LCRA FY 2012 Annual Report

ENERGY • WATER • COMMUNITY SERVICES

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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.

General Manager
Becky Motal

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Executive Manager and Chief Financial Officer
W. Brady Edwards

Treasurer and Manager, Capital Planning
James Travis

Message from LCRA Leadership

"Try not. Do…or do not. There is no try." It may be unusual to include a quote from Star Wars in an annual report, but this quote, a favorite of our general manager, perfectly captures the Lower Colorado River Authority's resolve to do what needs to be done for the customers and stakeholders we serve throughout Central and South Texas.

Rebecca S. Motal's first year as general manager had more than its share of challenges. Our region experienced terrible drought and devastating wildfires; LCRA and our customers faced economic pressures and the need to reduce costs; LCRA recognized that we must fundamentally change how we operate to be at our most efficient.

We met these challenges head-on. We chose to "do" rather than "try." Here are highlights of what we did this year:

LCRA worked with a diverse group of stakeholders to develop an interim drought relief plan. The group included farmers, lake area residents and business owners, members of environmental groups, and representatives from LCRA's municipal customers. The Texas Commission on Environmental Quality (TCEQ) approved our plan. When the combined storage of lakes Buchanan and Travis failed to reach 850,000 acre-feet on March 1, we put the plan into action. Most downstream farmers did not receive Highland Lakes water for the first time in LCRA history. This difficult step was necessary to manage our region's water supply in a fair and responsible manner.

While developing an interim drought relief plan, we updated the longer-term Water Management Plan for lakes Buchanan and Travis. The updated plan provides LCRA more flexibility to respond to severe droughts. The new plan was the culmination of more than 18 months of work by LCRA and an advisory committee made up of volunteers from throughout the basin, many of whom also helped to create the interim drought relief plan. The LCRA Board of Directors approved the new plan on Feb. 22, after which LCRA sent the updated plan to the TCEQ for final approval.

LCRA left nothing off the table when it came to finding new water. We established a pilot project to use gravel pits to capture excess flows from the lower Colorado River. We began reporting to the TCEQ residents who pump water from the Highland Lakes without the required contracts. We sought authorization to develop and use groundwater in Bastrop County on land that LCRA owns or controls.

We deployed our operational employees across different types of facilities and locations, leveraging their skills to be used wherever and whenever needed. We began construction on a new, more efficient combined-cycle natural gas plant to replace our 38-year-old Thomas C. Ferguson Power Plant in Horseshoe Bay. We expect to bring the new plant on-line in 2014.

LCRA's Transmission Services Corporation (TSC) recovered much of what it requested in a major rate case. TSC settled the rate case by unanimous consent of the Public Utility Commissioners, allowing it to implement new rates two months earlier than expected. TSC achieved this while continuing to operate the transmission system with a high degree of reliability and building new lines to connect Competitive Renewable Energy Zones to load centers throughout the state.

We also signed purchase and operations agreements to sell most of our retail water and wastewater systems. The systems did not leverage LCRA's strengths as a supplier of raw water and their revenues did not cover expenses. Certain sales closed during fiscal year (FY) 2012. The sale of other systems to Corix Utilities (Texas), Inc. is expected to close by December 2013.

LCRA accomplished all of this during a sweeping reorganization. We dissolved five separate business units and restructured to eliminate redundant work. There are 314 fewer positions included in the FY 2013 Business Plan than in the FY 2012 Business Plan. This represents 133 positions eliminated through a voluntary severance program, about 50 layoffs and more than 100 open positions that we did not fill.

Looking ahead, the LCRA Board of Directors approved a business plan for FY 2013 that includes two strategic goals – to save money and find water. We are doing both. The Board recently authorized LCRA to pursue four historic water supply projects. These projects are possible because we manage our finances prudently, transparently and with an eye on controlling costs. We continue to do what needs to be done for the customers we serve.

We welcome your review of our FY 2012 Annual Report. Please contact us if you need additional information on any matter.

Rebecca S Motal

Timothy Timmerman, Board Chair

Rebecca S. Motal, 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 comprised 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 meet regularly and directly with the Audit Committee without management's concurrence.

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

W. Brady Edwards Executive Manager and Chief Financial Officer	Julie Rogers Controller	Rebecca S. Motal General Manager

LOWER COLORADO RIVER AUTHORITY

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

With Independent Auditors' Report

Lower Colorado River Authority
Financial Statements
As of and for the
Years Ended
June 30, 2012 and 2011

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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* (Statement 34), the Lower Colorado River Authority (LCRA) is considered a special-purpose government engaged only in business-type activities. Statement 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

These statements provide the operating results broken into the categories of operating revenues and expenses, nonoperating revenues and expenses, prior costs recovered from revenues, capital contributions and loss on early defeasance of debt.

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.

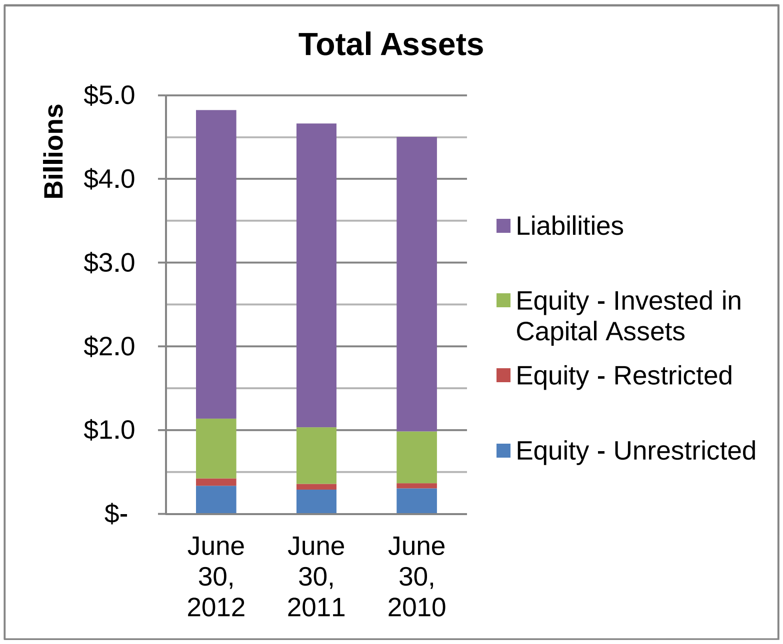
Financial Highlights

Condensed Balance Sheets

	June 30, 2012	June 30, 2011	June 30, 2010	2012 vs 2011	2011 vs 2010
	(Dollars in Millions)				
Current assets	**$ 564.9**	$ 486.6	$ 470.2	16%	3%
Capital assets, net	**3,617.0**	3,574.2	3,455.7	1%	3%
Other long-term assets	**639.9**	602.6	576.6	6%	5%
Total Assets	**$ 4,821.8**	$ 4,663.4	$ 4,502.5	3%	4%
Current liabilities	**$ 589.2**	$ 574.2	$ 529.8	3%	8%
Long-term liabilities	**3,097.1**	3,055.1	2,987.4	1%	2%
Total Liabilities	**3,686.3**	3,629.3	3,517.2	2%	3%
Equity	**1,135.5**	1,034.1	985.3	10%	5%
Total Liabilities and Equity	**$ 4,821.8**	$ 4,663.4	$ 4,502.5	3%	4%

Balance Sheet Overview

LCRA continues to be a capital asset driven business with approximately 75 percent of its assets being capital assets. The other assets primarily exist to support the capital assets and their activities. See details in the Capital Asset Activity section below. LCRA uses long-term debt to finance most of its capital activity. See details in the Debt Activity section below. The following chart shows total assets for each of the last three years. It also identifies the amount of those assets that are funded by liabilities versus equity.



2012 Compared to 2011

Total assets increased $158.4 million, or 3 percent, over the prior year. The largest impacts include:

- LCRA Transmission Services Corporation (LCRA TSC) capital assets increased by $191.8 million due primarily to **transmission line projects**.
- Work on the **Ferguson Power Plant replacement project** increased capital assets by $105.9 million.
- The **sale of multiple retail water and wastewater systems** decreased net capital assets by $171.7 million. This impact was partially offset by an increase in noncapital assets due to the note receivable for $149.3 million recorded by LCRA related to the sale of the West Travis County systems.

2011 Compared to 2010

Total assets increased $160.9 million, or 4 percent, over the prior year. The largest impact was LCRA TSC capital assets increasing by $121.1 million due primarily to **transmission line projects**.

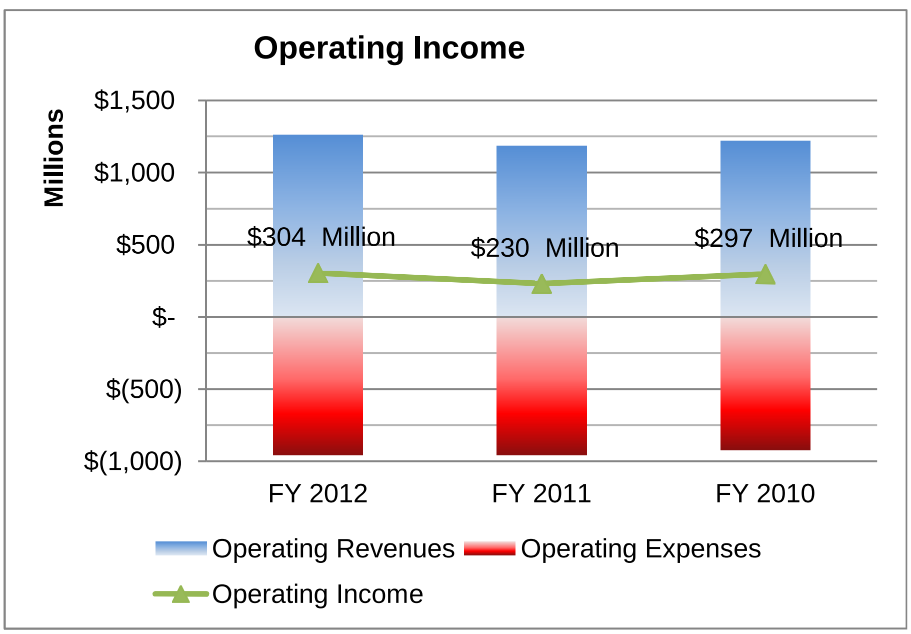
Condensed Statements of Revenues, Expenses and Changes in Equity

