LOWER COLORADO RIVER AUTHORITY

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2013, and 2012

With Independent Auditors' Report

LCRA
ENERGY • WATER • COMMUNITY SERVICES

Lower Colorado River Authority
Financial Statements
As of and for the
Years Ended
June 30, 2013, and 2012

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Overview of the Financial Statements

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

Management's Discussion and Analysis

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

Statements of Net Position

Assets and liabilities of proprietary funds should be presented to 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 loss on early defeasance of debt.

Statements of Cash Flows

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

Notes to the Financial Statements

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

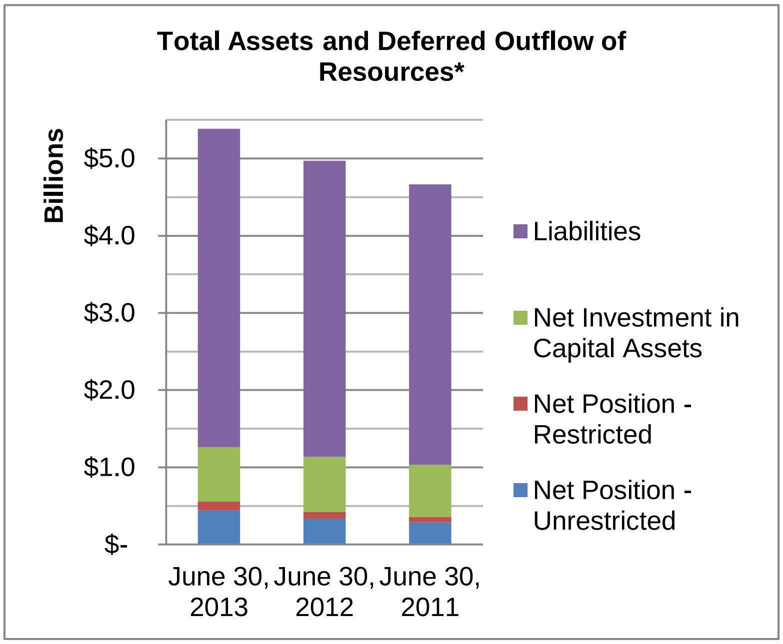
Financial Highlights

Statements of Net Position	**June 30, 2013**	**June 30, 2012**	**June 30, 2011***	**2013 vs. 2012**	**2012 vs. 2011***
	(Dollars in Millions)				
Current assets	**$ 716.3**	$ 557.8	$ 486.6	28%	15%
Capital assets, net	**4,005.8**	3,617.0	3,574.2	11%	1%
Other long-term assets	**527.6**	645.4	602.6	(18%)	7%
Total Assets	**5,249.7**	4,820.2	4,663.4	9%	3%
Total Deferred Outflow of Resources	**158.0**	163.9	-	(4%)	n/a
Total Assets and Deferred Outflow of Resources	**$ 5,407.7**	$ 4,984.1	$ 4,663.4	8%	7%
Current liabilities	**$ 492.8**	$ 595.4	574.2	(17%)	4%
Long-term liabilities	**3,631.8**	3,241.4	3,055.1	12%	6%
Total Liabilities	**4,124.6**	3,836.8	3,629.3	8%	6%
Total Deferred Inflow of Resources	**20.9**	11.8	-	77%	n/a
Net investment in capital assets	**704.0**	711.9	676.7	(1%)	5%
Restricted net position	**112.1**	87.4	68.8	28%	27%
Unrestricted net position	**446.1**	336.2	288.6	33%	16%
Total Net Position	**1,262.2**	1,135.5	1,034.1	11%	10%
Total Liabilities, Deferred Inflow of Resources, and Net Position	**$ 5,407.7**	$ 4,984.1	$ 4,663.4	8%	7%

* 2011 data was not restated for GASB 65 conformance.

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. See details in the Debt Activity section below. The following chart shows total assets for each of the last three years. It also identifies the amount of those assets funded by liabilities versus net position.



