payments. Debt service reserve funds are not to be utilized except in the case of insufficient funds. As of

June 30, 2010 and 2009, LCRA had investments in separate accounts holding U.S. Treasuries, held for the use of debt service reserves, totaling $133.5 and $56.1 million respectively.

Interest Risk: LCRA has no formal policy to address exposure to fair value losses resulting from changes in interest rates. However, in accordance with management policy, LCRA manages its exposure to changing interest rates by laddering the investment portfolio, matching maturities against liabilities when possible, and holding investments to maturity.

Credit Risk: LCRA investment activities are governed by state statute (Texas Public Funds Investment Act), which specifies the type and ratings of investments governmental entities are allowed to purchase. In addition, LCRA Board policy and internal operating procedures further restrict investment activity. At June 30, 2010 and 2009, LCRA investment in the Texpool investment pool was rated AAAm by Standard & Poor's. LCRA investment in the Federated Securities Corporation investment pool was rated AAAm by Standard & Poor's, Aaa by Moody's Ratings, and AAA by Fitch. Investments in commercial paper were rated A-1+ by Standard & Poor's and P-1 by Moody's Ratings. Investments in U.S. Treasuries were rated AAA by Standard & Poor's and Aaa by Moody's Ratings.

3. Long-Term Debt and Commercial Paper

Changes during FY 2010 and FY 2009, of long-term debt, including current portions as follows (dollars in thousands):

Series	Balance June 30, 2008	Increase	(Decrease)	Balance June 30, 2009	Increase	(Decrease)	Balance June 30, 2010	Amount Due in FY 2011
LCRA TSC 2003B	$ 229,550	$	$ (7,690)	$ 221,860	$	$ (7,690)	$ 214,170	$ 7,690
LCRA TSC 2003C	119,525		(4,515)	115,010		(4,515)	110,495	4,515
LCRA TSC 2004	117,235		(4,170)	113,065		(4,185)	108,880	4,185
LCRA TSC 2005	121,920		(4,190)	117,730		(4,200)	113,530	4,200
LCRA TSC 2006	131,655		(4,485)	127,170		(4,540)	122,630	4,540
LCRA TSC 2006A	133,585		(4,490)	129,095		(4,490)	124,605	4,490
LCRA TSC 2008	165,205			165,205			165,205	2,020
LCRA TSC 2009	-	118,550		118,550			118,550	
LCRA TSC 2010	-			-	200,000		200,000	
LCRA 2010	-			-	423,235	(5,400)	417,835	54,015
LCRA 2009	-	171,455		171,455		(2,330)	169,125	2,725
LCRA 2008A	-	209,645	(1,920)	207,725		(4,780)	202,945	3,550
LCRA 2008	195,960		(3,560)	192,400		(2,965)	189,435	3,110
LCRA 2006	77,020		(1,760)	75,260		(1,890)	73,370	2,070
LCRA 2004	94,400		(3,065)	91,335		(3,180)	88,155	3,315
LCRA 2004D	47,240		(845)	46,395		(12,590)	33,805	695
LCRA 2003	77,750		(1,860)	75,890		(4,685)	71,205	2,485
LCRA 2002	112,305		(2,010)	110,295		(3,210)	107,085	2,215
LCRA 2001A	131,630		(3,270)	128,360		(3,280)	125,080	3,535
LCRA 2001	93,670		(1,250)	92,420		(15,595)	76,825	855
LCRA 1999A	346,915			346,915		(229,775)	117,140	
LCRA 1999B	256,235		(58,710)	197,525		(165,165)	32,360	7,535
LCRA 1999E	18,710			18,710		(15,070)	3,640	3,640
LCRA 1999F	86,385			86,385		(70,665)	15,720	3,050
LCRA 1999G	33,580		(2,700)	30,880		(30,880)	-	
LCRA 1999H	1,660		(950)	710		(710)	-	
LCRA 1999I	3,155		(165)	2,990		(230)	2,760	250
LCRA TWDB Note Payable	10,500			10,500			10,500	
LCRA TWDB Note Payable	14,040			14,040		(14,040)	-	
Add: Unamortized Net Premium/Discount	44,372		(11,694)	32,678	46,959	(9,536)	70,101	5,031
Subtotal	$ 2,664,202	$ 499,650	$ (123,299)	$ 3,040,553	$ 670,194	$ (625,596)	$ 3,085,151	$ 129,716
Unamortized Net Losses (4)	(210,070)		15,477	(194,593) (2)		14,945	(179,648) (3)	(16,146)
Taxable Commercial Paper	21,900	800	(400)	22,300	400		22,700	22,700
Tax-Exempt Commercial Paper	141,200	400,100	(489,300)	52,000	323,300	(180,000)	195,300	195,300
Total	$ 2,617,232	$ 900,550	$ (597,522)	$ 2,920,260	$ 993,894	$ (790,651)	$ 3,123,503	$ 331,570 (1)

(1) Total amount due in FY 2010 was $179.9 million.

(2) $153,918 is associated with LCRA 1999 A-I refunding bonds and $40,674 is associated with LCRA TSC 2003B refunding bonds.

(3) $75,980 is associated with LCRA 1999 A-I refunding bonds, $39,072 is associated with LCRA TSC 2003B refunding bonds, and $64,595 is associated with LCRA 2010 refunding bonds.

(4) Represents unamortized net losses on refunded debt.

Interest rates and maturity dates for bonds, notes and commercial paper are as follows as of June 30, 2010:

	May 15,	
Series	**From**	**To**
LCRA TSC 2003B (5.00%-5.375%)	2011	2031
LCRA TSC 2003C (5.00%-5.25%)	2011	2033
LCRA TSC 2004 (4.75%-5.00%)	2011	2034
LCRA TSC 2005 (4.50%-5.00%)	2011	2035
LCRA TSC 2006 (4.50%-5.00%)	2011	2036
LCRA TSC 2006A (4.20%-5.00%)	2011	2036
LCRA TSC 2008 (5.00%-5.25%)	2011	2035
LCRA TSC 2009 (3.75%-5.50%)	2016	2036
LCRA TSC 2010 (3.20%-5.00%)	2012	2040
LCRA 2010 (3.00%-5.00%)	2011	2020
LCRA 2009 (3.25%-5.625%)	2011	2039
LCRA 2008A (5.00%-7.25%)	2011	2037
LCRA 2008 (5.00%-5.75%)	2011	2037
LCRA 2006 (4.00%-5.00%)	2011	2036
LCRA 2004 (4.00%-5.00%)	2011	2029
LCRA 2004D (4.75%-5.00%)	2011	2034
LCRA 2003 (5.00%-5.25%)	2011	2033
LCRA 2002 (4.75%-5.00%)	2011	2031
LCRA 2001A (5.00%-5.375%)	2011	2032
LCRA 2001 (5.00%)	2011	2031
LCRA 1999A (5.50%-5.875%)	2014	2020
LCRA 1999B (5.875%-6.00%)	2011	2014
LCRA 1999E (5.75%)	2011	2011
LCRA 1999F (5.75%)	2011	2012
LCRA 1999I (3.65%-4.15%) (1)	2011	2020
LCRA TWDB Note Payable (6.05%-6.10%)	2020	2034
Taxable Commercial Paper (2)		
Tax-Exempt Commercial Paper (2)		

(1) Maturity Date is Jan 1.
(2) Commercial paper rates are variable. Outstanding notes are issued with maturities of 270 days or less from their respective issue dates.

