LOWER COLORADO RIVER AUTHORITY

FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
JUNE 30, 2016, and 2015

With Independent Auditor's Report

Lower Colorado River Authority

Financial Statements
As of and for the
Years Ended
June 30, 2016, and 2015

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Financial Statements Overview

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

Management's Discussion and Analysis

This section provides an objective and easily readable analysis of financial activities based on currently known facts, decisions or conditions.

Statements of Net Position

The presentation of assets and liabilities of proprietary funds should distinguish between current and long-term assets and liabilities. Deferred inflows and deferred outflows are reported as separate line items.

Statements of Revenues, Expenses and Changes in Net Position

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, special items and gain 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 Financial Statements

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

Financial Highlights

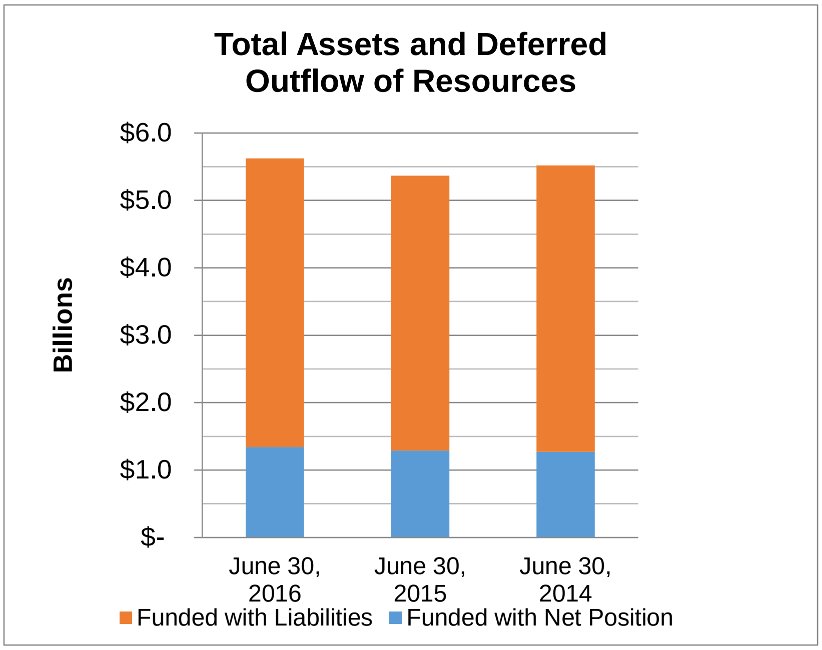
Condensed Statements of Net Position	**June 30, 2016**	**June 30, 2015**	**June 30, 2014**	**2016 vs. 2015**	**2015 vs. 2014**
		(Dollars in Millions)			
Current assets	$ **656.3**	$ 607.9	$ 649.4	8%	(6%)
Capital assets, net	**4,118.1**	4,102.4	4,127.7	0%	(1%)
Other long-term assets	**671.6**	512.3	587.9	31%	(13%)
Total Assets	**5,446.0**	5,222.6	5,365.0	4%	(3%)
Total Deferred Outflow of Resources	**177.2**	146.8	152.8	21%	(4%)
Total Assets and Deferred Outflow of Resources	$ **5,623.2**	$ 5,369.4	$ 5,517.8	5%	(3%)
Current liabilities	$ **423.3**	$ 501.1	$ 581.4	(16%)	(14%)
Long-term liabilities	**3,818.5**	3,561.5	3,639.8	7%	(2%)
Total Liabilities	**4,241.8**	4,062.6	4,221.2	4%	(4%)
Total Deferred Inflow of Resources	**37.9**	18.8	24.1	102%	(22%)
Net investment in capital assets	**744.0**	747.7	785.5	(0%)	(5%)
Restricted net position	**79.9**	79.2	129.3	1%	(39%)
Unrestricted net position	**519.6**	461.1	357.7	13%	29%
Total Net Position	**1,343.5**	1,288.0	1,272.5	4%	1%
Total Liabilities, Deferred Inflow of Resources and Net Position	$ **5,623.2**	$ 5,369.4	$ 5,517.8	5%	(3%)

Statements of Net Position Overview

LCRA continues to be a capital asset driven business with approximately 76 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. The Debt Activity section provides additional details. The following chart shows total assets and deferred outflow of resources for each of the last three years. It also identifies the amount of the assets and deferred outflow of resources funded by liabilities versus net position.

2016 Compared to 2015

Total assets and deferred outflow of resources increased by $253.8 million, or 5 percent, from the prior year. This was primarily caused by a $159.3 million increase in other long-term assets, which was driven by a $180.8 million increase in construction fund investments. There was also a $48.4 million increase in current assets due to a $61.7 million increase in the current portion of unrestricted cash and investments. Total long-term liabilities increased by $257.0 million, or 7 percent, from the prior year. This was primarily caused by a $219.0 million increase in the long-term portion of bonds payable.



2015 Compared to 2014

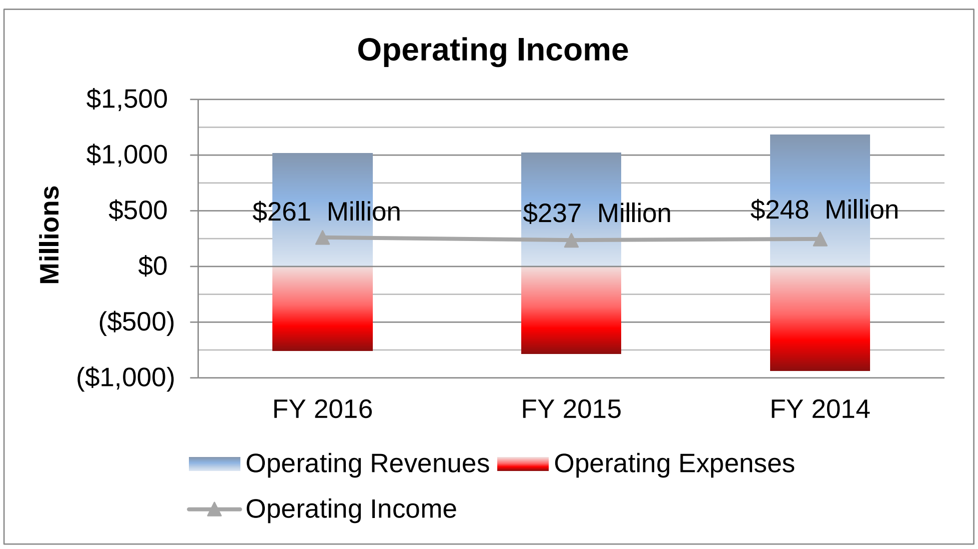
Total assets and deferred outflow of resources decreased by $148.4 million, or 3 percent, from the prior year. This was primarily caused by a $75.6 million decrease in other long-term assets, which was driven by a $48.4 million decrease in LCRA and LCRA Transmission Services Corporation (LCRA TSC) costs to be recovered (CTBR) due to a timing difference between debt-funded depreciation and related principal payments. There was also a $41.5 million decrease in current assets due to a $59.5 million decrease in under-recovered fuel costs. Total long-term liabilities decreased by $78.3 million, or 2 percent, from the prior year. This was primarily caused by a $24.5 million decrease in the long-term portion of bonds payable and a $29.9 million decrease in litigation accruals. In addition, long-term liabilities decreased by $11.3 million due to contributions greater than benefits earned related to LCRA's pension liability, see Note 4 in the Notes to Financial Statements.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2016	2015	2014	2016 vs 2015 Favorable/ (Unfavorable)	2015 vs 2014 Favorable/ (Unfavorable)
	(Dollars in Millions)				
Operating revenues	**$ 1,017.7**	$ 1,021.3	$ 1,125.1	(0%)	(9%)
Operating expenses	**(756.7)**	(784.3)	(877.5)	4%	11%
Operating Income	**261.0**	237.0	247.6	10%	(4%)
Nonoperating revenues	**16.2**	11.6	18.5	40%	(37%)
Nonoperating expenses	**(224.6)**	(217.3)	(259.4)	(3%)	16%
Nonoperating Loss	**(208.4)**	(205.7)	(240.9)	(1%)	15%
Capital Contributions	**0.8**	1.2	3.6	(33%)	(67%)
Special Item - Gain (Loss) on water system sales	**2.1**	(17.0)	-	112%	N/A
Contributions and special items	**2.9**	(15.8)	3.6	118%	(539%)
Change in Net Position	**55.5**	15.5	10.3	258%	50%
Total Net Position, Beginning of Year	**1,288.0**	1,272.5	1,262.2	1%	1%
Total Net Position, End of Year	**$ 1,343.5**	$ 1,288.0	$ 1,272.5	4%	1%

Operating Income Overview

Operating income is derived primarily from wholesale energy sales, providing transmission and transformation services, and raw water sales. The Public Utility Commission of Texas (PUC) regulates transmission and transformation rates. LCRA's Board of Directors sets all other rates. The following chart shows LCRA's operating revenues, expenses and income for each of the last three years.



2016 Compared to 2015

Operating income for FY 2016 increased by $24.0 million, or 10 percent, over the prior year. This was primarily due to no bad debt expense being incurred in FY 2016.

2015 Compared to 2014

Operating income for FY 2015 decreased by $10.6 million, or 4 percent, from the prior year. The primary reason for the decrease was a decrease in electric billing related to customer settlements and customer settlement receivable write-offs during FY 2015. See note 10 in the Notes to Financial Statements.

Nonoperating Loss

LCRA's nonoperating revenues and expenses primarily are comprised of:

- Interest income and expense.
- Gains or losses on the disposition of assets.
- Deferral of costs to be recovered from future revenues or recognition of prior costs recovered from current revenues.

2016 Compared to 2015

LCRA's nonoperating loss for FY 2016 increased by $2.7 million, or 1 percent, from the prior year. The most significant item contributing to nonoperating revenues and expenses in FY 2016 was an increase of $10.3 million in the nonoperating expense prior costs recovered from revenues, primarily due to a decrease in depreciation expense during FY 2016 compared to prior year slightly offset by a decrease in debt principal payments.

2015 Compared to 2014

LCRA's nonoperating loss for FY 2015 decreased by $35.2 million, or 15 percent, from the prior year. The most significant item contributing to nonoperating revenues and expenses in FY 2015 was a decrease of $32.8 million in the nonoperating expense prior costs recovered from revenues, primarily due to a decrease in principal payments during FY 2015 compared to prior year.

Special Item

LCRA's special item is comprised of gains and losses related to the sale of LCRA water and wastewater systems during FY 2016 and FY 2015. As of June 30, 2016 LCRA is fully divested of wastewater assets.

2016 Compared to 2015

LCRA's special item related to the gain on sale of water and wastewater systems increased by $19.1 million from the prior year due to sales activity during FY 2016.

2015 Compared to 2014

LCRA's special item related to the loss on sale of water and wastewater systems increased by $17.0 million over the prior year due to sales activity during FY 2015.

Capital Asset Activity

	FY 2016	FY 2015
Expended for construction activities	$ 198.6 million	$ 172.2 million
Depreciation expense	$ 173.1 million	$ 173.2 million
Asset retirements	$ 9.7 million	$ 31.2 million
Other capital asset activity	• In June 2016, LCRA completed the sale of the three remaining water and wastewater systems which had a net book value of approximately $3.3 million. The sale resulted in a gain of $2.1 million.	• In July 2014, LCRA sold to an outside party 18 water and wastewater systems with a net book value of approximately $25.2 million. The sale resulted in a loss of $17.0 million.

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

Capital Expansion and Improvement Program

LCRA's capital improvement and expansion program for FY 2017 through FY 2021 is forecasted to be $1.6 billion, with $1.1 billion, or 69 percent, to be debt-funded and the remainder to be funded from operations. Of this amount $163.9 million is committed as of June 30, 2016. The majority of forecasted capital costs are for expansion of transmission services and new water supply projects aimed at creating firm water supply and offsetting the use of stored water from the Highland Lakes.

Debt Activity

	FY 2016	FY 2015
Tax-exempt commercial paper issued	$ 128.4 million	$ 177.9 million
Scheduled debt payments	$ 186.3 million	$ 170.5 million
Interest payments	$ 166.5 million	$ 165.0 million
Bond issuance	• **LCRA Series 2015 C Refunding Revenue Bonds ($234.8 million):** Proceeds were used to refund $36.0 million of tax-exempt commercial paper; $35.4 million was retained in the LCRA construction fund; and $174.1 million was placed in an escrow account. • **LCRA Series 2015 D Refunding Revenue Bonds ($133.9 million):** Proceeds along with cash from the revenue fund were used to refund LCRA 1999A, 2001, 2001A and 2002 Revenue Bonds in the amount of $146.9 million. • **LCRA TSC Series 2016 Refunding Revenue Bonds ($190.0 million):** Proceeds were used to refund LCRA TSC 2006A Revenue Bonds in the amount of $97.7 million as well as $120.0 million of tax-exempt commercial paper.	• **LCRA Series 2015 AB Refunding Revenue Bonds ($124.9 million):** Proceeds along with cash and tax-exempt commercial paper were used to refund $195.0 million of series LCRA 2002 and 2008A. • **LCRA TSC Series 2015 Refunding Revenue Bonds ($246.0 million):** Proceeds were used to pay off $253.6 million of tax-exempt commercial paper.
Other debt activity	• In FY 2016, LCRA used cash proceeds related to the sale of water systems to pay down $3.1 million in debt which included LCRA Series 2001A, 2003, and 2004D Refunding Revenue Bonds.	• In FY 2015, LCRA used cash proceeds to pay down $13.8 million in debt which included LCRA Series 2008 Refunding Revenue Bonds related to the FY 2012 Western Travis County water system sale. Additionally, LCRA used cash proceeds to pay down $16.1 million in debt which included portions of LCRA Series 2001A, 2002, 2003, 2004D, 2006, 2008, 2008A, 2009, 2010A, 2012A, and 2012B.