	Year Ended June 30, 2012	2011	2010	2012 vs 2011 Favorable/ (Unfavorable)	2011 vs 2010 Favorable/ (Unfavorable)
	(Dollars in Millions)				
Operating revenues	**$ 1,261.7**	$ 1,185.8	$ 1,217.5	6%	(3%)
Operating expenses	**(957.5)**	(955.9)	(920.8)	(0%)	(4%)
Operating income	**304.2**	229.9	296.7	32%	(23%)
Nonoperating revenues	**23.1**	17.0	27.8	36%	(39%)
Nonoperating expenses	**(254.5)**	(195.9)	(213.9)	(30%)	8%
Nonoperating loss	**(231.4)**	(178.9)	(186.1)	(29%)	4%
Special item	**28.6**	(2.2)	-	1400%	-
Change in equity	**101.4**	48.8	110.6	108%	(56%)
Equity, Beginning of Year	**1,034.1**	985.3	874.7	5%	13%
Equity, End of Year	**$ 1,135.5**	$ 1,034.1	$ 985.3	10%	5%

Operating Income

Operating income is derived primarily from wholesale energy sales, providing transmission and transformation services, raw water sales, and retail water and wastewater sales. Transmission and transformation rates are regulated by the Public Utility Commission of Texas (PUC). All other rates are set by LCRA's Board of Directors.

The chart below shows LCRA's operating revenues, expenses and income for each of the last three years.



2012 Compared to 2011

Operating income for fiscal year (FY) 2012 increased $74.3 million, or 32 percent, over the prior year. The primary reasons for the increase were:

- A $38.4 million increase in **transmission operating income** primarily resulting from multiple PUC authorized rate changes over the last two fiscal years.
- A $36.2 million decrease in the amount paid to wholesale energy customers as a **refund for above target earnings**.

2011 Compared to 2010

Operating income for FY 2011 decreased $66.8 million or 23 percent versus the prior year. The primary reason for the decrease was the FY 2010 revenue recognition of approximately $64.2 million of funds collected through the fuel and power cost recovery rate by eliminating the regulatory liability associated with the **fuel-related operating reserves collections**. This increased FY 2010 revenues by $64.2 million with no related offset to expenses. All future operating reserve requirements are collected only through the nonfuel component of the wholesale power price.

Nonoperating Loss

LCRA's nonoperating revenues and expenses are primarily comprised of the following items.

- Interest income and expense
- Gains or losses on the disposition of assets
- Cost to be recovered from future revenues or prior costs recovered from revenues
- Extraordinary items

2012 Compared to 2011

LCRA's nonoperating loss increased $52.5 million, or 29 percent, over the prior year. The most significant item contributing to nonoperating revenues and expenses in FY 2012 was:

- The nonoperating expense **prior costs recovered from revenues** increased $50.8 million over the prior year primarily due to an increase in principal payments. See details in the Debt Activity section below.

2011 Compared to 2010

LCRA's nonoperating loss decreased by $7.2 million, or 4 percent, over the prior year. The most significant items contributing to this variance were:

- **Extraordinary loss** decreased $18.3 million over the prior year. This amount represents the loss recognized in FY 2010 for the write-off of costs related to studies of the feasibility of transferring surface water from the Colorado River basin to San Antonio.
- Interest and other expenses increased $7.8 million over the prior year primarily due to **loss on disposition of property** related to the sale of railcars.

Special Item

LCRA's special item is comprised of gains and losses related to the sale of multiple water/wastewater systems.

2012 Compared to 2011

LCRA's special item increased by $30.8 million, or 1400 percent, over the prior year. This was primarily due to net gains related to the sales of the West Travis County and Leander retail water/wastewater systems.

2011 Compared to 2010

LCRA's special item for FY 2011 was $2.2 million. This was due to a net loss on the sale of the Elgin wastewater system.

Capital Asset Activity

	FY 2012	FY 2011
Expended for construction activities	$ 411.2 million	$ 307.3 million
Donated assets	$ 0.8 million	$ 0.8 million
Depreciation expense	$ 166.2 million	$ 157.0 million
Asset retirements	$ 202.2 million	$ 32.6 million
Other capital asset activity	• During FY 2012, **LCRA sold seven water/wastewater systems.** The assets taken off the books had a net book value of $168.0 million; there was an additional $3.7 million of construction work in progress also removed from the books. The net gain recorded on all sales totaled $28.6 million. • In FY 2012, LCRA signed purchase and operations **agreements to sell 20 of the 24 remaining retail water and wastewater systems to one utility operator. Operations of these systems transferred on July 1, 2012.** Once regulators approve the final sale of these systems, the assets will be transferred to the buyer. An additional three water and wastewater systems were sold in early FY 2013. LCRA expects all divestiture activity to be complete by FY 2014.	• In November 2010, the LCRA Board of Directors directed the general manager to **seek a qualified buyer(s) for all water and wastewater utility assets**. • In June 2011, **LCRA sold the Elgin Wastewater System**. The assets taken off the books had a net book value of $6.7 million; there was an additional $0.5 million of construction work in progress also removed from the books. The loss recorded on the sale totaled $2.2 million.

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

Capital Expansion and Improvement Program

LCRA's capital improvement and expansion program for FY 2013 through FY 2017 is $1.3 billion, with $0.7 billion, or 58 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 TSC continues to increase its transmission system investment due to the need for additional electric transmission capability statewide.

Debt Activity

	FY 2012	FY 2011
Tax-Exempt Commercial Paper (TECP) issued	$ 347.4 million	$ 227.3 million
Taxable Commercial Paper (TCP) issued	$ 0.1 million	$ 0.2 million
Scheduled debt payments	$ 150.4 million	$ 125.3 million
Interest payments	$ 155.5 million	$ 158.6 million
Repayments of TECP	$ 61.8 million	$ 9.9 million
Repayments of TCP	$ 0.8 million	$ 0.4 million
Repayment of TaxableTerm Bond	$ 0.3 million	$ 0
Bond issuance	• **LCRA/TSC Series 2011 A&B Refunding Revenue Bonds** ($599.2 million): Proceeds used to pay off $221.0 million in LCRA TECP and pay down a portion of TSC Series 2003B, 2003C, 2004, 2005 and 2006 bonds.	• **LCRA Series 2010 A&B Refunding Revenue Bonds** ($373.8 million): Proceeds used to pay off $215.0 million in LCRA TECP and pay down a portion of LCRA Series 2001, 2001A, 2004, 2006 and 2008A bonds.
Other debt activity	• In FY 2012, LCRA used proceeds from the **sale of seven water/waste water systems** to pay down $39.4 million of debt related to the purchase and improvement of the facility. LCRA also used **various reserve funds** to pay down $15.3 million debt related to the Fayette Power Project.	• In June 2011, LCRA used the proceeds from the **sale of the Elgin Wastewater System** to pay down $4.1 million of debt related to the purchase and improvement of the facility.

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

Subsequent Event

On July 18, 2012, LCRA filed litigation against seven of its wholesale electric customers to obtain a declaration of rights under the customer wholesale power contracts. The suit was in response to the customers alleging that LCRA had breached its contract with them, and the customers subsequently notified LCRA that they were terminating their contracts. None of the seven are seeking damages against LCRA. On Sept. 26, 2012, an additional customer alleged that LCRA was in breach of contract and has requested that LCRA cure the alleged breaches. These eight customers represented $267.7 million of electric generation revenues in FY 2012. One additional customer, in a separate lawsuit, is alleging a breach of contract by LCRA and is asking for damages of $5.0 million, but has not given notice of a termination of its contract. LCRA believes the chance of a negative impact from these contract disagreements is remote.

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 Gail Oliver, manager, External Relations, Lower Colorado River Authority, P.O. Box 220, Austin, Texas 78767.

BAKER TILLY

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
www.bakertilly.com

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, 2012 and 2011, 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. The June 30, 2012 audit was also conducted in accordance with 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCRA as of June 30, 2012 and 2011, 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.

As discussed in Note 1, LCRA had a change in accounting principle for the valuation of coal inventory from the Last-In, First-Out (LIFO) method to the average cost method effective July 1, 2011.

In accordance with *Government Auditing Standards*, we will also issue 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 read in conjunction with this report in considering the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 28, 2012

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LOWER COLORADO RIVER AUTHORITY
BALANCE SHEETS
(Dollars in Millions)

	June 30, 2012	June 30, 2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 163.0	$ 113.2
Investments	60.6	51.9
Receivables, net	190.3	179.8
Current portion of notes receivable	23.3	-
Accrued interest receivable	0.3	0.4
Inventories, net	102.2	105.3
Other	25.2	36.0
Total current assets	564.9	486.6
Long-term Assets:		
Restricted cash and cash equivalents	24.6	16.3
Restricted investments	194.3	182.6
Unrestricted investments	51.1	94.4
Capital assets:		
Depreciable:		
Utility plant in service	4,366.0	4,477.2
Oil and gas property	28.2	28.2
Other physical property	45.2	43.2
Less accumulated depreciation	(1,705.1)	(1,613.5)
Depreciable capital assets, net	2,734.3	2,935.1
Nondepreciable:		
Utility plant in service	195.5	193.7
Water rights	94.8	94.8
Other physical property	20.9	19.9
Construction work in progress	571.5	330.7
Nondepreciable capital assets	882.7	639.1
Notes receivable	130.2	4.2
Deferred charges:		
Costs to be recovered from future revenues	188.8	234.7
Unamortized debt expense	35.4	40.7
Contract extension settlement with major customers	3.5	4.3
Other	6.4	9.6
Deferred charges	234.1	289.3
Other	5.6	15.8
Total long-term assets	4,256.9	4,176.8
Total Assets	$ 4,821.8	$ 4,663.4