LCRA's debt as of June 30, 2010, has been rated by Fitch, Moody's and Standard & Poor's, respectively, as follows:

FITCH, MOODY'S AND STANDARD & POOR'S

Refunding and Improvement Revenue Bonds: A+, A1 and A (Uninsured)
Commercial Paper: F-1+, P-1, A-1
LCRA Transmission Services Corporation Contract Refunding Revenue Bonds: A+, A2, A (Uninsured)
LCRA Transmission Services Corporation Commercial Paper: F-1+, P-1, A-1+
LCRA Transmission Services Corporation Commercial Paper Series B: F-1+, P-1, A-1

Bond and note debt payments, excluding commercial paper, are as follows (dollars in thousands):

Ending June 30	Principal	Interest	Total
2011	$ 124,685	$ 154,778	$ 279,463
2012	133,665	148,584	282,249
2013	137,940	142,376	280,316
2014	149,665	135,379	285,044
2015	158,145	127,939	286,084
2016-2020	635,785	530,807	1,166,592
2021-2025	544,540	379,223	923,763
2026-2030	506,585	247,380	753,965
2031-2035	493,300	114,048	607,348
2036-2040	$ 130,740	$ 13,237	$ 143,977
	3,015,050	1,993,751	5,008,801
Unamortized Net Premium/Discount	$ 70,101		$ 70,101
Total	$ 3,085,151	$ 1,993,751	$ 5,078,902

New and Refunding Bonds: During FY 2010, LCRA issued $0.4 million of taxable commercial paper and $186.7 million of tax-exempt commercial paper. In addition, LCRA on behalf of LCRA TSC issued $136.6 million of tax-exempt commercial paper. The commercial paper was used to fund capital projects.

On Jan. 28, 2010, LCRA issued $423.2 million of LCRA Refunding Bonds, Series 2010. The bonds were issued at a premium of $36.9 million, resulting in total available funds net of issuance costs of $458.4 million. The proceeds from the bond issuance were used to purchase State and Local Government Series (SLGS) securities, which were placed in an irrevocable escrow account in order to defease $427.1 million of LCRA Series 1999A, 1999B, 1999E, and 1999F bonds. Although the refunding resulted in the recognition of an accounting loss of $67.2 million, LCRA in effect reduced its aggregate debt service payments by $19.3 million, resulting in an economic gain (difference between the present values of the old and new debt service payments) of $41.8 million.

On May 18, 2010, LCRA on behalf of LCRA TSC issued $200 million of LCRA Transmission Contract Refunding Revenue Bonds, Series 2010. The bonds were issued at a premium of $10.1 million, resulting in total available funds net of issuance costs of $209.1 million. The proceeds from the bond issuance were used to refund $136.6 million of tax-exempt commercial paper. In addition, $61.2 million was used for new capital improvements, and $10.9 million funded the debt service reserve fund.

During FY 2009, LCRA issued $0.8 million of taxable commercial paper and $295.9 million of tax-exempt commercial paper. In addition, LCRA on behalf of TSC issued $104.2 million of tax-exempt commercial paper. The commercial paper was used to fund capital projects.

On Dec. 18, 2008, LCRA issued $209.6 million of LCRA Refunding Revenue Bonds, Series 2008A. The proceeds of the bond issuance were used to refund $205.5 million of tax-exempt commercial paper.

On June 29, 2009, LCRA issued $171.5 million of LCRA Refunding Revenue Bonds, Series 2009. The proceeds from the bond issuance were used to refund $169.8 million of tax-exempt commercial paper and $0.2 million of taxable commercial paper.

On June 29, 2009, LCRA on behalf of LCRA TSC issued $118.6 million of LCRA Transmission Contract Refunding Revenue Bonds, Series 2009. The proceeds from the bond issuance were used to refund $109.3 million of tax-exempt commercial paper.

The principal associated with the bonds that have been previously refunded by LCRA but remain outstanding at June 30, 2010 and 2009, totals $308 million and $305 million, respectively. Proceeds from these refunding bond issues were escrowed to purchase U.S. government obligations which will mature at such time and yield interest at such amounts so that sufficient monies are available for payment of principal, premium, if any, and interest on the refunded bonds when due. None of these refunded bonds are included in LCRA's outstanding long-term debt at June 30, 2010 and 2009.

Optional Redemption: The following bonds are redeemable at the option of LCRA according to the schedule presented below.

Series	Redeemable on or after…	In increments of…	At a redemption price of…	Maturing on and after…
LCRA TSC 2003B	May 15, 2012	$ 5,000	100 + accrued interest	May 15, 2013
LCRA TSC 2003C	May 15, 2013	5,000	100 + accrued interest	May 15, 2014
LCRA TSC 2004	May 15, 2011	5,000	100 + accrued interest	May 15, 2012
LCRA TSC 2005	May 15, 2011	5,000	100 + accrued interest	May 15, 2012
LCRA TSC 2006	May 15, 2011	5,000	100 + accrued interest	May 15, 2012
LCRA TSC 2006A	May 15, 2016	5,000	100 + accrued interest	May 15, 2017
LCRA TSC 2008	May 15, 2018	5,000	100 + accrued interest	May 15, 2019
LCRA TSC 2009	May 15, 2019	5,000	100 + accrued interest	May 15, 2020
LCRA TSC 2010	May 15, 2020	5,000	100 + accrued interest	May 15, 2021
LCRA 2009	May 15, 2019	5,000	100 + accrued interest	May 15, 2020
LCRA 2008A	May 15, 2018	5,000	100 + accrued interest	May 15, 2019
	May 15, 2015	5,000	100 + accrued interest	May 15, 2037
LCRA 2008	May 15, 2015	5,000	100 + accrued interest	May 15, 2016
LCRA 2006	May 15, 2011	5,000	100 + accrued interest	May 15, 2012
LCRA 2004	May 15, 2011	5,000	100 + accrued interest	May 15, 2012
LCRA 2004D	May 15, 2011	5,000	100 + accrued interest	May 15, 2012
LCRA 2003	May 15, 2013	5,000	100 + accrued interest	May 15, 2014
LCRA 2002	May 15, 2013	5,000	100 + accrued interest	May 15, 2014
LCRA 2001A	May 15, 2011	5,000	100 + accrued interest	May 15, 2012
LCRA 2001	May 15, 2010	5,000	101 + accrued interest	May 15, 2011
	May 15, 2011	5,000	100 + accrued interest	
LCRA 1999A	May 15, 2009	5,000	101 + accrued interest	May 15, 2010
	May 15, 2010	5,000	100 + accrued interest	
LCRA 1999B	May 15, 2009	5,000	101 + accrued interest	May 15, 2010
	May 15, 2010	5,000	100 + accrued interest	
LCRA 1999E	May 15, 2009	5,000	101 + accrued interest	May 15, 2010
	May 15, 2010	5,000	100 + accrued interest	
LCRA 1999F	May 15, 2009	5,000	101 + accrued interest	May 15, 2010
	May 15, 2010	5,000	100 + accrued interest	