- For additional details, see Note 3 in the Notes to the Financial Statements.

Hedging Program

During FY 2015, LCRA re-established a hedging program to stabilize fuel costs. Accordingly, LCRA evaluates these hedges under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* For additional information about the hedging program, see Note 9 in the Notes to the Financial Statements.

Litigation

As of June 30, 2016 and June 30, 2015, LCRA had no material or significant lawsuits. LCRA settled with five customers in FY 2015. (See Note 10 in the Notes to the Financial Statements).

Contacting LCRA's Management

This report provides a general overview of LCRA's finances. For more information contact Bill Lauderback, Executive Vice President for Public Affairs, Lower Colorado River Authority, P.O. Box 220, Austin, TX 78767.

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Report of Independent Auditors

To the Board of Directors
Lower Colorado River Authority

We have audited the accompanying the Statement of Net Position, related Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows of the Lower Colorado River Authority ("the Authority") as of and for the year ended June 30, 2016, and the related notes, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lower Colorado River Authority as of June 30, 2016, and changes in its financial position and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Lower Colorado River Authority as of June 3o, 2015 and for the year then ended were audited by other auditors whose report, dated September 3o, 2015, expressed an unmodified opinion on those statements. The predecessor auditor's report included an Emphasis of Matter paragraph regarding the adoption of GASB Statement No. 68, *Accounting and Reporting for Pensions — an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68;* their opinion was not modified with respect to this matter. In addition, the predecessor auditor's report included an Other Matter paragraph to describe the nature of Required Supplementary Information included with the financial statements, as well as the nature of procedures performed over this information; their report did not express an opinion or provide any assurance on the Required Supplementary Information.

Required Supplementary Information

The accompanying management's discussion and analysis on pages 1 through 6 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated September 3o, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

September 3o, 2016

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LOWER COLORADO RIVER AUTHORITY
STATEMENTS OF NET POSITION
(Dollars in Millions)

	June 30, 2016	June 30, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 258.0	$ 182.8
Investments	148.0	161.6
Receivables, net	155.1	144.5
Inventories, net	90.8	112.5
Other	4.4	6.5
Total current assets	656.3	607.9
Long-term Assets:		
Restricted cash and cash equivalents	124.8	41.7
Restricted investments	303.3	201.6
Unrestricted investments	66.9	48.4
Construction Escrow TWDB Lane City Reservoir	7.2	-
Capital assets:		
Depreciable:		
Utility plant in service	5,636.9	5,534.2
Oil and gas property	28.2	28.2
Other physical property	52.5	51.7
Less: accumulated depreciation	(2,167.5)	(2,008.3)
Depreciable capital assets, net	3,550.1	3,605.8
Nondepreciable:		
Utility plant in service	296.9	291.6
Water rights	101.7	101.7
Other physical property	19.1	19.1
Construction work in progress	150.3	84.2
Nondepreciable capital assets	568.0	496.6
Notes receivable	16.5	17.7
Other charges		
Costs to be recovered from future revenues	148.2	196.6
Other charges	0.5	1.3
Other charges	148.7	197.9
Other	4.2	5.0
Total long-term assets	4,789.7	4,614.7
Total Assets	5,446.0	5,222.6
Deferred Outflow of Resources:		
Unamortized loss on debt refundings	126.3	142.1
Changes in fair value of hedging derivative	1.9	-
Unrealized contributions and losses related to pensions	49.0	4.7
Total Deferred Outflow of Resources	177.2	146.8
Total Assets and Deferred Outflow of Resources	$ 5,623.2	$ 5,369.4

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

LOWER COLORADO RIVER AUTHORITY
STATEMENTS OF NET POSITION

(Dollars in Millions)

	June 30, 2016	June 30, 2015
Liabilities		
Current Liabilities:		
Accounts payable	$ 50.1	$ 58.4
Interest payable	21.5	20.7
Other current liabilities	71.9	47.8
Compensated absences	9.4	9.6
Bonds, notes, and loans payable	270.4	364.6
Total current liabilities	423.3	501.1
Long-term Liabilities:		
Accounts payable from restricted assets	13.5	23.8
Bonds, notes, and loans payable	3,542.3	3,323.3
Other credits and other long-term liabilties	111.5	111.6
Net pension liability	151.2	102.8
Total long-term liabilities	3,818.5	3,561.5
Total liabilities	4,241.8	4,062.6
Deferred Inflow of Resources:		
Unrealized gains related to pension	4.8	7.7
Regulatory credits from future recovery	32.5	11.0
Changes in fair value of hedging derivative	-	0.1
Unamortized gain on refunding	0.6	-
Total Deferred Inflow of Resources	37.9	18.8
Net Position		
Net investment in capital assets	744.0	747.7
Restricted for debt service	6.5	18.9
Restricted for capital projects	0.5	-
Restricted other	72.9	60.3
Unrestricted	519.6	461.1
Total Net Position	1,343.5	1,288.0
Total Liabilities, Deferred Inflow of Resources, and Net Position	$ 5,623.2	$ 5,369.4

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

LOWER COLORADO RIVER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Dollars in Millions)

	Year Ended June 30, 2016	2015
Operating Revenues		
Electric	$ 957.6	$ 989.2
Bad debt expense and allowance (See Note 10)	-	(24.1)
Water, wastewater, and irrigation	27.0	27.1
Other	33.1	29.1
Total Operating Revenues	1,017.7	1,021.3
Operating Expenses		
Fuel	266.9	302.5
Purchased power	92.7	98.2
Operations	182.4	173.9
Litigation settlements	-	(3.1)
Maintenance	40.7	38.8
Depreciation, depletion and amortization	174.0	174.0
Total Operating Expenses	756.7	784.3
Operating Income	261.0	237.0
Nonoperating Revenues (Expenses)		
Interest income	4.6	2.0
Gain on disposition of property	1.6	0.6
Loss on disposition of property	(8.8)	(15.0)
Interest on debt	(165.4)	(162.2)
Other income	10.0	8.9
Total Nonoperating Revenues (Expenses)	(158.0)	(165.7)
Income Before Prior Costs Recovered from Revenues, Capital Contributions, Gain on Early Defeasance of Debt, and Special Item	103.0	71.3
Prior Costs Recovered from Revenues	(50.4)	(40.1)
Capital Contributions	0.8	1.2
Gain on Early Defeasance of Debt	-	0.1
Special Item - Gain (Loss) on Sale of Wastewater Systems (See Note 7)	2.1	(17.0)
Change in Net Position	55.5	15.5
Total Net Position, Beginning of Year	1,288.0	1,272.5
Total Net Position, End of Year	$ 1,343.5	$ 1,288.0

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, 2016	Year Ended June 30, 2015
Cash Flows From Operating Activities		
Received from customers	$ 1,047.2	$ 1,109.5
Payments for goods and services	(386.5)	(482.8)
Payments to employees	(178.1)	(172.1)
Litigation settlements	-	(26.8)
Other receipts	7.9	4.0
Net cash provided by operating activities	490.5	431.8
Cash Flows From Noncapital Financing Activities		
Grant proceeds received	0.6	0.7
Other revenues	0.3	2.8
Net cash provided by noncapital financing activities	0.9	3.5
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(210.3)	(197.2)
Proceeds from sale of capital assets	8.7	38.4
Debt issue costs	(4.7)	(2.6)
Contributed capital received for capital costs	0.1	1.2
Proceeds from bonds and notes	616.3	403.7
Proceeds from commercial paper	128.4	177.9
Debt principal payments	(186.3)	(170.5)
Interest paid	(166.5)	(165.0)
Payments to refund and defease debt	(417.0)	(500.3)
Net cash used in capital and financing activities	(231.3)	(414.4)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	586.6	414.9
Purchase of investment securities	(692.6)	(467.4)
Note payments and interest received	4.2	0.3
Net cash used in used in investing activities	(101.8)	(52.2)
Net Increase (Decrease) in Cash and Cash Equivalents	158.3	(31.3)
Cash and Cash Equivalents, Beginning of Year	224.5	255.8
Cash and Cash Equivalents, End of Year	$ 382.8	$ 224.5

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, 2016	2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 261.0	$ 237.0
Nonoperating income - Sandy Creek DSU (See Note 6)	9.0	5.3
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	174.0	174.0
Changes in assets, liabilities, and deferred inflows and outflows of resources:		
Accounts receivable	(9.0)	43.8
Allowance for bad debt	(0.5)	(9.7)
Inventories	21.7	(24.5)
Other current assets	4.1	60.5
Current liabilities	12.3	12.1
Litigation settlements	-	(29.9)
Other long-term assets, charges and deferred outflow of resources	(2.6)	-
Other credits and other long-term liabilities, and deferred inflow of resources	20.5	(36.8)
Net cash provided by operating activities	$ 490.5	$ 431.8
Noncash Financing & Investing Activities		
Investment market adjustments	$ (0.6)	$ (0.5)
Donated assets	$ -	$ 0.7

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 revenue from the sale of wholesale electricity, water and other services. The LCRA Board of Directors is appointed by the Texas governor, with state 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 by the Governmental Accounting Standards Board (GASB), 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 affiliated corporation of LCRA, is governed by a nine-member board appointed by the LCRA Board. GenTex owns 50 percent of a 511 megawatt combined-cycle, natural gas-fired generating unit that began operations 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 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. Operation expenses related to unloading, stack-out, handling of fuel and the disposal of ash are considered common to units 1, 2 and 3 and are allocated to LCRA and the City of Austin according to the number of tons of coal received.

Sandy Creek Energy Station: LCRA participates as a power purchaser and equity partner in the Sandy Creek Energy Station, a coal-fired electric generation plant located near Waco, Texas. The plant became operational in May 2013. LCRA is committed to purchase 11.14 percent of the generation from the plant. As an equity partner, LCRA owns an 11.13 percent undivided interest in the plant. The cost of LCRA's share of the plant is recorded in the utility plant accounts of LCRA. LCRA's equity interest in Sandy Creek and its share of expense are calculated pursuant to the participation agreement and are reported in various accounts within LCRA's financial statements. Power purchased from the plant is reflected as purchased power expense on LCRA's financial statements.

LCRA Wholesale Energy Services Corporation (WSC Energy): WSC Energy, a nonprofit corporation and wholly owned affiliated corporation of LCRA, was created in 2012 to market and sell electric power outside of LCRA's traditional service area. Although it is a separate legal entity, WSC Energy is reported as part of LCRA because it is governed by a board of directors comprised in its entirety of the LCRA Board.

Basis of Accounting: The accompanying financial statements of LCRA, a governmental entity, were prepared using proprietary fund and accrual basis accounting. LCRA follows the Governmental Accounting Standards Board (GASB) guidance.

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 affecting the reported amounts of assets, deferred outflow of resources, liabilities, deferred inflow of resources, 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 the estimates.

LCRA considers electric revenues and costs 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 also are considered operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating revenues and expenses.

Newly Adopted Standards for FY 2016: In FY 2016, LCRA implemented GASB Statement No. 72, *Fair Value Measurement and Application* and GASB Statement No. 73 *Accounting and Financial Reporting for Pension and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provision of GASB Statement 67 and 68.*

GASB Statement No. 72, *Fair Value Measurement and Application,* addresses accounting and financial reporting issues related to fair value. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB Statement No. 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 72 is applicable for fiscal years beginning after June 15, 2015.

GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provision of GASB Statement 67 and 68*. This statement clarifies the application of certain provisions of Statement No. 67 and Statement No. 68 with regards to information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amount reported. This statement also clarifies the accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions. Finally, the timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The implementation of GASB Statement No. 72 and Statement No. 73 did not impact net position on the Statements of Net Position or the Statements of Revenues, Expenses and Changes in Net Position for FY 2016 or FY 2015. There was also no impact on the Statements of Cash Flows for FY2016 or FY 2015.

GASB Statements No. 72, and No. 73 do require additional disclosures in the notes to the financial statements regarding valuation techniques and approaches used to determine fair value for both FY 2016 and FY 2015.

Issued, But Not Yet Effective Pronouncements: GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14,* amends the blending requirements for financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. GASB Statement No. 80 is applicable for fiscal years beginning after June 15, 2016, LCRA's FY 2017.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statement No. 67, Statement No. 68 and Statement No. 73*, addresses certain issues that have been raised with respect to pension reporting. The amendment specifically addressing the presentation and clarification of items payroll-related measures in required supplementary information. This statement clarifies the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes. Finally, this statement addresses the classification and recognition of payments made by employers to satisfy employee contribution requirements to the plan. GASB Statement No. 82 is applicable for fiscal years beginning after June 15, 2016, LCRA's FY 2017.

LCRA is in the process of analyzing the statements and does not believe they will have a material impact on LCRA's financial position, results of operations, and cash flows.