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

LOWER COLORADO RIVER AUTHORITY
BALANCE SHEETS

(Dollars in Millions)

	June 30, 2012	June 30, 2011
Liabilities		
Current Liabilities:		
Accounts payable	$ 78.5	$ 74.4
Interest payable	21.4	22.3
Other current liabilities	72.0	78.9
Regulatory credits for future recovery	9.1	37.3
Compensated absences	11.1	13.3
Bonds, notes, and loans payable	397.1	348.0
Total current liabilities	589.2	574.2
Long-term Liabilities:		
Accounts payable from restricted assets	50.6	47.6
Bonds, notes, and loans payable	2,930.3	2,871.2
Deferred credits & other	116.2	136.3
Total long-term liabilities	3,097.1	3,055.1
Total liabilities	3,686.3	3,629.3
Equity		
Invested in capital assets, net of related debt	711.9	676.7
Restricted for debt service	34.0	33.6
Restricted for capital projects	7.2	8.5
Restricted other	46.2	26.7
Unrestricted	336.2	288.6
Total equity	1,135.5	1,034.1
Total Liabilities and Equity	$ 4,821.8	$ 4,663.4

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 Millions)

	Year Ended June 30, 2012	2011
Operating Revenues		
Electric	$ 1,182.1	$ 1,092.4
Water, wastewater and irrigation	54.8	63.6
Other	24.8	29.8
Total operating revenues	1,261.7	1,185.8
Operating Expenses		
Fuel	319.1	340.8
Purchased power	131.8	162.7
Operations	295.4	249.3
Maintenance	43.0	44.1
Depreciation, depletion and amortization	168.2	159.0
Total operating expenses	957.5	955.9
Operating income	304.2	229.9
Nonoperating Revenues (Expenses)		
Gain on disposition of property	8.2	6.1
Other income	7.8	0.9
Interest income	1.5	2.3
Amortization of losses on refundings	(16.2)	(16.3)
Loss on disposition of property	(26.1)	(21.0)
Interest on debt	(145.4)	(144.8)
Total nonoperating revenues (expenses)	(170.2)	(172.8)
Income before prior costs recovered from revenues, capital contributions, and loss on early defeasance of debt and special items	134.0	57.1
Prior Costs Recovered from Revenues	(63.8)	(13.0)
Capital Contributions	5.6	7.7
Special Item - Sale of Water/Wastewater Systems (See Note 7)	28.6	(2.2)
Loss on Early Defeasance of Debt	(3.0)	(0.8)
Change in Equity	101.4	48.8
Total Equity, Beginning of Year	1,034.1	985.3
Total Equity, End of Year	$ 1,135.5	$ 1,034.1

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

LOWER COLORADO RIVER AUTHORITY
STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	Year Ended June 30, 2012	Year Ended June 30, 2011
Cash Flows From Operating Activities		
Received from customers	$ 1,234.4	$ 1,128.7
Payments for goods and services	(617.5)	(619.7)
Payments to employees	(181.7)	(181.4)
Other revenues	3.8	-
Net cash provided by operating activities	439.0	327.6
Cash Flows From Noncapital Financing Activities		
Grant proceeds received	0.6	1.1
SAWS lawsuit settlement, (See Note 6, Water Project Study)	(18.8)	-
Other revenues	7.1	0.1
Net cash provided by (used in) noncapital financing activities	(11.1)	1.2
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(387.3)	(316.0)
Proceeds from sale of capital assets	42.3	15.3
Debt issue costs	(3.0)	(2.7)
Contributed capital received for capital costs	6.2	8.5
Proceeds from bond issues and commercial paper	1,019.9	637.6
Debt principal payments	(160.3)	(125.3)
Interest paid	(155.5)	(158.6)
Payments to refund and defease debt	(756.3)	(414.5)
Net cash used in capital and related financing activities	(394.0)	(355.7)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	397.0	396.5
Purchase of investment securities	(376.5)	(393.7)
Interest received	3.7	8.8
Infrastructure financial assistance activity	-	0.1
Net cash provided by investing activities	24.2	11.7
Net Increase (Decrease) in Cash and Cash Equivalents	58.1	(15.2)
Cash and Cash Equivalents, Beginning of Year	129.5	144.7
Cash and Cash Equivalents, End of Year	$ 187.6	$ 129.5

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

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

	Year Ended June 30, 2012	2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 304.2	$ 229.9
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	168.2	159.0
Changes in assets and liabilities:		
Accounts receivable	(1.4)	(21.4)
Inventories	0.3	(18.0)
Other current assets	17.0	(31.0)
Current liabilities	(25.6)	21.7
Other deferred charges and long-term assets	4.6	(2.0)
Deferred credits and other long-term liabilities	(28.3)	(10.6)
Net cash provided by operating activities	$ 439.0	$ 327.6
Noncash Investing Activities		
Investment market adjustments	$ (2.6)	$ (5.6)
Noncash Financing for Property, Plant and Equipment		
Purchase of equipment through short-term trade payables	$ 22.8	$ 1.1
Capital assets sold through long-term note receivables	$ 153.9	$ -

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

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.

Although it is a separate legal entity, GenTex is reported as part of LCRA because its sole purpose is to provide energy to LCRA.

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: Three 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 City of 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).

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 nonoperating.

Issued but not yet Effective Pronouncements: GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (Statement 65). Statement 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, Statement 65 recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources**.** Statement 65 is effective for FY 2013. The implementation of Statement 65 will change how certain asset and liability balances will be reported on the Balance Sheets, but will not have a material effect on LCRA's financial position, results of operations, or cash flows.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will change the accounting and reporting requirements for pensions and replace GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (Statement 27). The new standard is intended to provide more comparable and visible information within the annual financial statements of governments that provided defined benefit pensions. The new standard will require employers to report the difference between the actuarial total pension liability and the fair value of the legally restricted plan assets as the net pension liability on the statement of net position. Currently, a liability is only recorded if the actual contributions made to the plan were less than the actuarial calculated contributions for the year. In addition, there are new requirements as to how the actuary study is completed and revised disclosures. LCRA is in the process of analyzing the impact of this statement on LCRA's financial position, results of operations, or cash flows.

Newly Adopted Standards for FY 2011: In FY 2011, LCRA early implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Statement 62). Statement 62 incorporates into the GASB's authoritative literature guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. By incorporating and maintaining this guidance in a single source, Statement 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local governmental financial reports. It eliminates the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of relevant guidance in the financial statements of state and local governments. The early implementation of Statement 62 did not have a material effect on LCRA's financial position, results of operations or cash flows.

Major Customers and Electric Revenues: Sales of electricity to LCRA's two major customers represented approximately 22 percent and 10 percent of total electric revenue for FY 2012, and 20 percent and 10 percent for FY 2011. No other customer represented more than 10 percent of LCRA's total electric revenues in FY 2012 or FY 2011.

Electric revenues represented approximately 95 and 94 percent of LCRA's operating revenues for FY 2012 and FY 2011, respectively.

Capital Contributions: Capital contributions consist of impact fees to fund growth in the water utility, telecommunications customer service work on LCRA-owned assets, customer service work on LCRA TSC-owned assets, donated assets, and grant-funded contributions for capital-related work.

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. In FY 2012 and FY 2011 these settlements resulted in net purchases of power to LCRA. These amounts are classified as power production expense, and the revenue included in this amount is $136.3 million for FY 2012 and $57.6 million for FY 2011.

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.

Notes Receivable: Note receivable balances were $153.5 million and $4.2 million at June 30, 2012 and 2011, respectively. The balance at June 30, 2012, was primarily related to a $149.3 million (net of discount of $4.9 million) outstanding balance related to the sale of the West Travis County water/wastewater facility sold in FY 2012. Of the $153.5 million, $23.3 million is classified as current and presented as current portion of notes receivable on the Balance Sheets. The remaining portion of the outstanding balances are for two financial assistance notes related to two municipal infrastructure projects and two notes related to tract land sales. Management believes that all of the above balances will be collected. As a result, there is no allowance for doubtful accounts related to the balances as of June 30, 2012 and 2011.

Other Long-Term Assets: Other long-term assets are comprised primarily of long-term deferred losses on effective derivatives, pursuant to GASB Statement No. 53*, Accounting and Financial Reporting for Derivative Instruments* (Statement 53), (see Note 9, *Derivative Instruments)*, and prepaid rent on LCRA general office complex land.

Allowance for Doubtful Accounts: LCRA accounts receivable balances are subject to risk of nonpayment. 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 2012 were $0.6 million and in FY 2011 were $0.2 million. These write-off amounts represent an immaterial percentage of total sales in FY 2012 and FY 2011. The allowance for doubtful accounts balances were $(0.5) million and $(0.4) million at June 30, 2012 and 2011, respectively. Management believes that the allowance for doubtful accounts balance is sufficient as of June 30, 2012 and 2011, to cover risk of nonpayment.

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 net book value of depreciable plant retired, along with removal expense less salvage value, is charged to nonoperating expense on the Statement of Revenues, Expenses and Changes in Equity. Gains and losses upon disposition are recorded as nonoperating revenue or expenses 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 GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Internally generated software is amortized over approximately five years. Easements and software are included in the utility plant in service line item of the Balance Sheets.

Inventories

Fuel: In FY 2012, LCRA changed its method of accounting for coal inventory from the Last-In, First-Out (LIFO) method to the average cost method (see Note 1, *Change in Accounting Principle*). Stored natural gas, fuel oil, and materials and supplies are stated at average cost in both FY 2012 and FY 2011.

Nonfuel: Nonfuel inventories are stated at the lower of cost or market using the average cost method and are subject to write-off when deemed to be obsolete. LCRA has established a reserve for excess and obsolete inventory which is based primarily on inventory aging and historical analysis. The reserve is intended to adjust the net realizable value of inventory that LCRA may not be able to use due to obsolescence. The balance in the reserve was $0.8 million at both June 30, 2012 and June 30, 2011. This reserve was established in FY 2011.