The LCRA bonds outstanding as of June 30, 2010 and 2009, are parity debt under the Master Resolution and are collateralized by a lien on and pledge of the pledged revenues. Pledged revenues are defined to include all amounts received pursuant to contractual commitments and all lawfully available funds of LCRA. The LCRA Transmission Contract Revenue Bonds Series 2003B, 2003C, 2004, 2005, 2006, 2006A, 2008, 2009 and 2010 are solely secured by the obligation of LCRA TSC to make installment payments to LCRA from the net revenues of LCRA TSC (subordinate to first lien on gross revenues securing the purchase price payments under the initial contractual commitment). Net revenues are defined as gross revenues less any purchase price payments due to LCRA and less the operating and maintenance expenses during the period.

Commercial Paper: LCRA is authorized to issue up to $350 million in short-term tax-exempt obligations and $350 million in short-term taxable obligations to provide system improvements, acquire fuel reserves and facilities, refund outstanding debt, and pay interest on outstanding debt. Outstanding notes were issued in denominations of $100,000 or more with maturities of 270 days or less from their respective issue dates. The commercial paper program expires on May 15, 2020. It is management's intent to periodically renew outstanding commercial paper upon maturity, and to periodically convert the commercial paper balances to long-term bonds.

LCRA maintains credit facilities with banks that provide available borrowings sufficient to pay the principal of the notes. LCRA has entered into a revolving credit agreement with a bank that is obligated to lend LCRA amounts of up to $287.5 million for the tax-exempt series. Of the $287.5 million, $175 million of this agreement expires on June 21, 2011; $75 million expires on Oct. 13, 2010; and the remaining $37.5 million expires on Oct. 13, 2011. LCRA has an additional revolving credit agreement with banks that are obligated to lend LCRA aggregate amounts of up to $40 million for the taxable series, which expires on Nov. 1, 2011. Failure by LCRA to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused lines of credit. There were no borrowings under any of the agreements as of June 30, 2010.

LCRA TSC is authorized to issue tax-exempt commercial paper notes in an aggregate amount of principal and interest not to exceed $250 million under its commercial paper program. The commercial paper program expires on May 15, 2042. It is management's intent to periodically renew outstanding commercial paper upon maturity, and to periodically convert the commercial paper balances to long-term bonds.

LCRA TSC maintains credit facilities with banks that provide available borrowing sufficient to pay the principal and interest on the notes. A $150 million credit agreement is available to pay $136.7 million of principal and $13.3 million of interest. This agreement expires on April 29, 2012. A $100 million credit agreement is available to pay $91.8 million of principal and $8.2 million of interest. This agreement expires on June 18, 2012. Failure by LCRA or LCRA TSC to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused line of credit. There were no borrowings under either credit facility agreement as of June 30, 2010.

Conduit Debt: At June 30, 2009, there was one series of Pollution Control Revenue Bonds outstanding with an aggregate principal amount payable of $25 million. The bonds mature in April 2030. The bonds were issued to finance the costs of acquiring, constructing and improving certain solid waste and sewage disposal facilities of a private-sector entity. LCRA executed an installment sale agreement with the entity whereby the proceeds of the bonds were used to finance a portion of the project. In turn, the entity agreed to make payments sufficient to pay, when due, the principal and interest on the bonds. The bonds did not constitute a debt or pledge by LCRA, and accordingly, were not reported in the accompanying financial statements. The bonds were called and redeemed during FY 2010, and therefore no balance is outstanding at June 30, 2010.

Mandatory Redemption: A number of LCRA's term bonds are subject to mandatory sinking fund redemption at the redemption price, which equals the principal amount thereof plus accrued interest to the redemption date. The particular bonds or portions thereof to be redeemed are to be selected and designated by LCRA (provided that a portion of a bond may be redeemed only in an integral multiple of $5,000). The mandatory sinking fund redemption dates range from May 15, 2020, to May 15, 2040.

Other Long-Term Liabilities: In October 1999, LCRA entered into a long term water supply agreement with the City of Austin. LCRA used the proceeds related to the agreement to pay down debt related to the acquisition of water rights, purchase additional water rights, and help fund other programs related to its river management operations. LCRA had deferred revenue related to this agreement of $78 million and $81 million at June 30, 2010 and 2009, respectively.

Changes during FY 2010 and FY 2009 of other long-term liabilities were as follows (dollars in thousands):

Description	Balance June 30, 2008 (5)	Increase	(Decrease)	Balance June 30, 2009 (5)	Increase	(Decrease)	Balance June 30, 2010 (5)
Deferred Revenues - City of Austin (1)	$ 83,139	$	$ (2,527)	$ 80,612	$	$ (2,677)	$ 77,935
Payables Related to Debt Funded Capital (2)	67,208	136,342	(163,758)	39,792	76,867	(87,185)	29,474
SAWS Project Advances / FAS 5 Liability (3)	33,703	3,000	(7,820)	28,883	18,792	(28,883)	18,792
Derivative Market Adjustments (4)	-			-	17,294		17,294
Water / Wastewater Acquisition Payments (4)	2,420	1,662		4,082	4,561		8,643
Accrued Interest Payable on TWDB Note (4)	5,883	419		6,302		(3,387)	2,915
Other Long Term Liabilities	37,434	9,158	(25,641)	20,951	54,079	(52,967)	22,063
Total	$ 229,787	$ 150,581	$ (199,746)	$ 180,622	$ 171,593	$ (175,099)	$ 177,116

(1) City of Austin water agreement liability (see above paragraph.)
(2) Vendor and sales tax payables related to debt funded capital spending.
(3) Feasibility study with San Antonio Water System to address the long term water needs in region. Balance at June 30, 2009 was deferred revenue. Balance at June 30, 2010 is in accounts payable due to the probable termination of the project. See Note 6 - Commitments and Contingencies.
(4) These payables were reclassed from current liabilities to long term at year end.
(5) Balances exclude Other Postemployment Benefits (OPEB) payable. See Note 5 - Other Postemployment Benefits.

4. Retirement and 401(k) Plan Benefits

Retirement Plan: The LCRA Retirement Plan is a single-employer defined benefit pension plan and is administered by the LCRA Retirement Plan Board of Trustees. The plan issues a stand-alone financial report that is available from the Board of Trustees. The plan has received a favorable determination letter from the Internal Revenue Service, and is exempt from federal income taxes under the appropriate section of the Internal Revenue Code.