Major Customers and Electric Revenues: Sales of electricity to LCRA's one major customer represented approximately 25 and 29 percent of total electric revenue for FY 2016 and FY 2015, respectively. Two customers each represented 11 percent of total electric revenue for FY 2015. No other customer represented more than 10 percent of LCRA's total electric revenues in FY 2016 or FY 2015.

Electric revenues (net of bad debt expense) represented approximately 96 percent of LCRA's operating revenues for FY 2016 and FY 2015.

34 of LCRA's existing customers, representing approximately 100 percent of LCRA's load, have entered into electric wholesale contracts that extend to 2041.

Capital Contributions: Capital contributions consist of donated assets, and grant-funded or customer contributions for capital-related work.

ERCOT Settlements Reporting: LCRA reports power transactions, which represent wholesale purchases and sales of power for real-time purposes as measured in 15-minute intervals. These purchases and sales with the Electric Reliability Council of Texas (ERCOT), as the energy clearinghouse agent, are reported net. In FY 2016 and FY 2015, these settlements resulted in net sales of power by LCRA. These amounts are classified as operations and maintenance expense and the revenues included are $43.6 million for FY 2016 and $37.9 million for FY 2015.

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

Accounts Receivable and Allowance for Doubtful Accounts: Accounts receivable balances were $155.1 million and $144.5 million at June 30, 2016, and 2015, respectively. LCRA accounts receivable balances are subject to risk of nonpayment. Generally, allowances to the account for that risk have been calculated based on a three-year average of customer write-offs. In FY 2016, LCRA direct write-offs were less than accrued at the end of the prior fiscal year, resulting in a net credit for direct write-offs equal to $(0.3) million. In FY 2015, direct write-offs were $24.6 million of which $24.1 million is attributable to defaulting customers (see Note 10). The allowance for doubtful accounts balances was $0.3 million and $0.8 million at June 30, 2016, and 2015, respectively. Discussion of the accounts receivable from defaulting customers can be found in Note 10 of the Notes to Financial Statements.

Other Current Assets: Other current assets are comprised primarily of prepaid items, advances and current portion of other long-term assets. Other current assets balances were $4.4 million and $6.5 million on June 30, 2016 and 2015, respectively, of which $0 in FY 2016 and $4.3 million in FY 2015 represent the under-recovery of fuel costs as reported in the Fuel and Power Costs Recovery Factor paragraph.

Notes Receivable: The notes receivable balances were $16.5 million and $17.7 million on June 30, 2016, and 2015, respectively. The balance on June 30, 2016 was primarily related to a $15.1 million (net of discount of $0.9 million) outstanding balance related to the sale of the West Travis County water/wastewater facility sold in FY 2012. The balance on June 30, 2015 was primarily related to a $15.1 million (net of discount of $1.2 million) outstanding balance related to the sale of the West Travis County water/wastewater facility sold in FY 2012. In FY 2016 and FY 2015, no current portion was recorded. Management believes all of these balances will be collected. As a result, there is no allowance for doubtful accounts related to the balances as of June 30, 2016, and 2015.

Other Long-Term Assets: Other long-term assets are comprised of prepaid rent on LCRA General Office Complex land.

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 utilities, telecommunications facilities, and related projects under construction. These assets are recorded at cost, which includes materials, labor, overhead and interest capitalized during construction. The cost 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 a depreciable plant retired, along with removal expense less salvage value, is charged to nonoperating expense on the Statements of Revenues, Expenses and Changes in Net Position. Gains and losses upon disposition are recorded as nonoperating revenues or expenses in the period incurred. For FY 2016 and FY 2015, expenditures for long-lived items greater than $1,000 are eligible to be capitalized, though LCRA allows for direct expensing of items where the costs associated with obtaining approval of and tracking a capital project are onerous.

Intangible Assets: Intangible assets include water rights, easements and internally generated software. Water rights and easements are stated at cost, they have an indefinite life, are not amortized, and are disclosed under the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Internally generated software is included in the depreciable capital assets and is amortized over approximately five years. Easements are included in the nondepreciable utility plant in-service line item of the Statements of Net Position.

Inventories

Fuel: Stored natural gas, fuel oil, materials and supplies are stated at average cost in both FY 2016 and FY 2015.

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 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 LCRA may not be able to use due to obsolescence. The balance in the reserve was $0.8 million on both June 30, 2016, and 2015.

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.

Bonds, Notes and Loans Payable: LCRA reports the current portion of long-term debt which includes all commercial paper and scheduled debt payments paid within the next 12 months as a current liability. LCRA debt includes outstanding long-term revenue bonds, commercial paper and other notes. Amortization of debt discount and premium is computed using the effective-interest method over the life of the related bond issues. Debt issue costs related to bond issues are expensed as incurred.

Refunding and Defeasance of Debt: For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a component of deferred inflows or outflows of resources. Losses created by refunding transactions are amortized over the shorter of the remaining terms of the new issues or the refunded bonds. The amounts are reported as deferred outflow of resources on the Statements of Net Position. The unamortized loss on debt refundings are $126.3 million and $142.1 million as of June 30, 2016, and 2015, respectively. Gains created by refunding transactions are amortized over the shorter of the remaining terms of the new issues or the refunded bonds. The amounts are reported as deferred inflows of resources on the Statements of Net Position. The unamortized gain on debt refundings are $0.6 million as of June 30, 2016. 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 Net Position as a gain or loss on early defeasance of debt, if significant. If the difference is not significant, it is recognized immediately as interest expense.

Compensated Absences: LCRA records employees' earned vacation leave as a liability and accrues for certain 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 ultimately would conclude 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 PUC has appellate jurisdiction.

FY 2016 transmission revenues of $376.9 million were the result of rate changes authorized during the current fiscal year. The rates in effect throughout FY 2016 were: $5.71 per kilowatt from July 1, 2015 through Oct. 1, 2015 and $5.84 per kilowatt from Oct. 2, 2015 through June 30, 2016.

FY 2015 transmission revenues of $357.6 million were the result of rate changes authorized during the fiscal year. The rates in effect throughout FY 2015 were: $5.32 per kilowatt from July 1, 2014 through Sep. 21, 2014; $5.54 per kilowatt from Sep. 22, 2014 through Feb. 26, 2015; and $5.71 per kilowatt was in place from Feb. 27, 2015 through June 30, 2015. LCRA TSC filed an interim update of wholesale transmission rates with the PUC on Aug. 5, 2015.

Regulatory Assets and Deferred Inflows: LCRA applies the accounting requirements of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Accordingly, certain costs may be capitalized as a regulatory asset that otherwise would 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. These regulatory assets, which are included under other charges, will be recovered through rates in future years, and consist of depreciation of debt-funded assets, costs related to outstanding debt and costs related to other postemployment benefits. The balance of regulatory assets also includes an under-recovery of fuel costs. LCRA's regulatory assets amounted to $148.0 million and $200.8 million on June 30, 2016, and 2015, respectively.

In addition, rate actions of the regulator may impose a regulatory credit on LCRA. A regulatory credit 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 credit is reported as a deferred inflow of resources on the Statements of Net Position. A regulatory credit is recognized and charged to income when the associated costs are incurred. Regulatory credits amounted to $37.3 million and $18.7 million on June 30, 2016, and 2015, respectively.

Other Current Liabilities: Other current liabilities are comprised primarily of transmission cost of service (TCOS) liabilities, property tax accruals, and accrued vendor payments.

Other Credits and Other Long-Term Liabilities: Other credits and other long-term liabilities are $111.5 million and $111.6 million as of June 30, 2016, and 2015, respectively. Other credits and other long-term liabilities consist of environmental liabilities, supplemental executive retirement program liabilities, an accrual for other postemployment benefits, unearned revenues and other long-term liabilities.

Capitalized Interest: Interest can be capitalized as a part of the cost of capital assets if the assets are financed by debt proceeds per regulatory accounting under GASB Statement No. 62. During FY 2016 and FY 2015, LCRA did not capitalize interest.

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 as other current assets or deferred inflow of resources in the Statements of Net Position. These costs are a component of the fuel factor. Over-recoveries may result in credits to customers and under-recoveries may result in additional assessments to customers. LCRA over-recovered fuel costs by $19.9 million as of June 30, 2016, and under–recovered fuel costs by $4.3 million as of June 30, 2015. Per LCRA Policy, LCRA will credit the over-recovered balance to customers in FY 2017.

Gas Price Management: Spot prices for natural gas ranged from $1.49 to more than $2.95 per million British thermal units (MMBtu) in FY 2016. 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 Statements of Net Position at their fair values. Changes in the fair value of derivatives are recorded each period. LCRA is using GASB Statement No. 53*, Accounting and Financial Reporting for Derivative Instruments* accounting as a component of the fuel factor for its investment derivatives. Gains and losses related to the investment derivative contracts deemed ineffective hedges are recognized in current earnings. Gains and losses on financial contracts that are effective hedges are deferred on the Statements of Net Position. See Note 9, Derivative Instruments in the Notes to Financial Statements.

Estimation of Fair Value: The estimated market value of long-term debt, based on current market yields, was $4.4 billion and $4.0 billion at June 30, 2016, and 2015, respectively.

Natural Gas Development and Production: LCRA 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 2016 and FY 2015.

Contract Extension Settlement with Major Customers: According to the terms of a 1987 settlement with two major customers, the customers' 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 2016 and FY 2015.

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 rendered unusable. There were no material impairments noted as of June 30, 2016 and June 30, 2015.

Depreciation, Depletion and Amortization: LCRA depreciates its plant in-service on a straight-line basis over the estimated useful lives of the various classes of these assets. Annual depreciation expense, expressed as a percentage of depreciable plant, was approximately 3.1 percent for FY 2016 and 3.3 percent for FY 2015. Depreciation, depletion and amortization expense for both FY 2016 and FY 2015 was $174.0 million.

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 Facilities	5 – 58 years
General Office Buildings	4 – 45 years
Irrigation Plant	5 – 70 years
Sewage and Water Treatment Plant	5 – 50 years
Telecommunication Facilities	5 – 45 years
Intangible Assets	5 years – Indefinite

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

Statements of Net Position: The Net Investment in Capital Assets is the portion of net position that consists of capital assets, net of accumulated depreciation, plus deferred outflows of resources, reduced by outstanding debt and construction contracts payable that are attributable to the acquisition, construction, or improvement of those assets. Capital assets for the net investment computation include both capital assets and regulatory assets. In the event that there are unspent proceeds from a bond issuance for the stated purpose of capital improvement, the debt outstanding is reduced by the amount that has not been used for capital projects as of period end. As of June 30, 2016 and 2015, debt funded assets not related to capital assets included $358.4

million and $169.6 million, respectively of cash and investments restricted for future capital projects or debt service fund requirements.

The categories of restricted net position represent the portion of net position over which there are LCRA board or externally imposed constraints as to its use. They consist of board restricted reserves, bond sinking fund requirements, and construction fund cash and investments reduced by any related debt outstanding or deferred inflows of resources related to the debt. As of June 30, 2016 and 2015 these restricted categories of net position consisted of cash and investments of $449.6 million and $257.2 million, reduced by liabilities and deferred inflows of resources of $369.7 and $177.9 million, respectively.

Unrestricted net position is the share of net position that is neither restricted nor invested in capital assets.

2. Financial Instruments

As of June 30, 2016, and 2015, LCRA had the following investments and maturities:

	June 30, 2016			June 30, 2015		
	(Dollars in Millions)					
Type of Investment		**Market Value**	**WAM* (Years)**		**Market Value**	**WAM* (Years)**
Investments						
U.S. Government Securities	$	518.2	1.38	$	401.6	1.42
Commercial Paper		-	-		10.0	0.39
Cash Equivalents						
Commercial Paper		30.0	0.16		-	-
Investment Pools		314.3	0.17		200.2	0.15
Total	$	862.5	0.89	$	611.8	0.99

Cash and Investments as of June 30, 2016, and 2015 consisted of the following:

		2016		2015
Cash	$	38.5	$	24.3
Investments and Cash Equivalents		862.5		611.8
Total Cash and Investments	$	901.0	$	636.1

*Weighted Average Maturity

External Investment Pool: LCRA investments included an investment pool with TexPool on June 30, 2016, and 2015. The Texas 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 included an investment pool with Local Government Investment Cooperative (LOGIC) on June 30, 2016, and 2015. First Southwest Company and J.P. Morgan Investment Management, Inc. oversee LOGIC. The pool seeks to maintain a $1 value per share as required by the Texas Public Funds Investment Act.

LCRA investments also included a money market fund with Federated on June 30, 2015. Federated Investment Management Company oversees Federated Prime Cash Obligations Funds. The pool seeks to maintain a $1 value per share as required by Securities and Exchange Commission Rule 2a-7.