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, 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 2012 transmission revenues of $280.2 million were the result of rate changes authorized during the prior fiscal year. The predominant rate of $4.32 per kilowatt (kW) was in place from May 12, 2011, through March 7, 2012. LCRA TSC filed an update of wholesale transmission rates with the PUC on Nov.4, 2011, and the PUC commissioners approved the new rate of $4.67 per kW on March 8, 2012.

FY 2011 transmission revenues of $241.8 million were the result of rate changes authorized during the prior fiscal year. The predominant rate of $3.94 per kW was in place from Sept. 29, 2010, through May 11, 2011. LCRA TSC filed an interim update of wholesale transmission rates with the PUC on March 29, 2011, and the PUC commissioners approved the new rate of $4.32 per kW on May 12, 2011.

Regulatory Assets and Liabilities: LCRA applies the accounting requirements of Statement 62. 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. A 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 $202.2 million and $264.6 million at June 30, 2012 and 2011, 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. The balances of regulatory assets also include an under recovery of fuel costs of $7.7 million and $23.0 million at June 30, 2012 and 2011, respectively.

Regulatory liabilities amounted to $9.1 million and $37.3 million at June 30, 2012 and 2011, respectively. Both balances include a deferral of $6.5 million in revenues to be used for the decommissioning of the Thomas C. Ferguson Power Plant.

LCRA has concluded negotiations with its electric wholesale customers for the extension of their long-term power supply contracts. Thirty-three of LCRA's existing customers, representing approximately 63 percent of its load, have entered into amended and restated contracts that extend to 2041. The contracts with the other 10 customers will expire in 2016.

Other Current Liabilities: Other current liabilities are comprised primarily of unbilled electric revenue, TCOS liabilities, and market-to-market changes on energy price risk management (EPRM) derivatives, pursuant to Statement 53 (see Note 9, *Derivative Instruments*).

Deferred Credits: Deferred credits and other long-term liabilities are $116.2 million and $136.3 million at June 30, 2012 and 2011, respectively. Deferred credits and other long-term liabilities consist of environmental liabilities, supplemental executive retirement program liabilities, the accrual for Other Post Employment Benefits, 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 2012 and FY 2011, LCRA capitalized $3.4 million and $6.4 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 $1.75 to more than $4.50 per million British thermal units (MMBtu) in FY 2012. 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. Gains and losses related to the investment derivative contracts that are deemed to be ineffective hedges are recognized in current earnings. Gains and losses on financial contracts that 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 $3.8 billion and $3.5 billion at June 30, 2012 and 2011, 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. Depletion expense totaled approximately $0.1 million for both FY 2012 and FY 2011.

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 2012 and FY 2011.

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 material impairments noted as of June 30, 2012 and no impairment as of June 30, 2011.

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 4 percent for both FY 2012 and FY 2011. Depreciation, depletion and amortization expense for FY 2012 and FY 2011 was $168.2 million and $159.0 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	5 years – 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 fewer are considered cash equivalents.

Change in Accounting Principle: In FY 2012, LCRA changed its method of accounting for coal inventory from the LIFO method to the average cost method. LCRA believes the average cost method is more appropriate because the average cost method is predominately used in the industry in which it operates, and therefore the change makes the comparison of results among companies in the industry more meaningful. LCRA also believes that the average cost method provides a more appropriate method for accounting for coal inventory because it provides a better reflection of current market value to more accurately reflect value on the Balance Sheet and expenses on the Statements of Revenues, Expenses and Changes in Equity. This change affects coal expense, coal inventory, fuel revenues, and the over/under recovery of fuel liability (see Note 1, *Fuel and Power Cost Recovery Factor*). The change in the method of inventory valuation from the LIFO method to the average cost method has been accounted for using the Change in Accounting Principle under Statement 62.

In accordance with Statement 62, FY 2011 financial statements are presented as previously reported and the effect of adopting the new accounting principle is reflected in the current fiscal year financial statements as a change to beginning equity. However, the change in accounting does not impact LCRA equity because coal expense is recovered from customers through fuel revenues. The cumulative impact of the change in principle increased inventory by $3.7 million and reduced the over/under recovery of fuel costs liability by a corresponding $3.7 million. This applies to both FY 2012 beginning equity and ending equity.

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

2. Financial Instruments

As of June 30, 2012 and 2011, LCRA had the following investments and maturities:

	June 30, 2012			June 30, 2011		
	(Dollars in Millions)					
Type of Investment		**Market Value**	**WAM (Years)***		**Market Value**	**WAM (Years)***
Investments						
U.S. Government Securities	$	289.5	1.11	$	328.9	1.32
U.S. Agency Discount Notes		16.5	0.91		-	-
Cash Equivalents						
Commercial Paper		-	-		6.0	0.14
Investment Pools		161.0	0.20		101.9	0.23
Total	$	467.0	0.79	$	436.8	1.02

Cash and Investments as of June 30, 2012 and 2011 consisted of the following:

		2012		2011
Cash	$	26.6	$	21.6
Investments and Cash equivalents		467.0		436.8
Total Cash and Investments	$	493.6	$	458.4

*Weighted Average Maturity

External Investment Pool: LCRA investments included an investment pool with TexPool, at June 30, 2012 and 2011. 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.

LCRA investments also included an investment pool with Local Government Investment Cooperative (LOGIC), at June 30, 2012. First Southwest Asset Management, Inc. and J.P. Morgan Investment Management, Inc. oversee LOGIC and the pool seeks to maintain a $1 value per share as required by Texas Public Funds Investment Act.

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 used except in the case of insufficient funds. As of June 30, 2012 and 2011, LCRA had investments in separate accounts holding U.S. Treasuries, held for the use of debt service reserves, totaling $165.7 million and $140.8 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's 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 activities.

	June 30, 2012		
Credit Risk	**Standard & Poor's**	**Moody's Ratings**	**Fitch Ratings**
Texpool investment pool	AAAm		
LOGIC investment pool	AAAm		
Federated Securities Corporation money market mutal fund	AAAm	Aaa-mf	AAAmmf
U.S. Treasuries	AA+u	Aaa	
U.S. Agency Discount Notes	AA+	Aaa	

	June 30, 2011		
Credit Risk	**Standard & Poor's**	**Moody's Ratings**	**Fitch Ratings**
Texpool investment pool	AAAm		
Federated Securities Corporation money market mutal fund	AAAm	Aaa	AAA
Commercial Paper	A-1+		F1
U.S. Treasuries	AAAu	Aaa	

3. Long-Term Debt and Commercial Paper

Changes in the current and long–term portions of outstanding debt during FY 2012 and FY 2011 are as follows (dollars in millions):

Series	Balance June 30, 2010	Increase	(Decrease)	Balance June 30, 2011	Increase	(Decrease)	Balance June 30, 2012	Amount Due in FY 2013
LCRA TSC 2003B	$ 214.2	$	$ (7.7)	$ 206.5	$	$ (158.2)	$ 48.3	$
LCRA TSC 2003C	110.5		(4.5)	106.0		(45.2)	60.8	4.5
LCRA TSC 2004	108.9		(4.2)	104.7		(58.6)	46.1	
LCRA TSC 2005	113.5		(4.2)	109.3		(58.8)	50.5	
LCRA TSC 2006	122.6		(4.5)	118.1		(77.1)	41.0	
LCRA TSC 2006A	124.6		(4.5)	120.1		(4.5)	115.6	4.5
LCRA TSC 2008	165.2		(2.0)	163.2		(2.5)	160.7	4.2
LCRA TSC 2009	118.6			118.6			118.6	
LCRA TSC 2010	200.0			200.0		(4.1)	195.9	4.3
LCRA TSC 2011A	-			-	409.2	(20.3)	388.9	15.8
LCRA TSC 2011B	-			-	190.0	(4.4)	185.6	9.1
LCRA 1999A	117.1		-	117.1			117.1	
LCRA 1999B	32.4		(7.6)	24.8		(2.4)	22.4	15.9
LCRA 1999E	3.6		(3.6)	-			-	
LCRA 1999F	15.7		(3.1)	12.6		(12.6)	-	
LCRA 1999I	2.8		(2.8)	-			-	
LCRA 2001	76.8		(47.9)	28.9		(0.9)	28.0	0.9
LCRA 2001A	125.1		(30.3)	94.8		(17.9)	76.9	2.9
LCRA 2002	107.1		(2.2)	104.9		(12.1)	92.8	2.4
LCRA 2003	71.2		(2.5)	68.7		(4.0)	64.7	2.7
LCRA 2004	88.2		(57.2)	31.0			31.0	
LCRA 2004D	33.8		(1.7)	32.1		(1.9)	30.2	0.7
LCRA 2006	73.4		(22.5)	50.9		(6.9)	44.0	1.0
LCRA 2008	189.4		(3.1)	186.3		(3.3)	183.0	3.4
LCRA 2008A	202.9		(30.0)	172.9		(2.6)	170.3	0.3
LCRA 2009	169.1		(3.3)	165.8		(9.9)	155.9	2.9
LCRA 2010	417.8		(54.0)	363.8		(57.5)	306.3	59.1
LCRA 2010A	-	244.3	-	244.3		(5.3)	239.0	5.4
LCRA 2010B	-	129.5	(0.6)	128.9		(5.9)	123.0	6.2
LCRA 2011 Taxable	-			-	22.0	(0.3)	21.7	
Camp Swift Note Payable	-			-	0.3		0.3	
LCRA TWDB Note Payable	10.5			10.5		(10.5)	-	
Add: Unamortized Net Premium/(Discount)	70.1	36.4	(19.8)	86.7	51.3	(29.2)	108.8	6.6
Subtotal	$ 3,085.1	$ 410.2	$ (323.8)	$ 3,171.5	$ 672.8	$ (616.9)	$ 3,227.4	$ 152.8
Unamortized Net Losses [4]	(179.6)	(9.5)	16.8	(172.3) [2]	(32.9)	42.9	(162.3) [3]	(18.0)
Taxable Commercial Paper	22.7	0.2	(0.6)	22.3	0.1	(22.4)	-	-
Tax-Exempt Commercial Paper	195.3	227.3	(224.9)	197.7	347.4	(282.8)	262.3	262.3
Total	$ 3,123.5	$ 628.2	$ (532.5)	$ 3,219.2	$ 987.4	$ (879.2)	$ 3,327.4	$ 397.1 [1]

[1] Total amount due in FY 2012 was $348.0 million.