The plan provides retirement, death, and disability benefits. Employees are not required to contribute to the plan, although the plan retains employee contributions and associated liabilities for years prior to April 1, 1984, when the plan did require employee contributions. Amendments to the plan are made only with the authority of the LCRA Board of Directors.

Effective Jan. 1, 2002, the plan was amended to provide cash balance benefit features. Active employees as of Dec. 31, 2001, were given the opportunity to remain participants under the pension provisions (Retirement Program A) or to elect to become participants under the cash balance provisions (Retirement Program B). Employees hired prior to Jan. 1, 2002, who elected Program A and who worked at least 1,000 hours per annum were eligible plan participants in the plan upon completion of six months of service and became 100 percent vested after three complete years of service. An employee who was employed by LCRA prior to Jan. 1, 2002, and who elected Program B was eligible to participate in the cash balance benefit plan as of Jan. 1, 2002, and became 100 percent vested after three complete years of service. Any employee hired after Jan. 1, 2002, who works at least 1,000 hours per annum is automatically enrolled in Program B and is eligible to participate in the plan after three consecutive months of service and is 100 percent vested after three complete years of service.

Under Program A, employees may retire with unreduced accrued benefits at age 65 with five years of service, or when the total of their age and service equals 80. Retirement benefits are based on years of service and salary levels at retirement. Under Program B, the value of the employee's account will be adjusted by increasing the balance by 4 percent of the employee's compensation paid per year. The value of the account earns an annual interest rate of 7 percent. The retirement benefit for an employee who has reached his or her normal retirement date is a single lump sum payment equal to the participant's accrued balance or monthly payments as provided by the plan.

Funding Policy: LCRA makes annual contributions to the plan that are actuarially determined as of each valuation date and consist of a normal cost contribution and an amortization of the unfunded actuarial accrued liability (UAAL) using the entry age normal actuarial cost method. In FY 2008, LCRA began a fixed rate funding policy for the plan under which LCRA will contribute 9.7 percent of biweekly payroll for 10 fiscal years and an actuarially-determined rate thereafter toward funding its pension plan. The rates are meant to fund the plan's normal cost and to amortize the plan's UAAL, which at April 1, 2007, was $107.6 million, over a reasonable period time.

The 9.7 percent contributed amount is first applied to pay the normal cost, approximately 3.3 percent of payroll. A portion of the remaining amount, approximately 4 percent of payroll, is used to amortize $51.2 million of the UAAL as of April 1, 2007, over a closed 10-year period with a level percent of payroll. After funding the normal cost percent of payroll and the level percent of payroll amortization of the $51.2 million of the UAAL, the remaining contribution rate is used to amortize the remainder of the UAAL over a period that is recalculated in each annual actuarial valuation. Because actual experience may differ from actuarial assumptions, the amortization period for the remainder of the UAAL may be longer or shorter than expected. For required disclosures, the weighted average amortization period for the total UAAL is calculated in each annual actuarial valuation. The costs of administering the plan and of investing the plan assets paid by the plan are considered in the determination of the investment return assumption.

In the April 1, 2010, actuarial valuation, the balance of the original $51.2 million of the UAAL was $42.7 million, and it will be amortized over the remaining closed seven-year period. The remainder of the UAAL is $108.7 million. The funding policy will continue to be 9.7 percent of payroll through June 30, 2017, as scheduled, and has a subsequent contribution rate of 8.6 percent of payroll. With this funding policy, the remainder of the UAAL is expected to be amortized in 21 years. The weighted average amortization period for the total UAAL is 18 years.

Annual Pension Cost: The employer's annual pension cost (APC) of $16.5 million was based on the annual required contributions (ARC) for the last nine months of the plan year ending March 31, 2010 (based on the April 1, 2009, actuarial valuation), plus the annual required contributions for the first three months of the plan year ending March 31, 2011 (based on the April 1, 2010 actuarial valuation). The ARCs were equal to the fixed 9.7 percent contribution rate multiplied by the actual total employee payroll for the relevant periods. The ARC contribution rate was shown to be in compliance with the GASB Statement No. 27 parameters in both of the actuarial valuations based on the entry age actuarial cost method. The actuarial assumptions for both valuations included (a) 7.75 percent investment rate of return, net of administrative expenses, and (b) projected salary increases of 4.5 percent to 12.5 percent varying by entry age and years of service. Both (a) and (b) reflect an inflation component of 4 percent.

Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date	(1) Actuarial Value of Assets[2]	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Annual Covered Payroll[1]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
April 1, 2008	$ 317,407,521	$ 426,749,406	74.4%	$ 109,341,885	$ 153,614,048	71.2%
April 1, 2009	293,189,164	454,306,114	64.5	161,116,950	159,319,626	101.1
April 1, 2010	328,296,440	479,705,702	68.4	151,409,262	165,612,608	91.4

[1] Based on projected payroll as of valuation date.
[2] Actuarial value approximates market value.

Three-Year Annual Pension Cost (APC) Trend Information

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2008	$ 15,286,263	100%	-
June 30, 2009	15,780,879	100	-
June 30, 2010	16,541,229	100	-

[1] NPO is zero because employer contributions have been equivalent to actuarially determined funding requirements for all fiscal years beginning Dec. 15, 1986.

401(k) Plan: LCRA's Retirement Benefits Board of Trustees administers this single-employer defined contribution plan. The plan is accounted for on the accrual basis and all assets are recorded at fair value. The plan offers the choice of making pretax contributions, Roth (after taxes) contributions or a combination of both. The plan has received a favorable determination letter from the Internal Revenue Service and is exempt from federal income taxes, under the appropriate section of the Internal Revenue Code.

Employees are eligible to participate in the plan immediately upon employment. Eligible employees who elect to participate in the plan may contribute a minimum of 1 percent of their annual compensation, up to a maximum not to exceed $16,500 in 2010. Employees age 50 or older may contribute an additional $5,500 in 2010. Effective Jan. 1, 2002, employees under Program A of the pension plan receive an LCRA matching contribution equal to 25 percent of the first 4 percent of compensation that the employee had elected to contribute to the plan. Under Program B of the pension plan, LCRA provides matching contributions equal to 100 percent of the first 4 percent of compensation and 50 percent of the next 2 percent of compensation that the employee has elected to contribute to the plan. Contributions made by both the employer and employee are vested immediately. Amendments to the plan are made only with the authority of the LCRA Board.

Contributions by LCRA and its employees for the years ended June 30, 2010 and 2009, are presented below:

	2010	2009
	(Dollars in Thousands)	
Employer contributions	$ 3,611	$ 3,262
Employee contributions	$10,919	$10,438

5. Other Postemployment Benefits

Plan Description: The LCRA Employees' Post Retirement Health Benefits Program (OPEB Plan) is a single-employer defined benefit healthcare plan administrated by the LCRA Board. The OPEB Plan provides postemployment healthcare benefits to retirees and terminated employees eligible for such benefits. The OPEB Plan does not issue a stand-alone financial report. Amendments to the OPEB Plan are made only with the authority of the LCRA Board.