2013 Compared to 2012

Total assets and deferred outflow of resources increased by $423.6 million, or 8 percent over the prior year. This increase was driven by LCRA Transmission Services Corporation net capital assets increasing by $246.8 million for **transmission projects**, and **Ferguson Power Plant Replacement** project assets increasing by approximately $233.0 million. These were offset by $24.1 million in reductions to notes receivable related to the sale of water and wastewater facilities.

*2012 Compared to 2011**

Total assets increased $156.8 million, or 3 percent, over the prior year. The largest impacts include:

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

Additionally, $163.9 million in previous costs, primarily from unamortized loss on debt refunding, was reclassified as deferred outflow of resources for 2012 due to the implementation of GASB 65.

*2011 data was not restated for GASB 65 conformance.

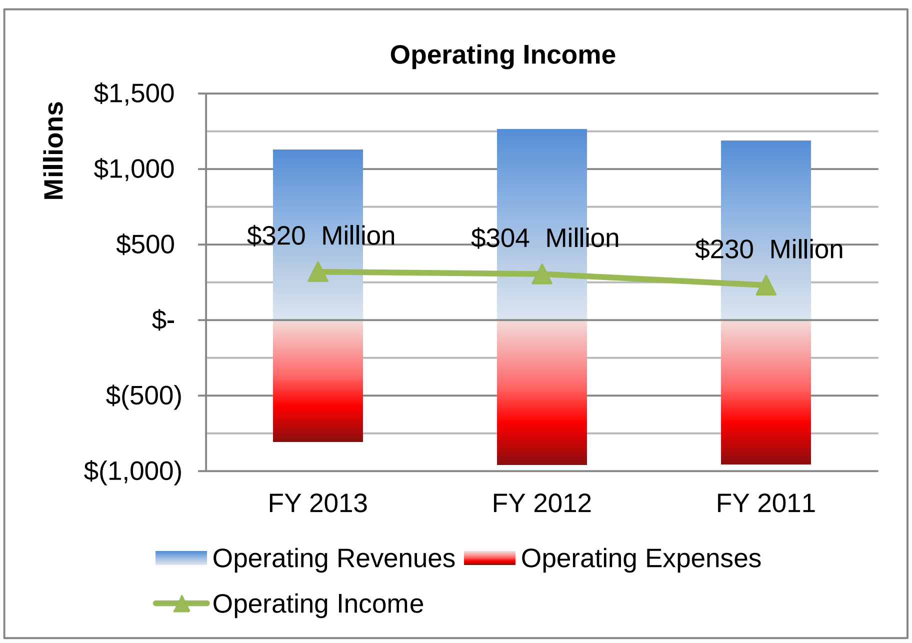
Condensed Statements of Revenues, Expenses and Changes in Net Position

(Dollars in Millions)	Year Ended June 30, 2013	2012	2011	2013 vs. 2012 Favorable/ (Unfavorable)	2012 vs. 2011 Favorable/ (Unfavorable)
Operating revenues	**$ 1,125.0**	$ 1,261.7	$ 1,185.8	(11%)	6%
Operating expenses	**(805.2)**	(957.5)	(955.9)	16%	(0%)
Operating income	**319.8**	304.2	229.9	5%	32%
Nonoperating revenues	**24.9**	23.1	17.0	8%	36%
Nonoperating expenses	**(223.0)**	(254.5)	(195.9)	12%	(30%)
Nonoperating loss	**(198.1)**	(231.4)	(178.9)	14%	(29%)
Special item	**5.0**	28.6	(2.2)	(83%)	1400%
Change in net position	**126.7**	101.4	48.8	25%	108%
Net Position, Beginning of Year	**1,135.5**	1,034.1	985.3	10%	5%
Net Position, End of Year	**$ 1,262.2**	$ 1,135.5	$ 1,034.1	11%	10%

Operating Income

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

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



2013 Compared to 2012

Operating income for FY 2013 increased $15.6 million, or 5 percent, over the prior year. The primary reasons for the increase were:

- $136.7 million decrease in operating revenue primarily due to a decrease in fuel revenue caused by lower actual expenses from not representing eight customers as their load QSE, and a decrease in customer costs per MWh.
- $152.3 million decrease in operating expenses primarily due to lower uplift and energy costs in FY 2013 compared to the prior year. Overall, LCRA sold 1 percent more generation to the market and purchased 18 percent less load during FY 2013.