[2] $67.8 is associated with LCRA 1999 A, B, and F refunding bonds, $37.2 is associated with LCRA TSC 2003B refunding bonds, $58.1 is associated with LCRA 2010 refunding bonds, and $9.2 is associated with LCRA 2010AB refunding bonds.

[3] $60.2 is associated with LCRA 1999 A and B refunding bonds, $9.8 is assoicated with LCRA TSC 2003B refunding bonds, $51.3 is associated with LCRA 2010 refunding bonds, $8.9 is associated with LCRA 2010AB refunding bonds, and $32.1 is associated with TSC 2011AB refunding bonds.

[4] Represents unamortized net losses on refunded debt.

Interest rates and maturity dates for bonds, notes and commercial paper were as follows as of June 30, 2012:

Series	May 15, From	May 15, To
LCRA TSC 2003B (5.00%)	2027	2031
LCRA TSC 2003C (5.00%-5.25%)	2013	2033
LCRA TSC 2004 (4.75%-5.00%)	2026	2034
LCRA TSC 2005 (4.50%)	2026	2035
LCRA TSC 2006 (4.75%-5.00%)	2026	2036
LCRA TSC 2006A (4.20%-5.00%)	2013	2036
LCRA TSC 2008 (5.00%-5.25%)	2013	2035
LCRA TSC 2009 (3.75%-5.50%)	2016	2036
LCRA TSC 2010 (3.20%-5.00%)	2013	2040
LCRA TSC 2011A (4.50%-5.00%)	2013	2041
LCRA TSC 2011B (2.00%-5.00%)	2013	2026
LCRA 1999A (5.50%-5.875%)	2014	2020
LCRA 1999B (5.875%-6.00%)	2013	2014
LCRA 2001 (5.00%)	2013	2031
LCRA 2001A (5.00%-5.375%)	2013	2032
LCRA 2002 (4.75%-5.00%)	2013	2031
LCRA 2003 (5.00%-5.25%)	2013	2033
LCRA 2004 (4.50%)	2024	2029
LCRA 2004D (4.75%-5.00%)	2013	2034
LCRA 2006 (4.00%-5.00%)	2013	2036
LCRA 2008 (5.00%-5.75%)	2013	2037
LCRA 2008A (5.00%-7.25%)	2013	2037
LCRA 2009 (3.25%-5.625%)	2013	2039
LCRA 2010 (3.00%-5.00%)	2013	2020
LCRA 2010A (4.00%-5.00%)	2013	2040
LCRA 2010B (3.00%-5.00%)	2013	2024
LCRA 2011 Taxable (Variable) (2)		2014
Taxable Commercial Paper (1)		
Tax-Exempt Commercial Paper (1)		

(1) Commercial paper rates are variable as of June 30, 2012. Rates ranged from 0.16% - 0.26%. Outstanding notes are issued with maturities of 270 days or less from their respective issue dates.

(2) Matures November 1.

LCRA's debt as of June 30, 2012, 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-2, A-1

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

Ending June 30	Principal	Interest	Total
2013	$ 146.2	$ 157.7	$ 303.9
2014	157.7	150.6	308.3
2015	188.1	142.6	330.7
2016	173.6	134.1	307.7
2017	118.7	125.5	244.2
2018-2022	630.4	533.2	1,163.6
2023-2027	566.3	380.9	947.2
2028-2032	583.2	233.9	817.1
2033-2037	461.3	89.2	550.5
2038-2041	93.1	10.4	103.5
	$3,118.6	$1,958.1	$5,076.7
Unamortized Net Premium/(Discount)	108.8		108.8
Total	$3,227.4	$1,958.1	$5,185.5

New and Refunding Bonds: During FY 2012, LCRA issued $0.1 million of taxable commercial paper and $119.4 million of tax-exempt commercial paper. In addition, LCRA on behalf of LCRA TSC issued $228.0 million of tax-exempt commercial paper. The commercial paper was used to fund capital projects. Currently, the LCRA taxable commercial paper program is inactive with no outstanding balance. A $22.0 million taxable bond was issued in place of the taxable commercial paper facility.

On Oct. 20, 2011, LCRA on behalf of LCRA TSC issued $409.2 million of Transmission Contract Refunding Revenue Bonds, Series 2011A, and $190.0 million of Transmission Contract Refunding Revenue Bonds, Series 2011B, for a total of $599.2 million. Series 2011A was a current refunding of commercial paper and bonds. A portion of the proceeds from Series 2011A were used to refund $221.0 million of tax-exempt commercial paper. In addition, government agency securities totaling $199.6 million were placed in an irrevocable escrow account to defease $194.5 million of currently callable LCRA TSC Series 2004, 2005 and 2006 bonds. Series 2011B was an advance refunding of bonds only. Government agency securities totaling $201.9 million were placed in an irrevocable escrow account to defease $190.0 million of LCRA TSC Series 2003B and 2003C bonds. The refunding resulted in an accounting loss of $32.9 million.

Due to the refunding of the bonds, LCRA TSC reduced its aggregate debt service payments by $36.3 million, resulting in an economic gain (the difference between the present value of the old and new bond debt service payments) of $32.5 million.

During FY 2011, LCRA issued $0.2 million of taxable commercial paper and $61.6 million of tax-exempt commercial paper. In addition, LCRA on behalf of LCRA TSC issued $165.7 million of tax-exempt commercial paper. The commercial paper was used to fund capital projects.

On Nov. 22, 2010, LCRA issued $244.3 million of LCRA Refunding Bonds, Series 2010A, and $129.5 million of LCRA Refunding Bonds, Series 2010B, for a total of $373.8 million. Series 2010A was a current refunding of $215.0 million of tax-exempt commercial paper and $47.1 million of LCRA Series 2001. Cash totaling $47.6 million was placed in an irrevocable escrow account to defease these currently callable bonds. Series 2010B was an advance refunding of bonds only. Government agency securities totaling $137.0 million were placed in an irrevocable escrow account to defease $134.6 million of LCRA Series 2001A, 2004, 2006 and 2008A. The refunding resulted in an accounting loss of $9.4 million.

Due to the refunding of the bonds, LCRA reduced its aggregate debt service payments by $30 million, resulting in an economic gain of $19.8 million.

The principal associated with the bonds that have been previously refunded by LCRA but remain outstanding at June 30, 2012 and 2011, totals $438.4 million and $296.6 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, 2012 and 2011.

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	Currently Callable	$ 5,000	100 + accrued interest	
LCRA TSC 2003C	May 15, 2013	5,000	100 + accrued interest	May 15, 2014
LCRA TSC 2004	Currently Callable	5,000	100 + accrued interest	
LCRA TSC 2005	Currently Callable	5,000	100 + accrued interest	
LCRA TSC 2006	Currently Callable	5,000	100 + accrued interest	
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 TSC 2011A	May 15, 2021	5,000	100 + accrued interest	May 15, 2022
LCRA TSC 2011B	May 15, 2021	5,000	100 + accrued interest	May 15, 2022
LCRA 1999A	Currently Callable	5,000	100 + accrued interest	
LCRA 1999B	Currently Callable	5,000	100 + accrued interest	
LCRA 2001	Currently Callable	5,000	100 + accrued interest	
LCRA 2001A	Currently Callable	5,000	100 + accrued interest	
LCRA 2002	May 15, 2013	5,000	100 + accrued interest	May 15, 2014
LCRA 2003	May 15, 2013	5,000	100 + accrued interest	May 15, 2014
LCRA 2004	Currently Callable	5,000	100 + accrued interest	
LCRA 2004D	Currently Callable	5,000	100 + accrued interest	
LCRA 2006	Currently Callable	5,000	100 + accrued interest	
LCRA 2008	May 15, 2015	5,000	100 + accrued interest	May 15, 2016
LCRA 2008A	May 15, 2018	5,000	100 + accrued interest	May 15, 2019
LCRA 2008A	May 15, 2015	5,000	100 + accrued interest	May 15, 2037
LCRA 2009	May 15, 2019	5,000	100 + accrued interest	May 15, 2020
LCRA 2010A	May 15, 2020	5,000	100 + accrued interest	May 15, 2021
LCRA 2010B	May 15, 2020	5,000	100 + accrued interest	May 15, 2021
LCRA 2011 Taxable	Quarterly	100,000	100 + accrued interest	

The LCRA bonds outstanding as of June 30, 2012 and 2011, 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, 2010, 2011A and 2011B 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 $350.0 million in short-term tax-exempt obligations and $350.0 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 $0.1 million or more with maturities of 270 days or fewer 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 $250.0 million for the tax-exempt series. This agreement expires on May 19, 2014. LCRA had an additional revolving credit agreement with banks that were obligated to lend LCRA aggregate amounts of up to $25.0 million for the taxable series, which was allowed to expire 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, 2012.

LCRA issued a $22.0 million taxable bond in place of the taxable commercial paper facility. This bond expires on Nov. 1, 2014.

LCRA TSC is authorized to issue tax-exempt commercial paper notes in an aggregate amount of principal and interest not to exceed $350.0 million under its commercial paper programs. The commercial paper programs expire 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 two credit facilities with banks that provide available borrowing sufficient to pay the principal and interest on the notes. LCRA TSC Tax-Exempt Series is a $150.0 million credit facility, which is available for the payment of $137.7 million of principal and $12.3 million of interest. This agreement expires on April 25, 2015. Additionally, LCRA TSC Series B is a $150.0 million facility, which is available for the payment of $137.7 million of principal and $12.3 million of interest. This agreement expires on June 18, 2014. 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, 2012.

Letter of Credit: LCRA maintains a facility with a bank for the issuing of letters of credit. At June 30, 2012, a $50.0 million letter of credit was outstanding under this facility. This facility expires on Jan. 4, 2013.

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, 2041.

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 $72.3 million and $75.1 million at June 30, 2012 and 2011, respectively.