Funding Policy: The LCRA funding policy pays only for current cost premiums. LCRA contributes a portion of health plan premiums for retirees but makes no contribution for terminated employees. LCRA may contribute up to 80 percent of the total healthcare plan premium amount (cost share amount) depending on the retiree's retirement option choice (see note 4). For option A retirees, LCRA contributes 100 percent of the cost share amount. For option B retirees, LCRA may contribute 0, 25, 50, 75 or 100 percent of the cost share amount based on the retiree's length of service.

Annual OPEB Cost and Net OPEB Obligation: The Annual Required Contribution (ARC) to the OPEB Plan is actuarially determined as of each valuation date. Actuarial valuations are performed on the OPEB Plan every two years. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The LCRA funding policy pays only for current cost-share premiums, which means no assets were set aside for future benefits. Therefore, a net OPEB obligation exists at year-end. The following represents the ARC, OPEB Cost, contributions made, and changes in the net OPEB obligation for fiscal years 2009 and 2010:

Year Ended June 30,	2010	2009
Annual required contribution	$ 10,792,097	$ 10,724,183
Interest on net OPEB obligation, beginning of year	519,882	257,860
Adjustment to annual required contribution	(371,109)	(184,069)
Annual OPEB cost (expense)	10,940,870	10,797,974
Contributions made	(5,723,012)	(5,557,520)
Increase in net OPEB obligation	5,217,858	5,240,454
Net OPEB obligation, beginning of year	10,397,645	5,157,191
Net OPEB obligation, end of year	$ 15,615,503	$ 10,397,645

LCRA annual OPEB cost, the percentage of the annual OPEB cost contributed, and the net OPEB obligation for FY 2008 through FY 2010 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	$10,262,376	50%	$ 5,157,191
June 30, 2009	10,797,974	52	10,397,645
June 30, 2010	10,940,870	52	15,615,503

Funded Status and Funding Progress: The Schedule of Funding Progress (unaudited), presented below, is designed to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for future benefits. The required Schedule of Funding Progress presented below and immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Valuation Date [1]	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll [2]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
July 1, 2007	$ -	$170,075,954	0.00%	$170,075,954	$138,863,719	122.5%
July 1, 2009	-	181,172,802	0.00	181,172,802	139,270,831	130.1

[1] Actuarial valuations are only required on a biennial basis.
[2] Based on projected payroll as of valuation date.

Actuarial Methods and Assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include, but are not limited to, assumptions about future employment, mortality and future healthcare costs. Actuarially determined amounts are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), the included types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2009, actuarial valuation the Entry Age Normal cost method was used. The actuarial assumptions included a 5 percent discount rate, a 4 percent inflation rate and a projected annual healthcare cost trend rate of 9 percent for FY 2010 reduced by decrements of 0.5 percent to an ultimate rate of 6 percent after six years. As of the July 1, 2009, valuation, the Unfunded Actuarial Accrued Liability is being amortized on an open basis as a level 4.64 percent of projected payroll over a 30-year amortization period.

6. Commitments and Contingencies

Construction: Construction commitments through 2015 total $743.2 million for LCRA.

Sandy Creek Project: LCRA has signed an agreement to participate as a power purchaser and equity partner in the Sandy Creek Energy Station, a coal electric generation plant located near Waco, Texas. The facility has received an air permit from the Texas Commission on Environmental Quality and other necessary permits. The unit is under construction and scheduled to be operational in 2012. LCRA associated capital expenses are included in LCRA’s construction budget. LCRA’s purchases of power from the facility are expected to begin in FY 2013 and are estimated to be approximately $60 million annually. This estimate does not include the impacts from potential carbon legislation. LCRA estimates that beginning in 2016, carbon legislation could increase the amount paid for purchases from this facility by $15 to $30 million annually through 2025.

Leases: LCRA leases and operates certain transmission facilities and equipment owned by 11 of LCRA’s wholesale electric customers. The leases are the basis for LCRA to provide the same service to all of its customers and for the cost of such service to be shared by all customers on a consistent basis. Payments for the leased facilities vary from year to year and are based on the original cost of the facilities, adjusted for depreciation, and are updated annually to reflect additions, retirements and depreciation. The terms of the leases are perpetual but may be terminated by LCRA or the lessors upon five years written notice. In addition, LCRA leases towers and related space to provide shared communications with a number of public entities and leases a portion of its office facilities. LCRA’s lease payments totaled approximately $17.1 million and $15.1 million in FY 2010 and 2009, respectively. Leases associated with transmission facilities comprise approximately 81 percent of total LCRA leases for FY 2010.

The following is a schedule by years of future minimum rental payments required under these operating leases for the remaining noncancellable lease terms as of June 30, 2010 (in thousands):

Fiscal Year	Minimum Lease Payments
2011	$ 16,872
2012	15,401
2013	16,037
2014	16,601
2015	17,370

Coal and Rail Contracts: For FY 2011, approximately 59 percent of the fuel requirements for the Fayette Power Project Units 1 and 2 (FPP 1 & 2) will be supplied by four multi-year contracts with mines in Wyoming. Starting in the third quarter of FY 2009, three new multi-year contracts will supply part of FPP 1 & 2's fuel requirements. These new multi-year contracts each have separate fixed prices per calendar year and an annual fixed volume for the entire term. During FY 2010 and 2009, LCRA's share of FPP 1 & 2's multi-year contract purchases totaled $31 million and $28.8 million, respectively.

For FY 2011, approximately 24 percent of the fuel requirements for Fayette Power Project Unit 3 will be supplied by one multi-year contract with mines in Wyoming. The contract, which ends in the second quarter of FY 2011, will provide coal at a fixed price for its entire term with a fixed volume for each calendar year. During FY 2010 and 2009, LCRA's multi-year contract purchases totaled $9.2 million and $12.2 million, respectively.

LCRA and Austin Energy have a multi-year transportation contract with one rail carrier to ship Powder River Basin coal to all three units at FPP. FPP committed to ship a specific, minimum volume of coal from the Powder River Basin under a common carrier tariff with a second rail carrier. Freight costs incurred by LCRA were approximately $101.6 million and $113.5 million in FY 2010 and FY 2009, respectively.

Natural Gas: LCRA has several long-term contracts to provide a portion of the natural gas requirements to its gas-fired generation units, through April 2014. LCRA is committed to buy a fixed amount of gas annually. LCRA's gas purchases under these contracts totaled $103.3 million for FY 2010 and $111.8 million for FY 2009, based on price indices. LCRA also pays approximately $3.6 million per year for firm transportation rights on intrastate pipelines, which deliver gas from other supply points.

Purchased Power: LCRA has 11 contracts with power marketers who provide firm electric energy ranging from 50 MW to 300 MW per month, for the period July 2010 through December 2010.