2012 Compared to 2011

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

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

Nonoperating Loss

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

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

2013 Compared to 2012

LCRA's nonoperating loss decreased $33.3 million, or 14 percent, over the prior year. The most significant item contributing to nonoperating revenues and expenses in FY 2013 was:

- The nonoperating expense **prior costs recovered from revenues** decreased $28.7 million over the prior year primarily due to decreased principal payments.

2012 Compared to 2011

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

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

Special Item

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

2013 Compared to 2012

LCRA's special item related to the sale of the water/wastewater systems decreased by $23.6 million during FY 2013 as the sale activity was completed in the prior fiscal year.

2012 Compared to 2011

LCRA's special item increased by $30.8 million, or 1,400 percent, over the prior year. This was primarily due to net gains related to the sales of the West Travis County and Leander retail water and wastewater systems.

Capital Asset Activity

	FY 2013	FY 2012
Expended for construction activities	$ 592.7 million	$ 411.2 million
Donated assets	$ 0.4 million	$ 0.8 million
Depreciation expense	$ 160.5 million	$ 166.2 million
Asset retirements	$ 43.4 million	$ 202.2 million
Other capital asset activity	• In FY 2013, LCRA sold three additional water and wastewater systems. The assets taken off the books had a net book value of $21.6 million. The net gain recorded on all sales totaled $5.0 million. LCRA expects all divestiture activity to be complete by FY2014.	• During FY 2012, **LCRA sold seven water and wastewater systems**. The assets taken off the books had a net book value of $168.0 million; there was an additional $3.7 million of construction work in progress also removed from the books. The net gain recorded on all sales totaled $28.6 million. • In FY 2012, LCRA signed purchase and operations **agreements to sell 20 of the 24 remaining retail water and wastewater systems to one utility operator. Operations of these systems transferred on July 1, 2012.** Once regulators approve the final sale of these systems, the assets will be transferred to the buyer.

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

Capital Expansion and Improvement Program

LCRA's capital improvement and expansion program for FY 2014 through FY 2018 is $1.1 billion, with $0.6 billion, or 55 percent, to be debt funded. The majority of forecasted capital costs is for expansion of transmission services, dam improvements and generation facilities as well as additional corporate infrastructure and facilities. LCRA TSC continues to increase its transmission system investment due to the need for additional electric transmission capability statewide.

Debt Activity

	FY 2013	FY 2012
Tax-Exempt Commercial Paper (TECP) issued	$ 497.2 million	$ 304.9 million
Taxable Commercial Paper (TCP) issued	-	$ 0.1 million
Scheduled debt payments	$ 155.3 million	$ 150.4 million
Interest payments	$ 158.0 million	$ 155.5 million
Repayments of TECP	-	$ 19.3 million
Repayments of TCP	-	$ 0.8 million
Repayment of Taxable Term Bond	$ 3.9 million	$ 0.3 million
Bond issuance	• **LCRA Series 2012 A&B Refunding Revenue Bonds** ($488.1 million): Proceeds used to pay off $248.3 million in LCRA TECP and pay down a portion of LCRA Series 2001A, 2003, 2004, 2004D, 2006, 2008, 2008A and 2009 bonds. • **TSC Series 2013 Refunding Revenue Bonds** ($311.4 million): Proceeds used to pay off $320.0 million in TSC TECP. • **TSC Series 2013A Refunding Revenue Bonds** ($197.4 million): Proceeds used to pay down all of TSC Series 2003B, 2003C, 2004, 2005 and 2006 bonds.	• **TSC Series 2011 A&B Refunding Revenue Bonds** ($599.2 million): Proceeds used to pay off $221.0 million in TSC TECP and pay down a portion of TSC Series 2003B, 2003C, 2004, 2005 and 2006 bonds.
Other debt activity	• In FY 2013, LCRA used proceeds from the **sale of three water and waste water systems** to pay down $26.6 million of debt related to the purchase and improvement of the facility. Additionally, LCRA used proceeds from a note receivable payment to pay down $8.1 million of debt related to the FY 2012 Western Travis County water system sale.	• In FY 2012, LCRA used proceeds from the **sale of seven water and waste water systems** to pay down $39.4 million of debt related to the purchase and improvement of the facilities. LCRA also used **various reserve funds** to pay down $15.3 million of debt related to the Fayette Power Project.