Changes during FY 2012 and FY 2011 of other long-term liabilities were as follows (dollars in millions). Balances exclude Other Postemployment Benefits (OPEB) payable in the amount of $29.4 million and $21.4 million in FY 2012 and FY 2011, respectively:

Description	Balance 30-Jun-10	Increase	(Decrease)	Balance 30-Jun-11	Increase	(Decrease)	Balance 30-Jun-12
Deferred Revenues - City of Austin [1]	$ 77.9	$	$ (2.8)	$ 75.1	$	$ (2.8)	$ 72.3
Payables Related to Debt Funded Capital [2]	32.3	49.7	(59.9)	22.1	147.0	(127.3)	41.8
SAWS Project Advances / GASB 62 Liability [3]	18.8			18.8	11.2	(21.3)	8.7
Derivative Market Adjustments	17.3		(9.7)	7.6		(6.8)	0.8
Water / Wastewater Acquisition Payments [4]	8.6			8.6		(8.6)	-
Accrued Interest Payable on TWDB Note [4]	2.9			2.9		(2.9)	-
Environmental Liabilities	1.2	9.3	(5.8)	4.7	0.4	(4.9)	0.2
Other Long Term Liabilities	20.9	109.0	(107.2)	22.7	12.2	(21.3)	13.6
Total	$ 179.9	$ 168.0	$ (185.4)	$ 162.5	$ 170.8	$ (195.9)	$ 137.4

[1] City of Austin water agreement liability (see above paragraph.)

[2] Vendor, sales tax and salary payables related to debt funded capital spending.

[3] Feasibility study with San Antonio Water System (SAWS) to address the long-term water needs in region. Balance at June 30, 2012, represents the long-term portion of remaining payments owed to SAWS as the result of the termination of the project and related settlement. See Note 6, Commitments and Contingencies.

[4] These payables do not exist at June 30, 2012, due to the sale of water/wastewater facilities.

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 and before May 1, 2012, 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. On March 21, 2012, the LCRA Board of Directors amended the plan, effective May 1, 2012, to close the plan to new participants. Employees hired on or after May 1, 2012 are eligible to participate in Retirement Program C, a defined contribution plan that includes a 401(k) but no retirement plan.

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. 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: Beginning in FY 2008 LCRA implemented a funding policy with predetermined contribution rates whereby LCRA would contribute 9.7 percent of biweekly aggregate employee payroll for ten years ending with its FY 2017 fiscal year and then subsequently contribute a lower rate each year thereafter. In the April 1, 2011 actuarial valuation, the plan's actuaries recommended the continued use of the 9.7 percent of payroll initial contribution rate with a subsequent contribution rate of 8.6 percent of payroll. The fixed contribution rates were designed to fund the plan's normal cost and to amortize the plan's unfunded actuarial accrued liability (UAAL) over a reasonable period of time. The UAAL amortization period was 21.5 years as of April 1, 2011.

At their March 21, 2012 meeting, the LCRA Board of Directors amended the plan to close it to new entrants effective May 1, 2012. A key aspect of the fixed rate funding policy is that any existing UAAL would be funded (amortized) by future contributions expressed as a level percent of active participant payroll, assuming that aggregate participant payroll would increase over time due both to future pay increases and due to new employees replacing participants that terminate or retire. Given the closing of the plan to new entrants, the plan's actuaries recommended a new funding policy beginning with the plan year ending March 31, 2013.

In order for a public employee retirement plan to have an adequate contribution arrangement, contributions must be made that are sufficient to pay the plan's normal cost and to amortize the plan's total UAAL over a reasonable period of time. Based on the professional judgment of the plan's actuaries and the actuarial assumptions and methods used in the April 1, 2012 valuation, the plan's actuaries considered the maximum acceptable amortization period for the plan to be 25 years. Furthermore, given the closed group of employee participants, the plan's actuaries recommended that the amortization of the UAAL should switch from level percent of participant payroll contributions to level dollar contributions. This funding methodology is also consistent with the accounting requirements in Statement 27.

Therefore, the actuaries' recommended contribution for the plan year ending March 31, 2013 is $18.4 million payable as of April 1, 2012 which funds the plan's normal cost and which funds the UAAL as a level dollar amount over 25 years. Actuarially equivalent to this single annual contribution are 26 biweekly payments of $0.7 million during the plan year or an annual aggregate amount of $19.1 million.

Annual Pension Cost: For the fiscal year ending June 30, 2012, the employer's annual pension cost (APC) of $17.8 million was based on the Annual Required Contributions (ARC) for the last nine months of the plan year ending March 31, 2012 (9.7 percent of biweekly payroll, based on the April 1, 2011 actuarial valuation), plus the ARC for the first three months of the plan year ending March 31, 2013 ($0.7 million per biweekly pay period, based on the April 1, 2012 actuarial valuation). The ARCs were 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) a 7.50 percent investment rate of return, net of administrative and investment-related expenses, and (b) projected salary increases of 4.00 percent to 11.10 percent per year varying by entry age and years of service. Both (a) and (b) reflect an inflation component of 3.75 percent. The assumptions did not include any postretirement benefit increases. The UAAL was being amortized with level percentages of payroll over an open amortization period of 21.5 years as of April 1, 2011. In the April 1, 2012 actuarial valuation, the UAAL was being amortized with level dollar amounts over a closed amortization period of 25 years.

Schedule of Funding Progress
Unaudited
(Dollars in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(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, 2010	$328.3	$479.7	68%	$151.4	$165.5	91%
April 1, 2011 [3]	343.1	494.0	69	150.9	155.9	97
April 1, 2012 [2]	339.8	501.6	68	161.8	141.5	114

[1] Based on projected payroll as of valuation date.
[2] Amendments were adopted during the plan year ending the day before the valuation date with very limited scope and caused a very small increase in the AAL.
[3] Actuarial assumptions, both economic and demographic, were changed as a result of an experience study.

Three-Year Annual Pension Cost (APC) Trend Information
Unaudited
(Dollars in Millions)

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2010	$ 16.5	100%	$ -
June 30, 2011	16.8	100	-
June 30, 2012	17.8	100	-

[1] NPO is zero since employer contributions have been equivalent to actuarially determined funding requirements for all fiscal years beginning December 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. Amendments to the plan are made only with the authority of the LCRA Board.

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 $17,000 in 2012. Employees age 50 or older may contribute an additional $5,500 in 2012.

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.

Employees hired on or after May 1, 2012 are eligible to participate in Retirement Program C only. New hires are automatically enrolled in the plan unless they elect otherwise within 30 days of hire. LCRA provides matching contributions equal to 100 percent of the first 8 percent of compensation. Employees may make contributions on a pretax basis, Roth (after tax) basis, or a combination of the two from 1 percent of their income up to the maximum set by the IRS. Contributions will be vested in the LCRA matching contributions and related earnings after three years of service. Employees are immediately vested in their contributions and related earnings. Both employer and employee contributions are immediately vested for employees under Plan C who are rehired.

Contributions by the LCRA and its employees for the years ended June 30, 2012, 2011 and 2010 are presented below:

	2012	2011	2010
		(Dollars in Millions)	
Employer Contributions	$ 4.3	$ 4.0	$ 3.6
Employee Contributions	11.8	11.6	10.9

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: In January 2011, LCRA began funding its employees' and retirees' medical healthcare claim costs (see Note 6). The LCRA OPEB funding policy pays only for current healthcare costs. LCRA contributes a portion of healthcare costs for retirees but makes no contribution for terminated employees. LCRA may contribute up to 80 percent of the total healthcare costs (cost share amount) depending on the retiree's retirement option choice (see Note 4). For Program A retirees, LCRA contributes 100 percent of the cost share amount. For Program 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. In FY 2012 and FY 2011 retirees contributed $2.8 million and $ 2.3 million, respectively, toward their health care costs.

Annual OPEB Cost and Net OPEB Obligation: The 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 OPEB funding policy pays only for current healthcare costs, 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 2012 and 2011:

Year Ended June 30,	2012	2011
	(Dollars in Millions)	
Annual required contribution	$ 13.2	$11.3
Interest on net OPEB obligation, beginning of year	1.0	0.8
Adjustment to annual required contribution	(0.8)	(0.6)
Annual OPEB cost (expense)	13.4	11.5
Contributions made - LCRA	(5.4)	(5.7)
Increase in net OPEB obligation	8.0	5.8
Net OPEB obligation, beginning of year	21.4	15.6
Net OPEB obligation, end of year	$29.4	$21.4

LCRA annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation for FY 2010 through FY 2012 were as follows:

Unaudited
(Dollars in Millions)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$10.9	52%	$15.6
June 30, 2011	11.5	49	21.4
June 30, 2012	13.4	41	29.4

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. This schedule is presented below and immediately following the notes to the financial statements.

Unaudited
(Dollars in Millions)

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	$ -	$170.1	0%	$170.1	$138.9	122%
July 1, 2009	-	181.2	0	181.2	139.3	130
July 1, 2011	-	213.1	0	213.1	144.5	147

[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, 2011 actuarial valuation, the Entry Age Normal cost method was used. The actuarial assumptions included a 4.75 percent discount rate, a 3.75 percent inflation rate and a projected annual healthcare cost trend rate of 9.00 percent for FY 2013 reduced by decrements of 0.50 percent to an ultimate rate of 6.00 percent after six years. As of the July 1, 2011, valuation, the Unfunded Actuarial Accrued Liability is being amortized on an open basis as a level 5.44 percent of projected payroll over a 30-year amortization period.

6. Commitments and Contingencies

Construction: Construction commitments through 2017 total $477.6 million for LCRA.

Sandy Creek Project: LCRA has signed an agreement to participate as a power purchaser and 11 percent 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.

LCRA's associated capital expenses are included in LCRA's construction budget. LCRA is committed to purchase 100 MW of power capacity from the Sandy Creek Energy Station.