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, 2016, and 2015, LCRA had investments in separate accounts holding U.S. Treasury notes, held for the use of debt service reserves, totaling $153.4 million and $168.0 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 the 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, 2016		
Credit Risk	**Moody's Ratings**	**Standard & Poor's Ratings**	**Fitch Ratings**
TexPool investment pool		AAAm	
LOGIC investment pool		AAAm	
US Treasuries	Aaa	AA+u	AAA
General Electric Co.	P-1	A-1+	
Toyota Motor Corp.	P-1	A-1+	F-1
US Bank NA	P-1	A-1+	F-1+

	June 30, 2015		
Credit Risk	**Moody's Ratings**	**Standard & Poor's Ratings**	**Fitch Ratings**
TexPool investment pool		AAAm	
LOGIC investment pool		AAAm	
US Treasuries	Aaa	AA+u	AAA
Federated Securities Corporation money market mutual fund	Aaa-mf	AAAm	AAAmmf
Toyota Motor Corp.	P-1	A-1+	F-1
US Bank NA	P-1	A-1+	F-1+

Reporting Requirements: Under GASB Statement No. 72, LCRA is required to disclose the valuation technique and level of inputs for all investments. One of the acceptable valuation techniques, and that which LCRA uses is the market approach. The market approach is defined as: *using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets or liabilities, such as quoted prices.* GASB Statement No. 72 also requires that assets and liabilities be categorized into three levels. All of LCRA's investments that are subject to GASB Statement No. 72 are valued at a Level 1 input, defined as: *quoted prices for identical assets or liabilities in active markets that LCRA can access at the measurement date.* LCRA uses Bloomberg Finance LP Service to quote investment market price by uniquely identifying each security with the Committee on Uniform Security Identification Procedures (CUSIP) ID.

3. Long-Term Debt and Commercial Paper

Changes in long-term debt, including current portions, are as follows in millions of dollars:

Series	Balance June 30, 2014	Increase	(Decrease)	Balance June 30, 2015	Increase	(Decrease)	Balance June 30, 2016	Amount Due in FY 2017
LCRA TSC 2006A	$ 106.6	$	$ (4.5)	$ 102.1	$	(102.1)	$ -	$
LCRA TSC 2008	150.4		(5.7)	144.7		(7.6)	137.1	7.1
LCRA TSC 2009	118.6			118.6		(1.0)	117.6	1.0
LCRA TSC 2010	187.1		(4.7)	182.4		(4.0)	178.4	6.3
LCRA TSC 2011A	357.1		(16.2)	340.9		(16.3)	324.6	16.6
LCRA TSC 2011B	167.7		(15.2)	152.5		(15.2)	137.3	15.2
LCRA TSC 2013	310.0		(6.3)	303.7		(6.4)	297.3	6.6
LCRA TSC 2013A	195.7			195.7			195.7	
LCRA TSC 2015	-	246.0		246.0		(5.0)	241.0	4.2
LCRA TSC 2016	-			-	190.0		190.0	2.2
LCRA 1999A	106.7		(17.8)	88.9		(88.9)	-	
LCRA 2001	26.1		(1.0)	25.1		(25.1)	-	
LCRA 2001A	20.1		(0.4)	19.7		(19.7)	-	
LCRA 2002	84.9		(68.8)	16.1		(14.9)	1.2	
LCRA 2003	5.0		(3.5)	1.5		(1.5)	-	
LCRA 2004D	0.6		(0.5)	0.1		(0.1)	-	
LCRA 2006	1.0		(1.0)	-			-	
LCRA 2008	16.3		(16.1)	0.2		(0.2)	-	
LCRA 2008A	161.4		(136.8)	24.6		(6.1)	18.5	0.5
LCRA 2009	147.4		(0.8)	146.6		(3.2)	143.4	3.4
LCRA 2010	185.3		(64.9)	120.4		(68.1)	52.3	11.7
LCRA 2010A	228.0		(5.9)	222.1		(6.3)	215.8	6.5
LCRA 2010B	110.4		(6.8)	103.6		(7.1)	96.5	6.3
LCRA 2012A	278.3		(6.1)	272.2		(5.6)	266.6	6.3
LCRA 2012B	179.9		(3.3)	176.6		(1.3)	175.3	5.4
LCRA 2013	188.0		(4.0)	184.0		(4.1)	179.9	4.3
LCRA 2015 A	-	25.9	(2.6)	23.3			23.3	
LCRA 2015 B	-	99.0	(2.4)	96.6			96.6	
LCRA 2015 C	-			-	234.8		234.8	
LCRA 2015 D	-			-	133.9	(24.3)	109.6	20.4
Camp Swift Note Payable	0.3		(0.3)	-			-	
Unamortized Net Premium	194.9	38.5	(29.7)	203.7	66.6	(29.2)	241.1	7.6
Subtotal	$ 3,527.8	$ 409.4	$ (425.3)	$ 3,511.9	$ 625.3	$ (463.3)	$ 3,673.9	$ 131.6
Tax-Exempt Commercial Paper	252.1	177.9	(254.0)	176.0	128.4	(165.6)	138.8	138.8
Total	$ 3,779.9	$ 587.3	$ (679.3)	$ 3,687.9	$ 753.7	$ (628.9)	$ 3,812.7	$ 270.4 [1]

[1] Total amount due in FY 2016 was $364.6 million.

Interest rates and maturity dates for bonds, notes and commercial paper as of June 30, 2016, are as follows:

	May 15,	
Series	**From**	**To**
LCRA TSC 2008 (5.00%-5.25%)	2017	2035
LCRA TSC 2009 (4.00%-5.50%)	2017	2036
LCRA TSC 2010 (3.20%-5.00%)	2017	2040
LCRA TSC 2011A (4.50%-5.00%)	2017	2041
LCRA TSC 2011B (4.00%-5.00%)	2017	2026
LCRA TSC 2013 (3.25%-5.00%)	2017	2043
LCRA TSC 2013A (5.00%)	2024	2036
LCRA TSC 2015 (3.00%-5.00%)	2017	2045
LCRA TSC 2016 (3.00%-5.00%)	2017	2046
LCRA 2002 (5.00%)	2027	2031
LCRA 2008A (5.00%-5.75%)	2017	2023
LCRA 2009 (4.00%-5.625%)	2017	2039
LCRA 2010 (4.00%-5.00%)	2017	2020
LCRA 2010A (5.00%)	2017	2040
LCRA 2010B (3.625%-5.00%)	2017	2024
LCRA 2012A (4.00%-5.00%)	2017	2039
LCRA 2012B (3.00%-5.00%)	2017	2037
LCRA 2013 (4.125%-5.50%)	2017	2039
LCRA 2015A (3.00%-5.00%)	2021	2037
LCRA 2015B (3.25%-5.00%)	2020	2031
LCRA 2015C (2.50%-5.00%)	2021	2045
LCRA 2015D (3.75%-5.00%)	2017	2032

Commercial paper rates are variable as of June 30, 2016. Rates ranged from 0.44 percent to 0.49 percent.

Outstanding notes are issued with maturities of 270 days or less from their respective issue dates.

LCRA's debt as of June 30, 2016, was rated by Moody's, Standard & Poor's and Fitch, as follows:

	June 30, 2016		
Debt Program	**Moody's Ratings**	**S&P Ratings**	**Fitch Ratings**
LCRA Refunding and Improvement Revenue Bonds	A2 (Stable)	A (Stable)	A (Stable)
LCRA Tax-Exempt Commercial Paper Series A	P-1	A-1	F-1
LCRA Tax-Exempt Commercial Paper Series B	P-1	A-1+	F-1+
LCRA Transmission Services Corporation Contract Refunding Revenue Bonds	A1 (Stable)	A (Stable)	A+ (Stable)
LCRA Transmission Services Corporation Tax- Exempt Commercial Paper Series	P-1	A-1	F-1
LCRA Transmission Services Corporation Tax-Exempt Commercial Paper Series B	Inactive	Inactive	Inactive

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

Ending June 30,	Principal	Interest	Total
2017	$ 124.0	$ 164.7	$ 288.7
2018	123.7	159.8	283.5
2019	115.6	154.0	269.6
2020	129.1	148.2	277.3
2021	141.0	141.9	282.9
2022-2026	689.2	604.6	1,293.8
2027-2031	748.2	431.4	1,179.6
2032-2036	713.2	249.5	962.7
2037-2041	447.7	100.3	548.0
2042-2046	201.1	21.6	222.7
	$ 3,432.8	$ 2,176.0	$ 5,608.8
Unamortized Net Premium	241.1		241.1
Total	$ 3,673.9	$ 2,176.0	$ 5,849.9

New and Refunding Bonds: During FY 2016, LCRA issued $26.9 million of tax-exempt commercial paper. In addition, LCRA, on behalf of LCRA TSC, issued $101.5 million of tax-exempt commercial paper. The commercial paper was used to fund capital projects. LCRA paid down $9.6 million in tax-exempt commercial paper on Feb. 1, 2016. Currently, the LCRA taxable commercial paper program is inactive with no outstanding balance.

On June 24, 2016, LCRA TSC issued $190.0 million Refunding Revenue Bonds Series 2016. The series was used to pay off $97.7 million of the remaining amount of LCRA TSC 2006A Revenue Bonds. The series was also a refunding of $120.0 million in tax-exempt commercial paper. The advance refunding resulted in an accounting gain of $0.6 million. As a result of the LCRA TSC 2016 Refunding, LCRA TSC reduced its aggregate debt service payments by $21.0 million, resulting in an economic gain of $16.0 million.

On June 23, 2016, $3.1 million cash from the sale of a wastewater system was used to defease $3.1 million in previously outstanding LCRA 2001A, 2003, and 2004D Revenue Bonds.

On Nov. 24, 2015, LCRA issued $234.8 million Refunding Revenue Bonds, Series 2015C. LCRA paid down $36.0 million in tax-exempt commercial paper issued in prior months related to capital expenditures for the Lane City Project. An additional $35.4 million was retained in the LCRA construction fund, $7.9 million in the LCRA 2015C debt service reserve fund, and $0.3 million in an issue cost reserve. The remaining $174.1 million was placed in an escrow account at Bank of New York. These funds will be released to LCRA with Texas Water Development Board (TWDB) approval to fund project costs related to the reservoir. As of June 30, 2016, $7.2 million remained in the escrow account at Bank of New York.

On Sep. 17, 2015 LCRA issued $133.9 million Refunding Revenue Bonds, Series 2015 D. Bond proceeds were used to pay down previously outstanding LCRA 1999A, 2001, 2001A and 2002 Revenue Bonds in the amount of $146.9 million. The advanced refunding resulted in an accounting loss of $37.0 million. As a result of the LCRA 2015D Refunding, LCRA reduced its aggregate debt service payments by $5.7 million, resulting in an economic gain of $12.1 million.

During FY 2015, LCRA issued $89.4 million of tax-exempt commercial paper. In addition, LCRA, on behalf of LCRA TSC, issued $88.5 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.

During July 2014, LCRA defeased $0.4 million of tax-exempt commercial paper and paid off the $0.3 million balance of the Camp Swift note payable as part of the sale of a wastewater system.

On June 18, 2015, LCRA TSC issued $246.0 million Refunding Revenue Bonds, Series 2015. This series was a refunding of $253.6 million tax-exempt commercial paper.

On April 7, 2015, LCRA issued $25.9 million Refunding Revenue Bonds, Series 2015A, and $99.0 million of Refunding Revenue Bonds, Series 2015B. Series 2015A was a current refunding of bonds. A portion of the proceeds from the Series 2015A bonds were used to refund $25.1 million of currently callable bonds from LCRA Series 2002 and LCRA Series 2008A. Series 2015B was an advance refunding. A portion of the proceeds from the Series 2015B bonds was placed in escrow to refund $95.9 million of LCRA Series 2008A bonds. The escrow for the advanced refunding totaled $113.0 million. The advanced refunding resulted in an accounting loss of $17.5 million. As a result of the LCRA 2015 AB refunding, LCRA reduced its aggregate debt service payments by $71.8 million, resulting in an economic gain of $34.2 million.

On April 7, 2015, LCRA also issued $50.0 million in tax-exempt commercial paper and used the proceeds to refund $49.0 million of currently callable LCRA Series 2002 bonds. The $50.0 million in tax-exempt commercial paper issued is included as part of the FY 2015 total issuance of $89.4 million referenced previously. Cash funding from the LCRA revenue fund was used to defease $25.0 million of currently callable bonds from LCRA Series 2002 and LCRA Series 2008A.

The principal associated with the bonds that have been previously refunded by LCRA but remain outstanding at June 30, 2016 and 2015, totals $200.9 million and $248.0 million, respectively. The principal associated with the bonds that have been previously refunded by LCRA TSC but remain outstanding at June 30, 2016 was $97.7 million. Proceeds from these refunding bond issues were escrowed to purchase U.S. government obligations that will mature at such time, and yield interest at such amounts, so 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 on June 30, 2016, and 2015.