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

Litigation

Seven of LCRA's Wholesale Electric customers have not been paying LCRA for services since September 2012 and another customer has not been paying since January 2013. There is currently litigation between LCRA and these defaulting customers involving numerous claims and counter-claims. These eight customers represent $56.1 million of accounts receivable as of June 30, 2013.

LCRA plans to vigorously defend its actions. The outcome of the litigation is unknown at this time.

Due to the inherent uncertainties surrounding the ultimate resolution of LCRA's claims and the counter-claims of the disputing customers, the final amounts billed and collected under the WPAs may differ from the amounts recorded in the financial statements of LCRA as of June 30, 2013 by an amount which may be material to LCRA's financial position, results of operations, and cash flows. Please see additional information about this litigation in Note 10.

Contacting LCRA's Management

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Lower Colorado River Authority (LCRA) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the LCRA'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 these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 the auditors' 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, the auditor considers internal control relevant to LCRA'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 LCRA'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 LCRA as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 10 to the financial statements, LCRA is involved in litigation with eight of their wholesale electric customers. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, LCRA adopted the provisions of GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, LCRA had a change in accounting principle for the valuation of coal inventory from the Last-In, First-Out (LIFO) method to the average cost method effective July 1, 2011. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress information as listed in the table of contents be presented to supplement the 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 an 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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 30, 2013

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

	June 30, 2013	June 30, 2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 225.4	$ 163.0
Investments	95.1	60.6
Receivables, net	201.8	190.3
Current portion of notes receivable	91.9	23.3
Accrued interest receivable	0.2	0.3
Inventories, net	99.2	102.2
Other	2.7	18.1
Total current assets	716.3	557.8
Long-term Assets:		
Restricted cash and cash equivalents	88.6	24.6
Restricted investments	176.6	194.3
Unrestricted investments	12.6	51.1
Capital assets:		
Depreciable:		
Utility plant in service	4,685.6	4,366.0
Oil and gas property	28.2	28.2
Other physical property	48.7	45.2
Less accumulated depreciation	(1,815.6)	(1,705.1)
Depreciable capital assets, net	2,946.9	2,734.3
Nondepreciable:		
Utility plant in service	217.5	195.5
Water rights	94.8	94.8
Other physical property	20.5	20.9
Construction work in progress	726.1	571.5
Nondepreciable capital assets	1,058.9	882.7
Notes receivable	37.5	130.2
Other charges		
Costs to be recovered from future revenues	205.1	229.7
Contract extension settlemement with major customers	2.7	3.5
Other charges	0.2	6.4
Other charges	208.0	239.6
Other	4.3	5.6
Total long-term assets	4,533.4	4,262.4
Total Assets	5,249.7	4,820.2
Deferred Outflow of Resources:		
Unamortized loss on debt refundings	158.0	156.8
Changes in fair value of hedging derivative	-	7.1
Total Deferred Outflow of Resources	158.0	163.9
Total Assets and Deferred Outflow of Resources	$ 5,407.7	$ 4,984.1