Wind Power: LCRA is committed to purchase 35 MW of wind power capacity from Texas' first commercial wind power plant, the Texas Wind Power Project. LCRA in turn sells 10 MW of this capacity to Austin Energy. During FY 2010, LCRA purchased 30 MW of wind power capacity from the Delaware Mountain Wind Farm. In FY 2010, LCRA also purchased 51 MW of wind power capacity from the Indian Mesa Wind Farm. Total wind power capacity is 116 MW, of which 106 MW is for LCRA and its customers. Beginning in January 2011, Papalote Creek Wind Farm is expected to be in full production, providing an additional 200 MW of wind power capacity. LCRA expects to pay approximately $30.2 million in FY 2011 for purchases from all wind power plants, increasing to approximately $42.1 million in FY 2018.

Water Project Study: In 2002, LCRA signed an agreement with the San Antonio Water System (SAWS) to study the feasibility of transferring surface water from the Colorado River basin to San Antonio. The contract and the legislation authorizing the contract both imposed stringent requirements on any subsequent sale of water from LCRA to San Antonio.

The series of comprehensive studies conducted and paid for by SAWS pursuant to the contract showed in 2009 that a transfer of water to San Antonio could not meet legislative and contractual requirements, due in part to continuing growth in LCRA's service area.

The study phase included engineering feasibility and environmental studies and costs to obtain necessary permits for development and transfer of water. LCRA, in its role as project manager, received advances from SAWS to fund these studies. Under the contract, SAWS has the right to terminate the contract and receive a 100 percent refund of unexpended funds and a 50 percent reimbursement of expended funds.

Neither SAWS nor LCRA has terminated the contract, but SAWS has publicly announced it is considering termination. On Aug. 24, 2009, SAWS filed a lawsuit against LCRA. The lawsuit claimed LCRA is in breach of contract and sought $1.23 billion in damages. In February 2010, a Travis County district court dismissed the suit, because SAWS' claims are barred under the legal principle of governmental immunity. SAWS is appealing the district court decision.

LCRA believes that termination of the SAWS contract is probable and, as a result, has accrued an $18.8 million liability for the 50 percent share of costs through June 30, 2010, to be reimbursed to SAWS and 100 percent of the unexpended funds as of June 30, 2010, to be refunded to SAWS. LCRA has also recorded its share of the study phase expenses, shown as extraordinary expense on the Statements of Revenues, Expenses, and Changes in Equity, for $18.3 million.

As of June 30, 2010, LCRA has received $35.3 million from SAWS, as well as grants of $0.6 million from U. S. Fish and Wildlife Service and $0.3 million from U. S. Department of Agriculture. Study projects costs funded by SAWS through June 30, 2010, totaled $34.8 million.

Insurance Self-Funding: In addition to the purchase of commercial insurance, LCRA has established a self-insurance program to finance risk of loss. LCRA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. LCRA self-funds each worker's compensation claim up to $500,000 and each general liability claim up to a maximum of $2 million depending on the insurance policy deductible. Self-funding of property damage varies from $100,000 to $2.5 million depending on the insurance deductible. Claims that are covered events are covered by commercial general insurance up to the policy limits after meeting the deductible. There were no significant changes in coverage from the prior year. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Based on an insurance risk analysis, LCRA carries no commercial insurance on transmission lines.

The accrued liability presented in the table below is associated with obligations resulting from workers' compensation and long-term disability liabilities from prior years when LCRA self-funded disability claims. At the present, no materially adverse impacts are anticipated.

Changes in the accrued liability amount for FY 2009 and 2010 were as follows (dollars in thousands):

	Balance Beginning of Year	Changes in Estimates	Payments	Balance End of Year
FY 2009	$861	$530	$(603)	$788
FY 2010	788	307	(446)	649

Litigation: There are various lawsuits in which LCRA is involved. LCRA's management, including its general counsel, estimates that the potential claims against LCRA not covered by insurance resulting from such litigation would not materially affect LCRA's financial position, results of operations and cash flows.

7. Capital Asset Activity

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Ending Balance
	(Dollars in Thousands)					
Utility plant in service:						
Depreciable assets	$ 3,856,946		$ 444,791	$ (207,537)		$ 4,094,200
Non-depreciable assets	70,631		12,776	(6,695)		76,712
Total utility plant in service	3,927,577	-	457,567	(214,232)	-	4,170,912
Construction work in progress:						
Non-depreciable assets	571,597	483,708	(461,030)	(8,385)		585,890
Oil and gas property:						
Depletable assets	28,158					28,158
Other physical property:						
Depreciable assets	35,351		3,445	(335)		38,461
Non-depreciable assets	23,460		18	(3)		23,475
Total other physical property	58,811	-	3,463	(338)	-	61,936
Less accumulated depreciation	(1,436,855)			89,768	(138,897)	(1,485,984)
Water Rights	94,781					94,781
Capital assets, net	$ 3,244,069	$ 483,708	$ -	$ (133,187)	$ (138,897)	$ 3,455,693

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Ending Balance
	(Dollars in Thousands)					
Utility plant in service:						
Depreciable assets	$ 3,709,253	$ 125	$ 172,799	$ (25,231)		$ 3,856,946
Non-depreciable assets	66,547		4,130	(46)		70,631
Total utility plant in service	3,775,800	125	176,929	(25,277)	-	3,927,577
Construction work in progress:						
Non-depreciable assets	308,223	447,506	(184,110)	(22)		571,597
Oil and gas property:						
Depletable assets	28,158					28,158
Other physical property:						
Depreciable assets	33,338		2,164	(151)		35,351
Non-depreciable assets	20,253		5,017	(1,810)		23,460
Total other physical property	53,591	-	7,181	(1,961)	-	58,811
Less accumulated depreciation	(1,327,143)			19,895	(129,607)	(1,436,855)
Water Rights	94,781					94,781
Capital assets, net	$ 2,933,410	$ 447,631	$ -	$ (7,365)	$ (129,607)	$ 3,244,069

8. Segment Reporting

Governments that use enterprise fund accounting and reporting standards to report their activities are required to present segment information. A segment is an identifiable activity reported as or within an enterprise fund or another stand-alone entity that has one or more bonds outstanding with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately. An external party should impose the requirements for separate accounting. LCRA TSC qualifies as a segment.