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

Series	Redeemable on or after:	In increments of:	At a redemption price of:	Maturing on and after:
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 TSC 2013	May 15, 2022	5,000	100 + accrued interest	May 15, 2023
LCRA TSC 2013A	May 15, 2023	5,000	100 + accrued interest	May 15, 2024
LCRA TSC 2015	May 15, 2025	5,000	100 + accrued interest	May 15, 2026
LCRA TSC 2016	May 15, 2026	5,000	100 + accrued interest	May 15, 2027
LCRA 2002	Currently Callable	5,000	100 + accrued interest	
LCRA 2008A	May 15, 2018	5,000	100 + accrued interest	May 15, 2019
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 2012A	May 15, 2022	5,000	100 + accrued interest	May 15, 2023
LCRA 2012B	May 15, 2022	5,000	100 + accrued interest	May 15, 2023
LCRA 2013	May 15, 2023	5,000	100 + accrued interest	May 15, 2024
LCRA 2015A	May 15, 2025	5,000	100 + accrued interest	May 15, 2026
LCRA 2015B	May 15, 2025	5,000	100 + accrued interest	May 15, 2026
LCRA 2015C	May 15, 2025	5,000	100 + accrued interest	May 15, 2026
LCRA 2015D	May 15, 2025	5,000	100 + accrued interest	May 15, 2026

The LCRA bonds outstanding as of June 30, 2016, and 2015, are parity debt under the Master Resolution and they are collateralized by a lien on and pledge of the pledged revenues. Pledged revenues include all amounts received pursuant to contractual commitments and all lawfully available funds of LCRA. The LCRA Transmission Contract Revenue Bonds Series 2008, 2009, 2010, 2011A, 2011B, 2013, 2013A, 2015, and 2016 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 and Private Notes: LCRA is authorized to issue short term debt under four separate board approved programs. The first program, LCRA Tax-Exempt Series A, is authorized to issue up to $350.0 million in tax exempt commercial paper. The underlying facility, or bank agreement, is a $175.0 million agreement that expires on May 8, 2017. The second program, LCRA Taxable Series A, is authorized to issue up to $350.0 million in taxable commercial paper. This program is currently inactive. Both programs expire on May 15, 2020.

The third LCRA program, LCRA Series B, is authorized to issue up to a combined $250.0 million in taxable or tax-exempt commercial paper. This program expires on May 15, 2032. The facility under this program is a $150.0 million agreement that expires on Sept. 10, 2018. The last program, LCRA Private Revolving Notes Series C, is authorized to issue up to $100.0 million in taxable or tax-exempt notes. This program expires on May 15, 2025. The facility under this program is a $60.0 million agreement that expires on January 25, 2019.

LCRA TSC is authorized to issue short term debt under three board approved programs. The first program, LCRA TSC Project Tax-Exempt Series, is authorized to issue up to $200.0 million in tax exempt commercial paper. It expires on May 15, 2042. The underlying facility related to this program is a $200.0 million agreement that expires on April 25, 2018. The second program, LCRA TSC Tax-Exempt Series B, is authorized to issue up to $150.0 million in tax-exempt commercial paper. It is currently inactive and expires May 15, 2042. The final program, LCRA TSC Private Revolving Note Program Series C, is authorized to issue up to $150.0 million in tax-exempt notes. This program expires on May 15, 2024, while the underlying facility agreement of $150.0 million expires on July 14, 2017.

The proceeds from these LCRA or LCRA TSC programs can be used to provide system improvements, acquire fuel reserves and facilities, refund outstanding debt, and pay interest on outstanding debt. All debt under the commercial paper programs is issued in denominations of $100,000 or more with maturities of 270 days or less from the respective issue dates. Failure by LCRA or LCRA TSC to meet certain restrictive covenants under any of these agreements could result in the withdrawal of the banks' commitments for the unused lines of credit. There were no borrowings under any of the facility agreements as of June 30, 2016, and 2015.

The total outstanding commercial paper for LCRA and LCRA TSC at June 30, 2015 was $157.5 and $18.5 million, respectively. The total outstanding commercial paper for LCRA and LCRA TSC at June 30, 2016 was $138.8 and $0 million, respectively. There were no outstanding notes at June 30, 2016, and 2015. Both LCRA and LCRA TSC issue short term debt on a regular basis. Therefore, any issuances of commercial paper or notes after June 30, 2016 are not considered subsequent events and are not disclosed in the Notes to the Financial Statements.

Letters of Credit: LCRA maintains one facility with a bank for the issuance of a letter of credit. On June 30, 2016, a $30.0 million letter of credit was outstanding under the facility. The facility will expire on Jan. 7, 2017.

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, 2046.

Other Long-Term Liabilities: In Oct. 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 unearned revenues related to this agreement in the amounts of $62.1 million, and $63.9 million on June 30, 2016, and 2015, respectively.

Changes in other long-term liabilities were as follows in millions of dollars:

Description	Balance June 30, 2014 [5]	Increase	(Decrease)	Balance June 30, 2015 [5]	Increase	(Decrease)	Balance June 30, 2016 [5]
Unearned Revenues - City of Austin [1]	$ 66.4	$	$ (2.5)	$ 63.9	$	$ (1.8)	$ 62.1
Payables Related to Debt Funded Capital [2]	14.7	9.2	(10.4)	13.5	12.2	(14.0)	11.7
SAWS Project Advances [3]	6.4		(1.2)	5.2	0.3	(1.6)	3.9
Land Options [4]	2.5		(2.5)	-			-
Environmental Liabilities	0.3	0.2	(0.1)	0.4		(0.1)	0.3
Pension Liability-GASB Statement No. 68	114.1	45.9	(57.2)	102.8	48.4		151.2
Litigation Settlements	29.9		(29.9)	-			-
Other Long-Term Liabilities	14.0	6.2	(4.4)	15.8	14.9	(22.2)	8.5
Total	$ 248.3	$ 61.5	$ (108.2)	$ 201.6	$ 75.8	$ (39.7)	$ 237.7

[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 to address the long-term water needs in region. Balance on June 30, 2016 represents the remaining total payments owed to SAWS as the result of the termination of the project and related settlement. Annual payments are $1.4 million less $0.2 million discount amortization.

[4] Land purchase options exercised in FY 2015.

[5] Balances exclude Other Postemployment Benefits (OPEB) payable. See Note 5 - Other Postemployment Benefits.

LCRA has no quantitative ratios, calculations or requirements to maintain any level of debt service coverage by long-term debt covenants. Similarly, there are no quantitative ratios, calculations or debt service coverage requirements in any credit facility agreements for LCRA debt obligations. As of June 30, 2016 LCRA is in compliance of its long-term debt covenants and credit facility agreements.

LCRA TSC is required by its long-term debt covenants to maintain annual revenues that are sufficient: (i) to produce a 1.25x coverage ratio on certain payments under the Initial Contractual Commitment due LCRA, (ii) to pay all Operating and Maintenance Expenses, (iii) to produce a 1.25x coverage ratio on debt service on existing LCRA TSC debt and any other parity debt, (iv) to pay all other debt of LCRA TSC, and (v) to produce amounts to fund any required capital charge coverage ratios required by the financial policies of LCRA TSC and to accumulate the required funds in any debt service reserve fund or any other funds of LCRA TSC. There are no additional quantitative ratios or calculations required by credit facility agreements for LCRA TSC. As of June 30, 2016, LCRA TSC is in compliance of all of its long-term debt covenants and credit facility agreements.

4. Retirement and 401(K) Plan Benefits

Plan Description: The LCRA Retirement Benefits Board of Trustees is the administrator of the plan, a single-employer defined benefit pension plan sponsored by the Lower Colorado River Authority. The Board of Directors of LCRA has sole authority to amend the plan. The plan issues a stand-alone report pursuant to GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which is available from the Board of Trustees. The report may be obtained by writing the LCRA Retirement Benefits Board of Trustees at P. O. Box 220, Austin, TX 78767. See that report for all information about the plan fiduciary net position.

As of plan date, the Lower Colorado River Authority Retirement Plan and Trust is in compliance with GASB Statement No. 72, *Fair Value Measurement and Application.* Under GASB Statement No. 72, LCRA is required to disclose the valuation technique and level of inputs for all investments. One of the acceptable valuation techniques, and that which LCRA uses is the market approach. The market approach is defined as: *using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets or liabilities, such as quoted prices.* GASB Statement No. 72 also requires that assets and liabilities be categorized into three levels.

Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs are derived from or corroborated by observable market data through correlation or by other means, e.g., quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or, market-corroborated inputs.

Level 3 inputs are unobservable inputs for the asset or liability; they should be used only when relevant Level 1 and Level 2 inputs are unavailable. Governments may use their own data to develop unobservable inputs if there is no information available without undue cost and effort.

The following is a summary of the pension plan investments by fair level value *(Dollars in Millions)*:

Asset Category	Cash	Level 1	Level 2	Level 3	Total
Cash & Cash Equivalents	$ 17.2	$ -	$ -	$ -	$ 17.2
Fixed Income	-	115.8	-	-	115.8
Equity	-	90.1	175.7	-	265.8
In-Transit	1.2	-	-	-	1.2
Total	$ 18.4	$ 205.9	$ 175.7	$ -	$ 400.0

Benefits Provided: Eligible employees of the LCRA, those hired before May 1, 2012, are covered by the plan, which provides retirement, death and disability benefits. Effective Jan. 1, 2002 the plan was amended to provide cash balance benefits for all employees employed or reemployed on or after Jan. 1, 2002 who become plan participants. Furthermore, active employees as of Dec. 31, 2001 were given the opportunity through the LCRA Retirement Choice Program to elect either to become participants under cash balance provisions (cash balance participants) or to remain under the pension provisions (pension participants).

The pension participant's retirement benefit for each year of service is 1.75 percent of the highest five-year average monthly compensation plus 0.4 percent of that portion of the highest five-year average monthly compensation which exceeds the monthly integration level. The monthly integration level is a sliding scale based upon the calendar year in which termination of employment occurs, with the level being $3,245 for those terminating employment in 2016 and increasing to $3,300 for those terminating employment in 2020, and later. The retirement benefits for pension participants became 100 percent vested after three years of vesting service. Pension participants may retire with unreduced accrued benefits at age 65 with five years of employment or when the total of age and service equals 80. There are no automatic or guaranteed post-retirement cost of living adjustments, but ad hoc retiree benefit increases may be granted by plan amendment. Pension participants are not required to contribute to the plan, although the plan retains employee contributions and associated liabilities from plan years prior to April 1, 1984 when the plan did require employee contributions.

All employees initially employed or reemployed by the LCRA on or after Jan. 1, 2002 and before May 1, 2012 who complete three consecutive months of credited service are eligible to participate in the plan as a cash balance participant as of the monthly anniversary date coincident with or first following the completion of three consecutive months of credited service. The cash balance account consists of a beginning balance, monthly contribution credits and monthly interest credits. The beginning balance is zero unless the cash balance participant was employed prior to Jan. 1, 2002, in which case the beginning balance is the pension plan lump sum value, if any, as of Dec. 31, 2001 or, if greater, the transition value determined as of Dec. 31, 2001. The transition value was based on credited service and compensation averaged over 60 months of employment, both determined as of Dec. 31, 2001. Contribution credits are equal to 4 percent of compensation paid during a month. Interest credits are added at the end of each month to the cash balance account based on an annual effective interest rate of 7 percent. Cash balance participants became 100 percent vested after three years of service.

Employees Covered by the Plan:

In the fiscal year actuarial valuation, the following numbers of employees were covered by the plan:

	2016	2015
Inactive employees or beneficiaries currently receiving benefits	808	788
Inactive employees entitled to but not yet receiving benefits	107	133
Active Employees	1,306	1,413
Total Participants	2,221	2,334

Contributions: At the March 21, 2012 meeting, the LCRA Board amended the plan to close it to new entrants effective May 1, 2012. Given the closing of the plan to new entrants, the plan's actuaries recommended a new funding policy beginning with the plan year April 1, 2012 - March 31, 2013. The LCRA Board has sole authority to determine the employer's contribution, taking into consideration the actuaries' recommended contribution.

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 Net Pension Liability 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, they recommended that the amortization period for the plan be 25 years beginning April 1, 2012. Given the closed group of employee participants, the amortization of the Net Pension Liability was switched from level percent of participant payroll contributions to level dollar contributions.

Based on this funding policy, the actuaries' recommended contribution for the plan years ending March 31, 2017, and March 31, 2016, are $17.9 million and $16.3 million payable as of April 1, 2016, and April 1, 2015, respectively. For the FY 2016, and FY 2015, the total recommended contributions are $18.6 million and $18.0 million, respectively. These amounts will fund the plan's normal cost for the fiscal years and will amortize the Net Pension Liability at a level dollar amount over the remaining 21 and 22 years respectively. There are no required contributions by the participants; however some employee contributions are made to purchase optional credited service.

Ultimately, the funding policy also depends upon the total return of the plan's assets, which varies from year to year. Investment policy decisions are established and maintained by the LCRA Retirement Benefits Board of Trustees. The board employs and selects investment managers with the advice of their investment consultant who is completely independent of the investment managers. For the years ending March 31, 2016 and March 31, 2015 the money-weighted rate of return on pension plan investments was 0.20 percent and 5.79 percent, respectively. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the contributions received and the benefits paid during the year.

Net Pension Liability: The Employer's net pension liability was measured as of FY 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2016.

2016	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
	(Dollars in Millions)		
Amounts as of June 30, 2015[1]	$ 517.8	$ 415.0	$ 102.8
Changes for the year:			
Service cost	6.5		6.5
Interest	38.1		38.1
Differences between expected and actual experience	4.6		4.6
Contributions by the employer		21.1	(21.1)
Contributions by the participants		1.2	(1.2)
Net investment income		0.8	(0.8)
Benefit payments	(38.1)	(38.1)	
Assumption changes	21.0		21.0
Purchase of optional credited service	1.2		1.2
Plan amendments	0.1		0.1
Net changes	33.4	(15.0)	48.4
Amounts as of June 30, 2016[2]	$ 551.2	$ 400.0	$ 151.2

1 Measurements for the fiscal year ended June 30, 2015, were taken as of March 31, 2015.
2 Measurements for the fiscal year ended June 30, 2016, were taken as of March 31, 2016.