The unit is under construction and was scheduled to be operational in 2012; however, during start-up testing in October 2011, there was a boiler failure which significantly delayed when the plant would go on line. The plant is now predicted to go on line in April 2013. Because the boiler cost can be isolated and the boiler was completely destroyed, the failure does not qualify as an impairment of an asset, but rather as a loss on disposal of an asset. In FY 2012, LCRA recorded a loss on disposal of the boiler, net of insurance proceeds received in FY 2012. Insurance proceeds received in subsequent years will be recorded as nonoperating revenues.

Ferguson Replacement Project: On April 20, 2011 the LCRA Board approved the Ferguson Replacement Project with a budget of $500.8 million, which involves building an approximate 540-MW, combined-cycle power plant to replace the 420-MW Thomas C. Ferguson Power Plant, which was built in 1974. LCRA and the selected contractor executed the contract for the project on Aug. 25, 2011. LCRA received all required air permits needed to construct on Nov. 10, 2011, and issued a Notice to Proceed to the contractor on Nov. 11, 2011. The contract has a guaranteed substantial project completion date of July 31, 2014.

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 $16.3 million and $17.3 million in FY 2012 and 2011, respectively. Leases associated with transmission facilities comprise approximately 82 percent of total LCRA leases for FY 2012.

The following is a schedule by year of future minimum rental payments required under these operating leases for the remaining noncancellable lease terms as of June 30, 2012 (dollars in millions):

Fiscal Year	Minimum Lease Payments
2013	$ 13.2
2014	13.3
2015	13.7
2016	14.1
2017	14.5

Coal Contracts: The fuel for FPP comes from mines in Wyoming's Powder River Basin and more than half of the annual fuel requirements are being or are planned to be supplied under annual and multi-year contracts.

In calendar year 2012, approximately 20 percent of FPP Units 1 and 2's annual requirements are being supplied through a long-term contract whose terms expire at the end of calendar year 2012. Also for calendar year 2012, approximately 30 percent of annual requirements are being supplied pursuant to an annual contract. An additional multi-year contract, supplying 30 percent of the annual requirements during calendar years 2012 and 2013, expires in 2013.

In calendar year 2012, approximately 30 percent of the annual fuel requirements for FPP Unit 3 are being provided pursuant to a combination of two annual contracts. A multi-year contract supplies approximately 40 percent of the annual requirements during calendar years 2012 and 2013.

Any remaining calendar year 2012 coal requirements for FPP Units 1, 2 or 3 will be supplied under a mix of shorter-term contracts at spot market prices from multiple vendors. LCRA's management does not anticipate difficulties in purchasing the remaining requirements at the then-prevailing market prices because it uses multiple suppliers and various types of coal contracts.

Rail Transportation Contracts: Both the Union Pacific Railroad and the BNSF Railway Company have transportation access to FPP. Currently, LCRA and Austin Energy are using a transportation contract with the BNSF Railway Company to deliver coal to FPP.

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 $86.6 million for FY 2012 and $100.8 million for FY 2011, based on price indices. LCRA also paid $4.2 million and $4.8 million in FY 2012 and FY 2011, respectively for firm transportation rights on intrastate pipelines, which deliver gas from other supply points.

Purchased Power: LCRA has 13 contracts with power marketers who provide firm electric energy ranging from 100 MW to 300 MW per month for the period June 2012 through September 2012.

Wind Power: LCRA is committed to purchase 35 MW of wind power capacity from the Texas Wind Power Project. LCRA in turn sells 10 MW of this capacity to Austin Energy. In FY 2013, LCRA is also committed to purchase 30 MW of wind power capacity from the Delaware Mountain Wind Farm, 200 MW of wind power from Papalote Creek Wind Farm, and 51 MW of wind power from Indian Mesa Wind Farm. Total wind power capacity is 316 MW, of which 306 MW is for LCRA and its customers. LCRA expects to pay approximately $41.7 million in FY 2013 for purchases from all wind power plants, decreasing to approximately $35.2 million by FY 2020.

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 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.

In August 2009, SAWS filed a lawsuit against LCRA. The lawsuit claimed that LCRA was in breach of contract and sought $1.2 billion in damages. LCRA believed that termination of the SAWS contract was probable and accrued an $18.8 million liability for the 50 percent share of costs through June 30, 2010 and 100 percent of the unexpended funds as of June 30, 2010, to be refunded to SAWS.

The lawsuit was settled on Dec. 19, 2011. The settlement required LCRA to refund $18.8 million in Dec. 2011 and to pay SAWS $1.4 million per year for eight years, without interest, beginning Nov. 1, 2012. The $18.8 million payment is reported on the Statement of Cash Flows as SAWS lawsuit settlement. The payments totaling $11.2 million will be deferred and recovered from future costs of LCRA's water customers. LCRA agreed to work with SAWS in good faith for the purpose of securing additional water supplies through mutual, joint efforts for the benefit of both LCRA and SAWS. LCRA and SAWS agreed to the termination of the contract and the lawsuit was disposed of by agreement.

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; natural disasters; and employee medical costs.

LCRA pays each worker's compensation claim up to $0.5 million and each general liability claim up to a maximum of $2.0 million depending on the insurance policy deductible. Self-funding of property damage varies from $0.1 million 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.

As of Jan. 1, 2011, LCRA pays employees' and retirees' medical health care benefit claim costs up to $0.3 million per person per condition. Any cost above this limit is covered by insurance. In addition, insurance covers aggregate actual costs which exceed 115 percent of projected aggregate claim costs. LCRA pays drug prescription benefits and carries no insurance. LCRA charges employees and retirees a premium for medical and prescription benefits.

The accrued liability presented in the table below is associated with obligations resulting from workers' compensation, long-term disability liabilities, and medical claims for employees and retirees. Presently, no materially adverse impacts are anticipated.

Changes in the accrued liability amount for FY 2012 and 2011 were as follows (dollars in millions):

	Balance Beginning of Year	Changes in Estimates	Payments	Balance End of Year
FY2011	$ 0.6	$ 12.2	$ (9.5)	$ 3.3
FY2012	3.3	22.2	(22.4)	3.1

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.

Single Audit: LCRA has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

7. Capital Asset Activity

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Ending Balance
	(Dollars in Millions)					
Utility plant in service:						
Depreciable assets	$ 4,477.2		$ 142.8	$ (254.0)		$ 4,366.0
Non-depreciable assets	193.7		7.9	(6.1)		195.5
Total utility plant in service	4,670.9	-	150.7	(260.1)	-	4,561.5
Construction work in progress:						
Non-depreciable assets	330.7	411.2	(153.7)	(16.7)		571.5
Oil and gas property:						
Depletable assets	28.2					28.2
Other physical property:						
Depreciable assets	43.2		2.0			45.2
Non-depreciable assets	19.9		1.0			20.9
Total other physical property	63.1	-	3.0	-	-	66.1
Less accumulated depreciation	(1,613.5)			74.6	(166.2)	(1,705.1)
Water Rights	94.8					94.8
Capital assets, net	$ 3,574.2	$ 411.2	$ 0.0	$ (202.2)	$ (166.2)	$ 3,617.0

During FY 2012, LCRA sold seven water/wastewater systems following the LCRA Board's direction to seek a qualified buyer for all water/wastewater utility assets. The assets taken off the books had a net book value of $168.0 million; there was an additional $3.7 million of Construction work in progress also removed from the books. As a result of the sales, LCRA recognized a net gain of $28.6 million, which is reflected on the Statement of Revenues, Expenses, and Changes in Equity as a special item. LCRA used proceeds from the sale of the seven water/wastewater systems to pay down $39.4 million of debt related to the purchase and improvement of the facilities. Approximate revenues and expenses associated with the sold systems are shown below.

	Operating Revenues	Nonoperating Revenues	Operating Expenses	Nonoperating Expenses
	(Dollars in Millions)			
FY 2012	$ 18.2	$ 2.5	$ 21.0	$ 1.6
FY 2011	22.8	3.8	22.3	1.6

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Ending Balance
	(Dollars in Millions)					
Utility plant in service:						
Depreciable assets	$ 4,046.7		$ 485.5	$ (55.0)		$ 4,477.2
Non-depreciable assets	124.2		69.7	(0.2)		193.7
Total utility plant in service	4,170.9	-	555.2	(55.2)	-	4,670.9
Construction work in progress:						
Non-depreciable assets	585.9	308.0	(556.7)	(6.5)		330.7
Oil and gas property:						
Depletable assets	28.2					28.2
Other physical property:						
Depreciable assets	42.2		1.3	(0.3)		43.2
Non-depreciable assets	19.8		0.1	-		19.9
Total other physical property	62.0	-	1.4	(0.3)	-	63.1
Less accumulated depreciation	(1,485.9)			29.4	(157.0)	(1,613.5)
Water Rights	94.8					94.8
Capital assets, net	$ 3,455.9	$ 308.0	$ (0.1)	$ (32.6)	$ (157.0)	$ 3,574.2

During FY 2011, LCRA sold the Elgin wastewater system following the LCRA Board's direction to seek a qualified buyer for all water/wastewater utility assets. The assets taken off the books had a net book value of $6.7 million; there was an additional $0.5 million of Construction work in progress also removed from the books. As a result of the sales, LCRA recognized a net loss of $2.2 million, which is reflected on the Statement of Revenues, Expenses, and Changes in Equity as a special item. LCRA used proceeds from the sale of the Elgin wastewater system to pay down $4.1 million of debt related to the purchase and improvement of the facility. Approximate revenues and expenses associated with the sold system are shown below.