Segment information for LCRA TSC:

LCRA TRANSMISSION SERVICES CORPORATION-SEGMENT INFORMATION
BALANCE SHEETS
(Dollars in Thousands)

	June 30, 2010	June 30, 2009 *(As adjusted, see Note 1)*
Assets		
Current Assets	$ 93,578	$ 81,206
Long-Term Assets		
Restricted cash and cash equivalents	8,429	16,330
Restricted investments	940	18
Accounts receivable from LCRA - restricted	67,252	57,471
Capital assets:		
Utility plant in service	1,696,816	1,533,413
Construction work in progress	159,695	73,381
Less accumulated depreciation	(339,553)	(300,021)
Capital assets, net	1,516,958	1,306,773
Other	15	15
Deferred charges:		
Costs to be recovered from future revenues	53,728	54,435
Unamortized debt expense	21,627	20,867
Deferred charges, net	75,355	75,302
Total long-term assets	1,668,949	1,455,909
Total Assets	$ 1,762,527	$ 1,537,115
Liabilities		
Current Liabilities	$ 73,708	$ 63,818
Long-Term Liabilities		
Accounts payable to LCRA from Construction Fund	28,043	9,542
Accounts payable from restricted assets	1,352	2,455
Bonds, notes and loans payable	1,403,434	1,237,407
Deferred credits	453	403
Total long-term liabilities	1,433,282	1,249,807
Total liabilities	1,506,990	1,313,625
Equity		
Invested in capital assets, net of related debt	189,873	162,699
Unrestricted	65,664	60,791
Total equity	255,537	223,490
Total Liabilities and Equity	$ 1,762,527	$ 1,537,115

LOWER COLORADO RIVER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended 2010 and 2009

LCRA TRANSMISSION SERVICES CORPORATION-SEGMENT INFORMATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY
(*Dollars in Thousands*)

	Year Ended June 30, 2010	2009 *(As adjusted, see Note 1)*
Operating Revenues		
Transmission	$ 228,106	$ 217,509
Transformation	13,810	12,906
Other	475	1,840
Total operating revenues	242,391	232,255
Operating Expenses		
Operations	74,968	68,078
Maintenance	12,795	7,672
Depreciation and amortization	42,751	38,025
Total operating expenses	130,514	113,775
Operating income	111,877	118,480
Nonoperating Revenues (Expenses)		
Interest and other income	856	1,734
Interest and other expenses	(82,418)	(78,334)
Total nonoperating revenues (expenses)	(81,562)	(76,600)
Income before prior costs recovered from revenues, capital contributions, and transfers in	30,315	41,880
Prior Costs Recovered from Revenues	(706)	(4,581)
Capital Contributions	2,306	315
Transfers In	132	226
Change in Equity	32,047	37,840
Total Equity, Beginning of Year (See Note 1, Implementation of New Accounting Principle)	223,490	185,650
Total Equity, End of Year	$ 255,537	$ 223,490

LCRA TRANSMISSION SERVICES CORPORATION-SEGMENT INFORMATION
STATEMENTS OF CASH FLOWS
(Dollars in Thousands)

	Year Ended June 30, 2010	2009
Cash Flows From Operating Activities		
Received from customers	$ 246,699	$ 228,062
Payments for goods and services	(88,273)	(75,772)
Net cash provided by operating activities	158,426	152,290
Cash Flows From Noncapital Financing Activities		
Other expenses	(6,916)	(6,773)
Net cash used in noncapital financing activities	(6,916)	(6,773)
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(246,246)	(138,542)
Proceeds from sale of capital assets	64	147
Debt issue costs	(1,561)	(755)
Contributed capital received for capital costs	2,306	315
Proceeds from bond issues and commercial paper	346,706	220,518
Debt principal payments and commercial paper redemptions	(43,881)	(50,333)
Interest paid	(63,052)	(54,836)
Payments to refund and defease debt	(136,600)	(109,300)
Net cash used in capital and related financing activities	(142,264)	(132,786)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	76,206	96,826
Purchase of investment securities	(88,624)	(95,266)
Interest received	2,002	2,654
Net cash provided by (used in) investing activities	(10,416)	4,214
Net Increase (Decrease) in Cash and Cash Equivalents	(1,170)	16,945
Cash and Cash Equivalents, Beginning of Year	34,867	17,922
Cash and Cash Equivalents, End of Year	$ 33,697	$ 34,867

LCRA TRANSMISSION SERVICES CORPORATION-SEGMENT INFORMATION
STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Year Ended June 30, 2010	2009
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 111,877	$ 118,480
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	42,751	38,025
Changes in assets and liabilities:		
Accounts receivable	4,259	(3,899)
Inventories	244	(476)
Other deferred charges and long-term assets	-	(15)
Current liabilities	(754)	175
Deferred credits and other long-term liabilities	49	-
Net cash provided by operating activities	$ 158,426	$ 152,290
Noncash Investing Activities		
Investment market adjustments	$ (1,413)	$ 1,122
Noncash Financing for Property, Plant and Equipment		
Purchase of equipment through short-term trade payables	$ 11,922	$ 9,159

9. Derivative Instruments

Hedging Instruments: LCRA enters into gas option contracts to hedge its price exposure to fluctuations in the market price of gas. The contracts are accounted for in accordance with Statement 53. The statement addresses recognition, measurement and disclosure related to derivative instruments and requires derivatives be reported on the balance sheet at fair value and change in fair value be deferred and reported on the balance sheet or recognized on the statement of revenues, expenses and changes in equity.

Contracts are evaluated pursuant to Statement 53 to determine whether they meet the definition of derivative instruments, and if so, whether they effectively hedge the expected change in cash flows associated with energy prices.

LCRA's Financial Oversight Group (FOG) established a target unit price range and a risk hedging strategy for the outstanding gas purchases contracts. Derivative contracts are purchased in groups known as families which are associated with individual future gas purchases. At the end of each month, LCRA tests its fuel derivative instruments for effectiveness. If the net cash flow of the future gas purchased and the associated family of derivative instruments falls within the target unit price range established by the FOG, the option contracts are considered effective and the change in fair value of the instruments is deferred on the balance sheets. If deemed to be ineffective, the change in fair value of the instruments is immediately recognized in the statement of revenues, expenses and changes in equity as an operating expense and then deferred to the balance sheet through the fuel factor (see Note 1, Fuel and Power Cost Recovery Factor (Fuel Factor)). LCRA uses the "Black" financial model to determine the fair value of its option contracts. The "Black" valuation model estimates the fair value based on parameters such as the strike price, New York Mercantile Exchange (NYMEX) closing prices, implied volatility and time-to-expiration. Prior to Statement 53, LCRA recorded or reported all changes in the fair value of derivative instrument contracts to the statement of revenues, expenses and changes in equity following guidance in FASB No. 133.

LCRA implemented Statement 53 in FY 2010. The statement requires governments to retroactively apply the provisions of the statement by restating prior periods presented in the financial statements if practical. If retroactive application is not practical, the cumulative effect of applying this statement, if any, should be reported as a restatement of beginning net equity for the earliest period restated. It was not practical for LCRA to restate FY 2009 financial statements. Statement 53 did not impact FY 2010 beginning net equity because any changes in the fair value of derivative contracts that would have been deferred under Statement 53 would have also reduced recovery of fuel expense through the fuel factor.