The Employer's net pension liability was measured as of FY 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015.

2015	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
	(Dollars in Millions)		
Amounts as of June 30, 2014[1]	$ 511.6	$ 397.5	$ 114.1
Changes for the year:			
Service cost	7.2		7.2
Interest	37.8		37.8
Differences between expected and actual experience	(6.4)		(6.4)
Contributions by the employer		27.5	(27.5)
Contributions by the participants		0.4	(0.4)
Net investment income		22.9	(22.9)
Benefit payments	(32.9)	(32.9)	
Administrative expenses		(0.3)	0.3
Assumption changes			
Purchase of optional credited service	0.4		0.4
Plan amendments	0.2		0.2
Net changes	6.3	17.6	(11.3)
Amounts as of June 30, 2015[2]	$ 517.9	$ 415.1	$ 102.8

1 Measurements for the fiscal year ended June 30, 2014, were taken as of March 31, 2014.
2 Measurements for the fiscal year ended June 30, 2015, were taken as of March 31, 2015.

Optional Credited Service: Under certain conditions, plan members may purchase optional credited service once they are 100 percent vested and after crediting such optional service, employees would then be eligible to commence immediate payment of an early retirement or normal retirement benefit. Optional credited service may be purchased solely to accelerate satisfaction of the rule of 80, early retirement, or normal retirement eligibility or to increase the amount of an early retirement or normal retirement benefit to which the employee would otherwise be entitled with recognition of optional credited service. The cost related to the purchase of optional credited service can be satisfied by means of a rollover from the employees LCRA 401(k) plan account, LCRA deferred compensation plan account or from any other monetary sources (e.g., checking account).

Actuarial Assumptions: The total pension liability in the April 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00	percent in 2016, 3.25 percent in 2015
Salary increases	3.50	percent in 2016, 4.00 percent in 2015 plus merit and promotion increases that vary by age and service
Investment rate of return	7.25	percent in 2016, 7.50 percent in 2015, net of pension plan investment

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table for males and for females (gender distinct) projected to 2018 by scale AA. The assumed retirement rates, termination rates, and rates of merit and promotion increases were based on an experience study over the five plan years ending in 2010.

The long-term expected rate of return on pension plan investments is reviewed annually and was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage (4.46 percent in 2016, and 4.57 percent in 2015), and by adding expected inflation (3.00 percent in 2016 and 3.25 percent in 2015). In addition, the final 7.25 percent assumption was selected by "rounding down" and thereby reflects a reduction of 0.21 percent for adverse deviation in 2015.

Investment Policies: The Board of Directors approved the Lower Colorado River Authority Retirement Plan and Trust, as most recently amended and restated effective April 1, 1994, ("the Plan") Section 9.01 of the Plan created the Board of Trustees (the "Board"). The Board was delegated the responsibility to administer the Plan in accordance with its terms, and all powers necessary to accomplish that purpose including, but not limited to, the right, power and authority to: (1) employ and supervise an investment consultant to assist the Board in the selection and ongoing evaluation of one or more investment managers, the establishment of investment objectives and guidelines, and the allocation of Plan assets among the various investments, and (2) select, employ and compensate, from time to time, such pension trust consultants, actuaries, accountants, attorneys, and investment managers, as the Board may deem necessary and advisable for the proper and efficient administration of the Plan.

The Plan is administered by the Board. The Plan is a defined benefit pension plan maintained to provide retirement benefits and/or death benefits, as the case may be, to participants and their beneficiaries. The Board is charged by law with the overall responsibility for the administration of the assets of the Plan. To assist the Board in this function, it is authorized and permitted to delegate certain of its responsibilities to investment manager(s) who possess the necessary specialized research facilities and skilled professionals, to act as prudent experts in investing the assets of the Plan. In keeping with responsibilities under applicable laws, one of the purposes of this Master Statement is to define the Plan's investment objectives, and discuss the Plan's tolerance for risk and volatility. Another is to communicate clearly to the investment manager(s) certain of their duties and responsibilities, and the investment objectives of this Plan.

The primary goal of the Plan is to provide participants and their beneficiaries with retirement benefits according to provisions of the Plan. The Plan's assets must be invested with the care, skill and diligence that a prudent expert acting in this capacity would undertake. The overall investment objective of the Plan is to invest the funds in such a manner as to achieve a reasonable growth of the corpus while maintaining a consistent payout capability. This should be achieved within the framework of the Master Statement consistent with the Plan's general objective of safety and preservation of principal. The minimum expected total return is the actuarial assumption approved by the Board on an annualized basis. The actuarial rate of return is a figure that should be net of expenses. This objective should be pursued as a long-term goal designed to maximize the benefits available without exposure to undue risk.

The target plan asset allocation is as follows: 22 percent Large cap domestic equities, 5.5 percent Small cap domestic equities, 15 percent Long/Short equity, 27.5 percent International equities, 15 percent Domestic fixed income, 10 percent Absolute Return, and 5 percent Global fixed income. There were no changes to this target in the current plan year

The target allocation and expected arithmetic net real rates of return for each major asset class changed between 2015 and 2016 and will not be presented in a comparative table. 2016 is summarized in the following table:

2016		
Asset Class	**Target Allocation**	**Long-Term Expected Net Real Rate of Return**
Domestic equity		
Large cap	22.0%	6.37%
Small cap	5.5	5.95
International equity		
Developed	20.0	6.10
Emerging	7.5	7.55
Fixed income		
Core	15.0	1.71
Global	5.0	1.94
Alternatives		
Long/short equity	15.0	2.85
Absolute return	10.0	1.62
Total	100.0%	
Weighted average		4.46%

The target allocation and expected arithmetic net real rates of return for each major asset class are summarized for 2015 in the following table:

2015		
Asset Class	**Target Allocation**	**Long-Term Expected Net Real Rate of Return**
Domestic equity		
Large cap	35.0%	6.13%
Small cap	10.0	6.03
International equity	20.0	6.11
Fixed income	35.0	1.71
Total	100.0%	
Weighted average		4.57%

Discount Rate: The discount rate used to measure the total pension liability was 7.25 percent in 2016 and 7.50 percent in 2015. No projection of cash flows was used to determine the discount rate because the April 1, 2016, and April 1, 2015 actuarial valuations showed that expected contributions would pay the normal cost and amortize the Net Pension Liability in 21 and 22 years, respectively. For FY 2016, because of the 21-year amortization period with level dollar amortization of the Net Pension Liability, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments of 7.25 percent was applied to all periods of projected benefit payments as a discount rate to determine the total pension liability. For FY 2015, the Net Pension Liability was based on an actuarial value of assets that was $2.0 million less than the plan fiduciary net position as of March 31, 2015. Because of the 22-year amortization period with the lower value of assets and with level dollar amortization of the Net Pension Liability, the pension plan's fiduciary net position was expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term, expected rate of return on pension plan investments of 7.50 percent was applied to their respective period's projected benefit payments as the discount rate to determine the total pension liability in FY 2015.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the employer for FY 2016 and FY 2015, respectively, calculated using the discount rate of 7.25 percent in 2016 and 7.5 percent in 2015, as well as what the employer's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent in 2016 and 6.5 percent in 2015) or 1-percentage-point higher (8.25 percent in 2016 and 8.5 percent 2015) than the current rate:

(Dollars in Millions)

2016	1 Percent Decrease (6.25%)	Current Discount Rate (7.25%)	1 Percent Increase (8.25%)
Employer's Net Pension Liability	$206.8	$151.2	$103.5

(Dollars in Millions)

2015	1 Percent Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percent Increase (8.5%)
Employer's Net Pension Liability	$153.2	$102.8	$59.3

Plan Fiduciary Net Position: The plan fiduciary net position reported above is the same as reported by the plan. Detailed information about the plan fiduciary net position is available in the Plan's separately issued audited financial statements, which are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Investments are reported at fair value, the price that would be recognized to sell an asset in an orderly transaction between market participants at the measurement date.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the years ended June 30, 2016, and 2015, the Employer GASB Statement No. 68 pension expense was $22.4 million, and $13.8 million, respectively. Amounts recognized in the fiscal year are for the plan year between the current and prior measurement dates.

Components of Pension Expense for the Fiscal Year Ended

	2016	2015
	(Dollars in Millions)	
Service Cost	$ 6.5	$ 7.2
Interest	38.1	37.8
Projected earnings on pension plan investments	(29.5)	(29.7)
Amortization of differences between expected and actual experience on plan investments	4.6	(1.2)
Amortization of changes in assumptions	2.8	-
Amortization of differences between expected and actual experience	(0.2)	(0.8)
Pension plan administrative expenses	-	0.3
Plan amendments	0.1	0.2
Total pension expense	$ 22.4	$ 13.8

Deferred Outflows of Resources and Deferred Inflows of Resources to Be Recognized in Pension Expense in Future Years

2016	Deferred Outflows of Resources	Deferred Inflows of Resources
	(Dollars in Millions)	
Net difference between projected and actual earnings on pension plan investments	$ 22.0	$
Changes of assumptions	18.2	
Differences between expected and actual experience	4.0	4.8
Subtotal	$ 44.2	$ 4.8
Contributions subsequent to measurement date	4.8	
Total	$ 49.0	$ 4.8

2015	Deferred Outflows of Resources	Deferred Inflows of Resources
	(Dollars in Millions)	
Differences between expected and actual experience	$	$ 5.6
Net difference between projected and actual earnings on pension plan investments		2.1
Contributions subsequent to measurement date	4.7	
Total	$ 4.7	$ 7.7

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Net of Deferred Outflows Less Deferred Inflows
	(Dollars in Millions)
2017	$ 12.0
2018	7.2
2019	9.7
2020	8.4
2021	2.6
Therafter	4.3
Total	$ 44.2

A total of $4.8 million and $4.7 million were contributed subsequent to the measurement dates of the net pension liabilities for FY 2016 and 2015, respectively. These amounts are deferred outflows of resources that will be recognized as a reduction in the net pension liability in the fiscal years ending June 30, 2017, and 2016, respectively.

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 approval 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 $18,000 for both 2016 and 2015. Employees age 50 or older may contribute an additional $6,000 in both 2016 and 2015.

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 the employee elected to contribute to the plan. Contributions made by 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, 2016, 2015, and 2014 are presented below:

	2016	2015	2014
	(Dollars in Millions)		
Employer contributions	$ 5.5	$ 4.8	$ 4.3
Employee contributions	11.9	10.2	9.7

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 Jan. 2011, LCRA began funding its employees' and retirees' medical healthcare claim costs (see Note 6 in the Notes to the Financial Statements). 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 in the Notes to the Financial Statements). For Program A retirees, LCRA contributes 100 percent of the cost share amount. For Program B and Program C 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 2016 and FY 2015, retirees contributed $3.3 million in both years toward their health care costs.

Annual OPEB Cost and Net OPEB Obligation: The Annual Required Contribution (ARC) to the OPEB Plan is actuarially determined as of each valuation date. Actuarial valuations are performed on the OPEB Plan every two years. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The LCRA OPEB funding policy pays only for current health care 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 FY 2016 and FY 2015:

	Year Ended June 30,	
	2016	**2015**
	(Dollars in Millions)	
Annual required contribution	$ 9.6	$ 10.9
Interest on net OPEB obligation, beginning of year	1.4	1.5
Adjustment to annual required contribution	(1.2)	(1.3)
Annual OPEB cost (expense)	9.8	11.1
Contributions made - LCRA	(7.9)	(11.2)
Increase (decrease) in net OPEB obligation	1.9	(0.1)
Net OPEB obligation, beginning of year	36.6	36.7
Net OPEB obligation, end of year	$ 38.5	$ 36.6

LCRA's annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation for FY 2014 through FY 2016 were:

Unaudited
(Dollars in Millions)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 10.7	90%	$ 36.7
June 30, 2015	11.1	101	36.6
June 30, 2016	9.8	81	38.5

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, 2011	-	$ 213.1	0%	$ 213.1	144.5%	147%
July 1, 2013	-	211.7	0	211.7	135.8	156
July 1, 2015	-	180.8	0	180.8	128.4	141

[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 health care 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 plan 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, 2015, actuarial valuation the Entry Age Normal cost method was used. The actuarial assumptions included a 4.00 percent discount rate, a 3.25 percent inflation rate and a projected annual health care cost trend rate of 7.50 percent for FY 2015 reduced by decrements of 0.5 percent to an ultimate rate of 5.5 percent after six years. As of the July 1, 2015, valuation, the Unfunded Actuarial Accrued Liability is being amortized on an open basis as a level 7.48 percent of projected payroll over a 30-year amortization period.

There were changes in benefit provisions from the prior valuation so that all retirees and spouses will participate at ages 65 and over in a package of plans to supplement Medicare and the Medicare prescription Drug Plan, causing the actuarial accrued liability to decrease from $211.7 million in FY 2013 to $180.8 million in FY 2015. (See table above).

6. Commitments and Contingencies

Construction: Construction commitments through calendar year 2021 total $163.9 million for LCRA.

Sandy Creek Project: In FY 2016, LCRA received a cash arbitration award in the amount of $0.6 million and released LCRA of any other obligation which included an $8.4 million retainage on a contractor payable related to the incident. $9.0 million is reflected as nonoperating revenues on the Statements of Revenues, Expenses and Changes in Net Position.