	Operating Revenues	Nonoperating Revenues	Operating Expenses	Nonoperating Expenses
	(Dollars in Millions)			
FY 2011	$ 3.7	$ -	$ 1.4	$ 0.2

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
BALANCE SHEETS

(Dollars in Millions)

	June 30, 2012	June 30, 2011
Assets		
Current Assets:		
Total current assets	$ 121.9	$ 109.7
Long-term Assets:		
Restricted cash and cash equivalents	0.4	0.6
Restricted investments	0.2	0.4
Accounts receivable from LCRA - restricted	92.3	67.4
Capital assets:		
Depreciable capital assets, net	1,427.7	1,399.6
Nondepreciable:		
Nondepreciable capital assets	402.1	238.4
Deferred charges:		
Costs to be recovered from revenues	34.0	61.5
Unamortized debt expense	17.2	20.6
Other	12.9	-
Deferred charges	64.1	82.1
Total long-term assets	1,986.8	1,788.5
Total Assets	$ 2,108.7	$ 1,898.2
Liabilities		
Current Liabilities:		
Total current liabilities	$ 209.0	$ 242.9
Long-term Liabilities:		
Accounts payable to LCRA from construction fund	31.0	13.3
Accounts payable from restricted assets	6.8	0.3
Bonds, notes, and loans payable	1,529.6	1,352.5
Deferred credits	0.1	0.3
Total long-term liabilities	1,567.5	1,366.4
Total Liabilities	1,776.5	1,609.3
Equity		
Invested in capital assets, net of related debt	227.4	195.6
Unrestricted	104.8	93.3
Total equity	332.2	288.9
Total Liabilities and Equity	$ 2,108.7	$ 1,898.2

LCRA TRANSMISSION SERVICES CORPORATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

(*Dollars in Millions*)

	Year Ended June 30, 2012	Year Ended June 30, 2011
Operating Revenues		
Transmission	$ 281.2	$ 241.7
Transformation	14.6	14.6
Other	0.6	0.5
Total operating revenues	296.4	256.8
Operating Expenses		
Operations	78.9	80.0
Maintenance	6.1	7.3
Depreciation and amortization	49.8	46.3
Total operating expenses	134.8	133.6
Operating income	161.6	123.2
Nonoperating Revenues (Expenses)		
Interest and other income	2.3	0.8
Amortization of losses on refundings	(6.0)	(6.2)
Loss on disposition of property	(7.3)	(8.5)
Other expense	(8.5)	(7.5)
Interest on debt	(73.4)	(70.6)
Total nonoperating revenues (expenses)	(92.9)	(92.0)
Income before costs to be (prior costs) recovered from revenues and capital contributions	68.7	31.2
Costs to be (Prior Costs) Recovered from Revenues	(27.4)	1.7
Capital Contributions	2.0	0.5
Change in Equity	43.3	33.4
Total Equity, Beginning of Year	288.9	255.5
Total Equity, End of Year	$ 332.2	$ 288.9

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

	Year Ended June 30, 2012	Year Ended June 30, 2011
Cash Flows From Operating Activities		
Received from customers	$ 281.7	$ 251.9
Payments for goods and services	(95.3)	(87.0)
Net cash provided by operating activities	186.4	164.9
Cash Flows From Noncapital Financing Activities		
Grant proceeds received	0.2	-
Other expenses	(6.6)	(7.1)
Net cash used in noncapital financing activities	(6.4)	(7.1)
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant, equipment	(248.8)	(202.1)
Proceeds from sale of capital assets	-	0.5
Debt issue costs	(3.1)	-
Contributed capital received for capital costs	2.0	0.5
Proceeds from bond issues and commercial paper	878.4	165.7
Debt principal payments	(65.1)	(46.8)
Interest paid	(71.3)	(72.6)
Payments to refund and defease debt	(672.4)	-
Net cash used in capital and related financing activities	(180.3)	(154.8)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	75.8	92.9
Purchase of investment securities	(69.3)	(90.1)
Interest received	0.5	1.0
Net cash provided by investing activities	7.0	3.8
Net Increase in Cash and Cash Equivalents	6.7	6.8
Cash and Cash Equivalents, Beginning of Year	40.5	33.7
Cash and Cash Equivalents, End of Year	$ 47.2	$ 40.5

LCRA TRANSMISSION SERVICES CORPORATION-SEGMENT INFORMATION
STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	Year Ended June 30, 2012	2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 161.6	$ 123.2
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	49.8	46.3
Changes in assets and liabilities:		
Accounts receivable	(14.4)	(4.8)
Inventories	2.4	0.3
Other deferred charges and long-term liabilities	(12.8)	-
Deferred credits and other long-term liabilities	(0.2)	(0.1)
Net cash provided by operating activities	$ 186.4	$ 164.9
Noncash Investing Activities		
Investment market adjustments	$ (0.4)	$ (0.5)
Noncash Financing for Property, Plant and Equipment		
Purchase of equipment through short-term trade payables	$ 0.6	$ -

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. Statement 53 addresses recognition, measurement and disclosure related to derivative instruments. Statement 53 requires derivatives to be reported on the balance sheet at fair value and change in fair value to be deferred and reported on the balance sheet or recognized on the Statements 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 management 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 management, the option contracts are considered effective and the change in fair value of the instruments is deferred on the balance sheet. If deemed to be ineffective, the change in fair value of the instruments is immediately recognized in the Statements 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. This 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.

The following is a summary of the fair values, changes in fair value and notional amount of derivatives instruments outstanding as of June 30, 2012 and 2011 (gains shown as positive amounts, losses as negative):

Fiscal Year 2012

Type of Transaction	Duration	Classification	Volumes in MMBtu	Fair Value	Change in Fair Value
				(Dollars in Millions)	
Long Call	July 2008 - October 2012	Hedging Derivatives	1,200,000	$ (0.9)	$ 2.6
Short Call	July 2008 - October 2012	Hedging Derivatives	1,200,000	0.5	(1.8)
Short Put	July 2008 - October 2012	Hedging Derivatives	1,200,000	(4.0)	3.7
				$ (4.4)	$ 4.5
Long Call	July 2008 - October 2012	Investment Derivative	2,100,000	$ (1.4)	$ 1.7
Short Call	July 2008 - October 2012	Investment Derivative	2,100,000	0.9	(1.0)
Short Put	July 2008 - October 2012	Investment Derivative	2,100,000	(7.0)	3.7
				$ (7.5)	$ 4.4

Fiscal Year 2011

Type of Transaction	Duration	Classification	Volumes in MMBtu	Fair Value	Change in Fair Value
				(Dollars in Millions)	
Long Call	July 2008 - October 2012	Hedging Derivatives	5,200,000	$ (3.5)	$ (3.9)
Short Call	July 2008 - October 2012	Hedging Derivatives	5,200,000	2.3	2.4
Short Put	July 2008 - October 2012	Hedging Derivatives	5,200,000	(7.7)	(0.7)
				$ (8.9)	$ (2.2)
Long Call	July 2008 - October 2012	Investment Derivative	5,400,000	$ (3.1)	$ (3.7)
Short Call	July 2008 - October 2012	Investment Derivative	5,400,000	1.9	2.1
Short Put	July 2008 - October 2012	Investment Derivative	5,400,000	(10.7)	5.8
				$ (11.9)	$ 4.2

At June 30, 2012, the total fair value of outstanding derivative instruments was a net liability of $11.9 million reported as other current liabilities on the Balance Sheets. The net liability recorded at June 30, 2011 for the total fair value of outstanding derivative instruments was $20.8 million. Changes in fair value for effective derivatives (deferred outflow and inflow) are reported on the balance sheets as deferred charges, a short-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 Sheets through the Fuel Factor.

LCRA generation customers have the ability to direct hedges for their fuel costs through LCRA's hedging program. LCRA does not evaluate these hedges under Statement 53 since the customer controls the placing of the hedge, the notional amount and is ultimately responsible for the settlement. Participating customers' current month fuel expenses are adjusted on their monthly invoices for gains or losses as the contracts close. LCRA records the market value of the customer hedges on the Balance Sheets as a current and long term liability and an account receivable. Customers currently participating in the program are responsible for current market net losses at the end of FY 2012 of $2.7 million in current liabilities and $0.8 million long term liabilities and at the end of FY 2011, current market net gains of $0.2 million.

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 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 or HSC indices. For June 2012, the NYMEX price was $2.43 per MMBtu, the WAHA price was $2.59 per MMBtu, and the HSC price was $2.44 per MMBtu. For June 2011, the NYMEX price was $4.33 per MMBtu, the WAHA price was $4.26 per MMBtu, and the HSC price was $4.28 per MMBtu.

10. Subsequent Events

On July 18, 2012, LCRA filed litigation against seven of its wholesale electric customers to obtain a declaration of rights under the customer wholesale power contracts. The suit was in response to the customers alleging that LCRA had breached its contract with them, and the customers subsequently notified LCRA that they were terminating their contracts. None of the seven are seeking damages against LCRA. On Sept. 26, 2012, an additional customer alleged that LCRA was in breach of contract and has requested that LCRA cure the alleged breaches. These eight customers represented $267.7 million of electric generation revenues in FY 2012. One additional customer, in a separate lawsuit, is alleging a breach of contract by LCRA and is asking for damages of $5.0 million, but has not given notice of a termination of its contract. LCRA believes the chance of a negative impact from these contract disagreements is remote.

LOWER COLORADO RIVER AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION (Unaudited)
As of and for the Years Ended June 30, 2012 and 2011
(Dollars in Millions)

Schedule of Funding Progress — Retirement Plan

Actuarial Valuation Date	(1) Actuarial Value of Assets	(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, 2010	$328.3	$479.7	68%	$151.4	$165.6	91%
April 1, 2011[3]	343.1	494.0	69	150.9	155.9	97
April 1, 2012[2]	339.8	501.6	68	161.8	141.5	114

[1] Based on projected payroll as of valuation date.
[2] Amendments were adopted during the plan year ending the day before the valuation date with very limited scope and caused a very small increase in the AAL.
[3] Actuarial assumptions, both economic and demographic, were changed as a result of an experience study.

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, 2010	$16.5	100%	$ -
June 30, 2011	16.8	100	-
June 30, 2012	17.8	100	-

[1] NPO is zero since employer contributions have been equivalent to actuarially determined funding requirements for all fiscal years beginning December 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	$ -	$170.1	0%	$170.1	$138.9	122%
July 1, 2009	-	181.2	0	181.2	139.3	130
July 1, 2011	-	213.1	0	213.1	144.5	147

[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, 2010	$10.9	52%	$15.6
June 30, 2011	11.5	49	21.4
June 30, 2012	13.4	41	29.4

Lower Colorado River Authority
P.O. Box 220
Austin, Texas 78767-0220
800-776-5272

www.lcra.org