The following is a summary of the fair values, changes in fair value and notional amount of derivatives instruments outstanding as of June 30, 2010 (gains shown as positive amounts, losses as negative):

Type of Transaction	Duration	Classification	Volumes in MMBtu	Fair Value	Change in Fair Value
				(Dollars in Thousands)	
Long Call	July 2008 - October 2012	Hedging Derivative	5,200,000	$ 318	$ (2,548)
Short Call	July 2008 - October 2012	Hedging Derivative	5,200,000	(94)	1,336
Short Put	July 2008 - October 2012	Hedging Derivative	5,200,000	(6,923)	(1,268)
				$ (6,699)	$ (2,480)

Type of Transaction	Duration	Classfication	Volumes in MMBtu	Fair Value	Change in Fair Value
				(Dollars in Thousands)	
Long Call	July 2008 - October 2012	Investment Derivative	9,400,000	$ 537	$ (1,996)
Short Call	July 2008 - October 2012	Investment Derivative	9,400,000	(178)	1,048
Short Put	July 2008 - October 2012	Investment Derivative	9,400,000	(16,432)	(8,012)
				$ (16,073)	$ (8,960)

At June 30, 2010, the total fair value of outstanding derivative instruments was a net liability of $22.8 million, of which $5.5 million is reported as accounts payable on the balance sheets, a current liability, and $17.3 million is reported as deferred credits on the balance sheets, a long-term liability. Changes in fair value for effective derivatives (deferred outflow and inflow) are reported on the balance sheets as deferred charges, a long-term asset. Changes in fair value for ineffective derivatives (investment derivative) are recognized as fuel operating expenses in the statements of revenues, expenses and changes in equity and then deferred to the balance sheet through the fuel factor.

Credit Risk – Credit risk is the risk of loss due to a counterparty defaulting on its obligations. LCRA's fuel derivative contracts expose LCRA to custodial credit risk. In the event of default or nonperformance by brokers or NYMEX, LCRA's operations could be materially affected. However, LCRA does not expect the brokerages to fail in meeting their obligations given their high credit ratings and the strict and deep credit requirements upheld by NYMEX, of which these brokerage firms are members.

Termination Risk – Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. One aspect of termination risk is that LCRA would lose the hedging benefit of a derivative that becomes subject to a termination event. Another aspect of termination risk is that, if at the time of termination the mark to market value of the derivative was a liability to LCRA, it would be required to pay the market value of the derivative to the counterparty. LCRA has no formal policy to address exposure to termination risk. Termination risk is associated with all of LCRA's derivatives up to the fair value amounts.

Basis Risk – Basis risk is the risk that arises when a hedged item and a derivative that is attempting to hedge that item are based on different indices. LCRA is exposed to basis risk on its fuel hedges because it prices its financial derivative contracts on the NYMEX exchange while operationally, natural gas purchases are based on the Western Area Hub Association (“WAHA”) or the Houston Ship Channel (“HSC”) index. This exposes LCRA to the basis risk between NYMEX and WAHA/HSC indices. For June 2010, the NYMEX price was $4.16 per MMBtu, the WAHA Hub price was $3.95 per MMBtu, and the HSC Hub price was $4.05 per MMBtu.

Preassigned Congestion Rights – In the normal course of business, LCRA acquires Preassigned Congestions Rights (“PCRs”) and Transmission Congestion Rights (“TCRs”) as a hedge against unexpected congestion costs. The TCRs are purchased from ERCOT at auction annually and monthly at market value. LCRA is granted the right to purchases PCRs annually at 15 percent of the cost of TCRs. The low initial investment is an indication of the leverage characteristic of derivatives. Additionally, PCRs exhibit the other two characteristics of derivatives as defined by Statement 53: settlement factors and net settlement. Therefore, PCR’s are reported at fair value on the Balance Sheet in accordance with Statement 53, with fair value determined by the cost of annual TCRs purchased at the same time.

The effectiveness of these hedges is satisfied utilizing the "consistent critical terms method" prescribed under Statement 53, whereby the forward contract is for the same quantity of the hedgeable item (one megawatt per PCR) and covers the same time (15 minute intervals over the course of a month) and location (a specified directional constraint). When combined with the hedgeable item (congestion cost), the contract value is zero because the reference rate of the contract is consistent with the rate of the hedgeable item.

PCRs had a market value of $1.7 million at June 30, 2010. These hedging derivative instruments are reported as current assets on the Balance Sheets.

Preassigned Congestion Rights as of June 30, 2010
(Dollars in Thousands)

Purchase Date	Direction	MWhs	Fair Value	Cost
December 3, 2009	West to North	162,139	$ 1,257	$ 188
December 3, 2009	North to South	77,999	182	27
December 3, 2009	North to Houston	51,123	209	31
December 3, 2009	South to North	20,722	23	3
			$ 1,671	$ 249

Credit Risk – Credit risk is the risk of loss due to a counterparty defaulting on its obligations. PCRs expose LCRA to custodial credit risk in event of default or nonperformance by ERCOT. However, LCRA’s operations would not be materially affected. LCRA does not expect ERCOT to fail in meeting their obligations, as they are a regulatory entity of the State of Texas.

Termination Risk – Termination risk is the risk that ERCOT will terminate a PCR contract prior to its scheduled maturity due to a contractual event. One aspect of termination risk is that LCRA would lose the hedging benefit of the PCRs that become subject to a termination event. LCRA does not expect ECRCOT would terminate a PCR prior to its schedule maturity.

LOWER COLORADO RIVER AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION (Unaudited)
Years Ended 2010 and 2009

Schedule of Funding Progress – Retirement Plan

Actuarial Valuation Date	(1) Actuarial Value of Assets[2]	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Annual Covered Payroll[1]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
April 1, 2008	$ 317,407,521	$ 426,749,406	74.4%	$ 109,341,885	$ 153,614,048	71.2%
April 1, 2009	293,189,164	454,306,114	64.5	161,116,950	159,319,626	101.1
April 1, 2010	328,296,440	479,705,702	68.4	151,409,262	165,612,608	91.4

[1] Based on projected payroll as of valuation date.
[2] Actuarial value approximates market value.

Schedule of Contributions – Retirement Plan

Three-Year Annual Pension Cost (APC) Trend Information

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2008	$ 15,286,263	100%	-
June 30, 2009	15,780,879	100	-
June 30, 2010	16,541,229	100	-

[1] NPO is zero because employer contributions have been equivalent to actuarially determined funding requirements for all fiscal years beginning Dec. 15, 1986.

Schedule of Funding Progress – Other Postemployment Benefits

Actuarial Valuation Date[1]	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll[2]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
July 1, 2007	$ -	$170,075,954	0.00%	$170,075,954	$138,863,719	122.5%
July 1, 2009	-	181,172,802	0.00	181,172,802	139,270,831	130.1

[1] Actuarial valuations are only required on a biennial basis.
[2] Based on projected payroll as of valuation date.

Schedule of Contributions – Other Postemployment Benefits

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	$10,262,376	50%	$ 5,157,191
June 30, 2009	10,797,974	52	10,397,645
June 30, 2010	10,940,870	52	15,615,503

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