LCRA received insurance proceeds of $5.3 million in FY 2015 for compensation of damages relating to the delay in the startup of Sandy Creek. Proceeds exceeding expenses resulting from the delay in startup are reflected as nonoperating revenues on the Statements of Revenues, Expenses and Changes in Net Position.

Ferguson Replacement Project: On April 20, 2011 the LCRA Board approved the Ferguson Replacement Project to replace the 420-MW Thomas C. Ferguson Power Plant built in 1974. LCRA and Fluor Enterprises executed the contract for the project on Aug. 25, 2011 and began construction on April 27, 2012. Fluor Enterprises achieved Final Completion on Sep.18, 2015.

Leases: LCRA leases and operates certain transmission facilities and equipment owned by eight 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 $13.0 million and $14.0 million in FY 2016, and FY 2015, respectively. Leases associated with transmission facilities comprise approximately 84 percent of total LCRA leases for FY 2016.

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, 2016 (dollars in millions):

Fiscal Year	Minimum Lease Payments	
2017	$	11.7
2018		11.7
2019		11.7
2020		11.4
2021		10.7

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

Coal and related transportation commitments for calendar years 2016 – 2018 total approximately $73.0 million. Both the Union Pacific Railroad and the BNSF Railway Company have transportation access to FPP. Currently, LCRA and Austin Energy are using a variable rate long term transportation contract 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 2018. LCRA is committed to buy a fixed amount of gas annually. LCRA's gas purchases under these contracts totaled $87.7 million for FY 2016. LCRA paid $2.2 million in FY 2016 for firm transportation rights on intrastate pipelines to deliver gas from supply points.

Purchased Power: LCRA has no contract with power marketers who provide firm electric energy in FY 2016.

Wind Power: In FY 2016, LCRA committed to purchase a portion of wind power from Papalote Creek Wind Farm and Indian Mesa Wind Farm. Total wind power capacity is 251 MW for LCRA and its customers. LCRA expects to pay approximately $45.1 million for purchases from all wind power plants in FY 2017, and $42.7 million per year from FY2018 through FY 2021.

Water Project Study: In FY 2012, San Antonio Water Systems (SAWS) and LCRA settled a lawsuit filed by SAWS against LCRA. As part of the settlement LCRA agreed to pay SAWS $1.4 million per year for eight years, without interest, beginning Nov. 1, 2012. The remaining payments of $5.6 million are being recovered from LCRA's water customers as payments are made.

Insurance Self-Funding: In addition to the purchase of commercial insurance, LCRA has established a self-insurance program to finance risk of loss. In the normal course of business, 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 self-funds each worker's compensation claim up to $0.75 million. Self-funding of property damage ranges from $0.1 million to $2.0 million depending on the insurance deductible for the loss event. Several commercial liability insurance policies cover liability claims up to the policy limits after meeting the deductibles. Based on an insurance risk analysis, LCRA carries no commercial insurance on transmission lines or dam structures. Settled claims have not exceeded commercial insurance limits in any of the past three fiscal years.

LCRA pays active employees' and pre-65 retirees' medical claims up to $0.3 million per covered member per plan year. Claims incurred and paid in a plan year above the limit are reimbursed to LCRA through stop loss insurance. In addition, LCRA pays prescription drug claims for both the active employee and pre-65 retiree groups, and both groups contribute premiums for their coverage.

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. Currently, no materially adverse impacts are anticipated.

Changes in the accrued liability amount for FY 2014 through FY 2016 in millions of dollars:

	Balance Beginning of Year	Changes in Estimates	Payments	Balance End of Year
FY 2014	$ 3.1	$ 24.8	$ (24.8)	$ 3.1
FY 2015	3.1	26.5	(26.8)	2.8
FY 2016	2.8	23.1	(22.5)	3.4

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, 2016, was as follows:

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Ending Balance
			(Dollars in Millions)			
Utility plant in service:						
Depreciable assets	$ 5,534.2	$	$ 128.5	$ (25.8)	$	$ 5,636.9
Non-depreciable assets	291.6		5.5	(0.2)		296.9
Total utility plant in service	5,825.8	-	134.0	(26.0)	-	5,933.8
Construction work in progress:						
Non-depreciable assets	84.2	198.6	(135.1)	2.6		150.3
Oil and gas property:						
Depletable assets	28.2					28.2
Other physical property:						
Depreciable assets	51.7		0.8			52.5
Non-depreciable assets	19.1		0.2	(0.2)		19.1
Total other physical property	70.8	-	1.0	(0.2)	-	71.6
Less accumulated depreciation	(2,008.3)			13.9	(173.1)	(2,167.5)
Water Rights	101.7					101.7
Capital assets, net	$ 4,102.4	$ 198.6	$ (0.1)	$ (9.7)	$ (173.1)	$ 4,118.1

Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Ending Balance
			(Dollars in Millions)			
Utility plant in service:						
Depreciable assets	$ 4,995.5	$	$ 615.5	$ (76.8)	$	$ 5,534.2
Non-depreciable assets	289.2		4.1	(1.7)		291.6
Total utility plant in service	5,284.7	-	619.6	(78.5)	-	5,825.8
Construction work in progress:						
Non-depreciable assets	518.9	186.5	(620.3)	(0.9)		84.2
Oil and gas property:						
Depletable assets	28.2					28.2
Other physical property:						
Depreciable assets	51.1		0.7	(0.1)		51.7
Non-depreciable assets	19.1					19.1
Total other physical property	70.2	-	0.7	(0.1)	-	70.8
Less accumulated depreciation	(1,869.1)	(14.3)		48.3	(173.2)	(2,008.3)
Water Rights	94.8		6.9			101.7
Capital assets, net	$ 4,127.7	$ 172.2	$ 6.9	$ (31.2)	$ (173.2)	$ 4,102.4

In July 2014, LCRA sold to an outside party, 18 water and wastewater systems with a net book value of approximately $25.2 million, resulting in a loss of $17.0 million. The sale is reflected as a special item on the Statements of Revenues, Expenses and Changes in Net Position. In June 2016, LCRA sold, to outside parties, the remaining three water and wastewater systems with a net book value of approximately $3.3 million for $5.4 million of cash and other considerations, resulting in a gain of $2.1 million. Revenues and expenses associated with the sale of the systems for FY 2016 and FY 2015 are:

	FY 2016	**FY 2015**
Revenues	$0.3 million	$0.7 million
Expenses	$0.1 million	$0.6 million

This divestiture did not have a significant impact on LCRA operations.

Additionally, the other gains and losses on disposition of assets reported on the Statements of Revenues, Expenses and Changes in Net Position result from ordinary business operations.

8. Segment and Component Unit Reporting

Governments using enterprise fund accounting and reporting standards to report 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 having one or more bonds outstanding with a revenue stream pledged in support of that debt.

Governments that have legally separate organizations for which the primary government is responsible are required to present component units. For segment and component unit reporting, the activity's revenues, expenses, gains and losses, assets, deferred outflow of resources, liabilities and deferred inflow of resources are required to be accounted for separately. LCRA TSC qualifies as a component unit and segment. GenTex Power Corporation qualifies as a component unit. LCRA Wholesale Energy Services Corporation (WSC Energy) also qualifies as a component unit.

Segment and component unit information for LCRA TSC:

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF NET POSITION

(Dollars in Millions)

	June 30, 2016	June 30, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 50.4	$ 42.2
Unrestricted investments	104.2	85.0
Receivables, net	57.7	50.8
Inventories, net	2.0	2.3
Other	0.3	0.1
Total current assets	214.6	180.4
Long-term Assets:		
Restricted cash and cash equivalents	11.3	0.6
Unrestricted investments	20.1	-
Accounts receivable from LCRA - restricted	95.4	94.5
Capital assets:		
Depreciable capital assets, net	1,947.3	1,933.4
Nondepreciable capital assets	317.6	286.5
Other charges		
Costs to be recovered from future revenues	11.6	35.6
Other charges	19.2	17.4
Total long-term assets	2,422.5	2,368.0
Total Assets	2,637.1	2,548.4
Deferred Outflow of Resources:		
Total Deferred Outflow of Resources	49.7	55.1
Total Assets and Deferred Outflow of Resources	$ 2,686.8	$ 2,603.5

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF NET POSITION

(Dollars in Millions)

	June 30, 2016	June 30, 2015
Liabilities		
Current Liabilities:		
Accounts payable to LCRA	$ 5.3	$ 7.1
Accounts payable	0.7	1.0
Interest payable	10.8	10.4
Other current liabilities	30.9	14.7
Bonds, notes, and loans payable	80.5	101.7
Total current liabilities	128.2	134.9
Long-term Liabilities:		
Accounts payable to LCRA from construction fund	14.6	9.0
Accounts payable from restricted assets	3.3	2.7
Bonds, notes, and loans payable	1,971.1	1,938.1
Other credits	0.7	0.3
Total long-term liabilities	1,989.7	1,950.1
Total Liabilities	2,117.9	2,085.0
Deferred Inflow of Resources:		
Total Deferred Inflow of Resources	0.6	-
Net Position		
Net investment in capital assets	375.4	363.7
Restricted for capital projects	0.5	-
Unrestricted	192.4	154.8
Total Net Position	568.3	518.5
Total Liabilities, Deferred Inflow of Resources, and Net Position	$ 2,686.8	$ 2,603.5

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Dollars in Millions)

	Year Ended June 30, 2016	2015
Operating Revenues		
Transmission	$ 376.9	$ 357.6
Transformation	13.6	13.8
Other	0.5	0.1
Total Operating Revenues	391.0	371.5
Operating Expenses		
Operations	116.0	110.3
Maintenance	7.9	7.7
Depreciation and amortization	67.2	65.7
Total Operating Expenses	191.1	183.7
Operating Income	199.9	187.8
Nonoperating Revenues (Expenses)		
Interest income	1.6	0.3
Loss on disposition of property	(10.4)	(11.9)
Interest on debt	(91.5)	(85.0)
Other expenses	(18.9)	(15.8)
Total Nonoperating Revenues (Expenses)	(119.2)	(112.4)
Income Before Prior Costs Recovered from Revenues, Capital Contributions and Transfers Out	80.7	75.4
Prior Costs Recovered from Revenues	(23.9)	(11.9)
Capital Contributions	0.1	0.4
Transfers Out	(7.1)	(7.1)
Change in Net Position	49.8	56.8
Total Net Position, Beginning of Year	518.5	461.7
Total Net Position, End of Year	$ 568.3	$ 518.5

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	Year Ended June 30, 2016	Year Ended June 30, 2015
Cash Flows From Operating Activities		
Receipts from customers	$ 401.6	$ 379.6
Payments to suppliers	(127.3)	(112.6)
Net cash provided by operating activities	274.3	267.0
Cash Flows From Noncapital Financing Activities		
Other expenses	(18.9)	(15.8)
Transfers out	(7.1)	(7.1)
Net cash used in noncapital financing activities	(26.0)	(22.9)
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(118.8)	(158.6)
Proceeds from sale of assets	-	1.5
Debt issue costs	(1.2)	(1.4)
Contributed capital received for capital costs	0.1	0.4
Proceeds from long-term debt	220.7	263.0
Proceeds from commercial paper	101.5	88.5
Debt principal payments	(88.4)	(71.6)
Interest paid	(87.1)	(89.6)
Payments to refund and defease debt	(218.4)	(253.6)
Net cash used in capital and financing activities	(191.6)	(221.4)
Cash Flows From Investing Activities		
Sale and maturity of investments	167.0	122.0
Purchase of investments	(206.1)	(172.2)
Interest received	1.3	0.5
Net cash used in investing activities	(37.8)	(49.7)
Net Increase (Decrease) in Cash and Cash Equivalents	18.9	(27.0)
Cash and Cash Equivalents, Beginning of Year	42.8	69.8
Cash and Cash Equivalents, End of Year	$ 61.7	$ 42.8

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	Year Ended June 30, 2016	Year Ended June 30, 2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 199.9	$ 187.8
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	67.2	65.7
Changes in assets, liabilities, and deferred outflow of resources:		
Accounts receivable	(6.9)	8.0
Inventories	0.2	(0.8)
Other current assets	(0.2)	-
Current liabilities	15.4	4.5
Other charges and deferred ouflow of resources	(1.7)	1.7
Other credits and other long-term liabilities	0.4	0.1
Net cash provided by operating activities	$ 274.3	$ 267.0
Noncash Investing and Capital and Related Financing Activities		
Investment market adjustments	$ (0.2)	$ (0.2)

Component unit information for GenTex Power Corporation:

GENTEX POWER CORPORATION
STATEMENTS OF NET POSITION
(Dollars in Millions)

	June 30, 2016	June 30, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$ 14.0	$ 1.6
Accounts receivable from LCRA	-	0.3
Inventories, net	1.8	1.7
Other	0.2	0.1
Total current assets	16.0	3.7
Long-term Assets:		
Restricted cash and cash equivalents	4.1	0.3
Restricted investments	-	3.8
Unrestricted investments	-	13.7
Capital assets:		
Depreciable capital assets, net	6.7	7.0
Total long-term assets	10.8	24.8
Total Assets	$ 26.8	$ 28.5
Liabilities		
Current Liabilities:		
Accounts payable to LCRA	$ 0.4	$ -
Accounts payable	0.8	0.5
Other current liabilities	0.8	0.9
Total current liabilities	2.0	1.4
Long-term Liabilities:		
Other credits	10.8	11.6
Total Liabilities	12.8	13.0
Deferred Inflow of Resources:		
Total Deferred Inflow of Resources	4.1	4.1
Net Position		
Net investment in capital assets	(4.3)	(4.2)
Unrestricted	14.2	15.6
Total Net Position	9.9	11.4
Total Liabilities, Deferred Inflow of Resources, and Net Position	$ 26.8	$ 28.5

GENTEX POWER CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

(Dollars in Millions)

	Year Ended June 30, 2016	Year Ended June 30, 2015
Operating Revenues		
Electric Revenues	$ 36.9	$ 97.2
Total operating revenues	36.9	97.2
Operating Expenses		
Fuel	25.0	69.4
Operations	2.5	3.9
Maintenance	5.7	7.9
General and Administrative	3.8	6.8
Depreciation	0.3	3.5
Total operating expenses	37.3	91.5
Operating Income (Loss)	(0.4)	5.7
Nonoperating Revenues (Expenses)		
Public Service Fund and Other Expenses	(1.1)	(2.0)
Special Items - Loss on net book value transfer to LCRA	-	(23.2)
Total Nonoperating Revenues (Expenses)	(1.1)	(25.2)
Change in Net Position	(1.5)	(19.5)
Total Net Position, Beginning of Year	11.4	30.9
Total Net Position, End of Year	$ 9.9	$ 11.4

GENTEX POWER CORPORATION
STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	Year ended June 30, 2016	Year ended June 30, 2015
Cash Flows From Operating Activities		
Receipts from customers	$ 36.9	$ 97.1
Payments to suppliers	(36.9)	(88.3)
Other payments	(0.2)	(0.3)
Net cash provided by (used in) operating activities	(0.2)	8.5
Cash Flows From Noncapital Financing Activities		
Other expenses	(1.1)	(1.6)
Transfers out	-	(23.6)
Net cash used in noncapital financing activities	(1.1)	(25.2)
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	-	(1.0)
Net cash used in capital and financing activities	-	(1.0)
Cash Flows From Investing Activities		
Sale and maturity of investments	17.5	5.0
Purchase of investments	-	(7.5)
Net cash provided by (used in) investing activities	17.5	(2.5)
Net Increase (Decrease) in Cash and Cash Equivalents	16.2	(20.2)
Cash and Cash Equivalents, Beginning of Year	1.9	22.1
Cash and Cash Equivalents, End of Year	$ 18.1	1.9
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (0.4)	$ 5.7
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	0.3	3.5
Changes in assets and liabilities:		
Inventories	(0.1)	1.5
Other current assets	0.1	-
Current liabilities	-	(0.2)
Other charges	0.8	-
Other credits, other long-term liabilities, and deferred inflow of resources	(0.9)	(2.0)
Net cash provided by (used in) operating activities	$ (0.2)	$ 8.5

WSC Energy financial activity is not material to these financial statements; however, for FY 2016 total assets are $332,940, liabilities are $612,947, and net position is ($280,007).

9. Derivative Instruments

Hedging Instruments: LCRA enters into natural gas and power transactions and power-related transactions to hedge its price exposure to fluctuations in the market price of natural gas and ERCOT power. A portion of LCRA's power transactions and power-related hedges are physical in nature and excluded from the scope of the financial trades disclosed below. LCRA typically sells power when forecasted economic generation is expected to exceed its forecasted load and buys power when forecasted load exceeds its forecasted economic generation. This activity helps insure that the actualized Fuel and Power Cost Recovery Factor (F&PCRF) is close to the forecasted F&PCRF and set in rates at the beginning of the year.

The contracts are accounted for in accordance with GASB Statement No. 53, which addresses recognition, measurement and disclosure related to derivative instruments. GASB Statement No. 53 requires derivatives to be reported on the Statements of Net Position at fair value and change in fair value to be deferred and reported on the Statements of Net Position or recognized on the Statements of Revenues, Expenses and Changes in Equity depending on effectiveness.

Contracts are evaluated pursuant to GASB Statement No. 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.

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 Statements of Net Position. 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 Statements of Net Position through the fuel factor (see Note 1, *Fuel and Power Cost Recovery Factor* (Fuel Factor) in accordance with regulatory accounting under GASB Statement No. 62.

LCRA's hedging transactions during FY 2016 were composed of call options, fixed price natural gas futures, basis and index swaps, and future swing swaps. The referenced index used for these transactions are Houston Ship Channel and Henry Hub. Settled transactions, with closing dates between July 2015 and June 2016, had settled with a loss of $0.5 million. The total notional amount as of June 30, 2016 for the closed hedging transactions was 79.0 million MMBtu; open transactions consist of 16.6 million MMBtu. The change in fair value for all hedging instruments held during FY 2016 was a $2.2 million loss.

On June 30, 2016, and 2015, the total fair value of outstanding derivative instruments was a net asset of $1.8 million and $0.1 million, respectively, reported in the Other Current Asset line item on the Statements of Net Position. Changes in fair value for effective derivatives (deferred outflow and inflow) are reported on the Statements of Net Position. 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 Statements of Net Position through the Fuel Factor.

Credit Risk: Credit risk is the risk of loss due to a counterparty defaulting on its obligations. LCRA's fuel derivative contracts and physical bi-lateral power sales expose LCRA to custodial credit risk. In the event of default or nonperformance by brokers or New York Mercantile Exchange (NYMEX), LCRA's operations could be materially affected. However, LCRA does not expect the exchanges 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 or physical bi-lateral trade 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 LCRA would lose the hedging benefit of a derivative or bi-lateral trade 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. LCRA believes termination risk is very low.

Basis Risk: Basis risk is the risk that arises when a hedged item and a derivative attempting to hedge that item are based on different indices. LCRA is exposed to basis risk on its financial and physical 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 2016, the NYMEX price was $2.92 per MMBtu, the WAHA price was $2.82 per MMBtu, and the HSC price was $2.85 per MMBtu. For June 2015, the NYMEX price was $2.82 per MMBtu, the WAHA price was $2.79 per MMBtu, and the HSC price was $2.82 per MMBtu.

The physical power contracts are typically settled at an ERCOT hub, while the LCRA load is settled at the LCRA load zone and LCRA power plants are settled at their respective resource node price. As a result the physical trades are exposed to basis risk as well. LCRA utilizes pre-assigned Congestion Revenue Rights (PCRRs), Congestion Revenue Rights (CRRs), and Point to Point trades (PTPs) to manage its power basis exposure.

Reporting Requirements: Under GASB Statement No. 72, LCRA is required to disclose the valuation technique and level of inputs for all investments. One of the acceptable valuation techniques, and that which LCRA uses is the market approach. The market approach is defined as: *using prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or a group of assets or liabilities, such as quoted prices.* GASB Statement No. 72 also requires that assets and liabilities be categorized into three levels. All of LCRA's investments are valued at a Level 1 input, defined as: *quoted prices for identical assets or liabilities in active markets that LCRA can access at the measurement date.* For derivative investments, LCRA uses quoted prices from Platts and CME-Henry Hub Natural Gas Futures Settlements to evaluate its hedging portfolios.

10. Financial Statement Disclosures related to Defaulting Customers

LCRA entered into settlement agreements with four of its customers that were settled in FY 2015 from litigation pending since 2012:

- *Lower Colorado River Authority v. City of Seguin, Texas*
- *Lower Colorado River Authority v. City of Boerne*
- *Lower Colorado River Authority v. City of Kerrville, Acting by and through Kerrville Public Utility Board*
- *New Braunfels Utilities v. Lower Colorado River Authority*

In 1974, LCRA entered into Wholesale Power Agreements (WPAs) with more than 40 customers, including the above-referenced cities.

The WPAs were amended in the late 1980s and early 1990s. One purpose of the amendments was to extend the WPAs an additional 25 years to 2016. If either party wanted to terminate the WPA in 2016, that party was required to provide notice to the other party in 2011. All of the above-referenced cities gave notice in 2011 that they intended to terminate their WPAs in 2016. Thirty-three LCRA customers chose not to terminate their WPAs in 2016 and entered into amended/restated contracts with LCRA through 2041. In 2012, the above four customers claimed LCRA breached the WPAs.

In Dec. 2014 LCRA and GenTex settled with New Braunfels Utilities. In the same month, LCRA settled with Boerne and Seguin. LCRA and Kerrville Public Utility Board settled their lawsuit in May 2015.

In FY 2015, LCRA made settlement payments totaling $26.8 million to its litigating customers. Because $29.9 million was accrued in FY 2014, there was a net credit to expense of $3.1 million in FY 2015 as shown on the Statements of Revenues, Expenses and Changes in Net Position.

LCRA recognized $24.1 million of bad debt expense in FY 2015 related to the write-off of customer receivables.

In all of these settlements, LCRA received the customers' share of output related to the GenTex Power Corporation.

LOWER COLORADO RIVER AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION (Unaudited)
As of and for the Years Ended June 30, 2016, and 2015
(Dollars in Millions)

Schedule of Changes in the Plan's Net Pension Liability and Related Ratios for the Last 10 Plan Years [1]

	Fiscal Year Ending June 30, 2016	Fiscal Year Ending June 30, 2015	Fiscal Year Ending June 30, 2014
1. Total Pension Liability			
a. Service cost	$ 6.5	$ 7.2	$ 7.2
b. Interest	38.1	37.8	37.2
c. Purchase of optional credited service	1.2	0.4	1.2
d. Differences between expected and actual experience	4.6	(6.4)	-
e. Changes of assumptions	21.0	-	-
f. Benefit payment	(38.1)	(32.9)	(43.8)
g. Plan amendments	0.1	0.2 [2]	-
h. Net Change in Total Pension Liability	**33.4**	**6.3**	**1.8**
i. Total Pension Liability - Beginning	**517.8**	**511.6**	**509.8** [3]
j. Total Pension Liability - Ending	**$ 551.2**	**$ 517.9**	**$ 511.6**
2. Plan Fiduciary Net Position			
a. Contributions by the employer	$ 21.1	$ 27.5	$ 31.2
b. Contributions by the participants	1.2	0.4	1.2
c. Net investment income	0.8	22.9	39.9
d. Benefit payments	(38.1)	(32.9)	(43.8)
e. Administrative expenses	-	(0.3)	(0.2)
f. Net Change in Plan Fiduciary Net Position	**(15.0)**	**17.6**	**28.3**
g. Plan Fiduciary Restricted Net Position - Beginning	**415.0**	**397.5**	**369.2**
h. Plan Fiduciary Restricted Net Position - Ending	**$ 400.0**	**$ 415.1**	**$ 397.5**
3. Employer's Net Pension Liability - Ending [Item 1(j) - 2(i)]	**$ 151.2**	**$ 102.8**	**$ 114.1**
4. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.6%	80.2%	77.7%
5. Covered-Employee Payroll	**$ 122.1**	**$ 114.7**	**$ 123.2**
6. Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	123.8%	89.6%	92.6%

Notes to Schedule:

[1] This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only available information is shown. Amounts recognized in the plan year represent changes between the current and prior measurement dates.

[2] Two plan amendments increased retirement benefits for certain participants.

[3] Determined from the ending total pension liability using the roll back procedure allowed for the initial year of implementing GASB Statement No. 67.

LOWER COLORADO RIVER AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION (Unaudited)
As of and for the Years Ended June 30, 2016, and 2015
(Dollars in Millions)

Schedule of Employer Contributions for the Last 10 Plan Years [1]

	Fiscal Year Ending June 30, 2016	Fiscal Year Ending June 30, 2015	Fiscal Year Ending June 30, 2014
1. Actuarially determined contribution	$ 17.0	$ 19.3	$ 20.9
2. Contributions in relation to the actuarially determined contribution	21.1	27.5	31.2
3. Contribution deficiency (excess)	$ (4.1)	$ (8.2)	$ (10.3)
4. Covered-employee payroll	$ 122.1	$ 123.2	$ 123.3
5. Contribution as a percentage of covered-employee payroll	17.3%	22.3%	25.3%

Notes to Schedule:

Valuation Date: April 1, 2015

The actuarially determined contribution amount for the plan year ending March 31, 2016 was calculated in the April 1, 2015 actuarial valuation.

Methods and assumptions used to determine the actuarially determined contribution:

Actuarial cost method	Entry age
Amortization method	Level amount, closed period
Remaining amortization period	22 years
Asset valuation method	5-year smoothed market
Inflation	3.25 percent
Salary increases	4.00 percent plus merit and promotion increases that vary by age and service
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation
Retirement age	rates that vary by age and service
Mortality	RP-2000 Combined Healthy Mortality Table for males and for females (gender distinct) projected to 2018 by scale AA

[1] This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only available information is shown.

LOWER COLORADO RIVER AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION (Unaudited)
As of and for the Years Ended June 30, 2016, and 2015
(Dollars in Millions)

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, 2011	$ -	$ 213.1	0%	$ 213.1	$ 144.5	147%
July 1, 2013	-	211.7	0	211.7	135.8	156
July 1, 2015	-	180.8	0	180.8	128.4	141

[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, 2014	$ 10.7	90%	$ 36.7
June 30, 2015	11.1	101	36.6
June 30, 2016	9.8	81	38.5