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

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

	June 30, 2013	June 30, 2012
Liabilities		
Current Liabilities:		
Accounts payable	$ 59.6	$ 78.5
Interest payable	25.5	21.4
Other current liabilities	39.0	69.3
Compensated absences	9.7	11.1
Bonds, notes, and loans payable	359.0	415.1
Total current liabilities	492.8	595.4
Long-term Liabilities:		
Accounts payable from restricted assets	75.1	50.6
Bonds, notes and loans payable	3,439.3	3,074.6
Other credits and other long-term liabilities	117.4	116.2
Total long-term liabilities	3,631.8	3,241.4
Total liabilities	4,124.6	3,836.8
Deferred Inflow of Resources:		
Regulatory credits	20.9	9.1
Changes in fair value of hedging derivative	-	2.7
Total Deferred Inflow of Resources	20.9	11.8
Net Position		
Net investment in capital assets	704.0	711.9
Restricted for debt service	21.9	34.0
Restricted for capital projects	2.0	7.2
Restricted other	88.2	46.2
Unrestricted	446.1	336.2
Total Net Position	1,262.2	1,135.5
Total Liabilities, Deferred Inflow of Resources and Net Position	$ 5,407.7	$ 4,984.1

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, 2013	2012
Operating Revenues		
Electric	$ 1,057.9	$ 1,182.1
Water, wastewater and irrigation	32.0	54.8
Other	35.1	24.8
Total Operating Revenues	1,125.0	1,261.7
Operating Expenses		
Fuel	277.4	319.1
Purchased power	124.7	131.8
Operations	204.4	295.4
Maintenance	36.9	43.0
Depreciation, depletion and amortization	161.8	168.2
Total Operating Expenses	805.2	957.5
Operating Income	319.8	304.2
Nonoperating Revenues (Expenses)		
Gain on disposition of property	2.7	8.2
Other income	18.7	7.8
Interest income	2.7	1.5
Amortization of losses on refundings	(16.1)	(16.2)
Loss on disposition of property	(20.0)	(26.1)
Interest on debt	(151.0)	(146.1)
Total Nonoperating Revenues (Expenses)	(163.0)	(170.9)
Income Before Prior Costs Recovered from Revenues, Capital Contributions, Special Item, Loss on Early Defeasance of Debt	156.8	133.3
Prior Costs Recovered from Revenues	(34.9)	(63.6)
Capital Contributions	0.8	5.6
Special Item - Sale of Water and Wastewater Systems (See Note 7)	5.0	28.6
Loss on Early Defeasance of Debt	(1.0)	(2.5)
Change in Net Position	126.7	101.4
Total Net Position - Beginning of Year	1,135.5	1,034.1
Total Net Position - End of Year	$ 1,262.2	$ 1,135.5

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, 2013	2012
Cash Flows from Operating Activities		
Received from customers	$ 1,122.7	1,234.4
Payments for goods and services	(513.7)	(617.5)
Payments to employees	(164.4)	(181.7)
SAWS lawsuit settlement (See Note 6, Water Project Study)	(1.4)	(18.8)
Other revenues	17.9	3.8
Net cash provided by operating activities	461.1	420.2
Cash Flows from Noncapital Financing Activities		
Grant proceeds received	1.0	0.6
Other revenues	4.5	7.1
Net cash provided by noncapital financing activities	5.5	7.7
Cash Flows from Capital and Related Financing Activities		
Purchase of property, plant, equipment and water option	(567.4)	(387.3)
Proceeds from sale of capital assets	57.7	42.3
Debt issue costs	(6.6)	(3.0)
Contributed capital received for capital costs	0.9	6.2
Proceeds from bond issues and commercial paper	1,629.7	1,019.9
Debt principal payments	(155.3)	(150.4)
Interest paid	(158.0)	(155.5)
Payments to refund and defease debt	(1,166.5)	(766.2)
Net cash used in capital and related financing activities	(365.5)	(394.0)
Cash Flows from Investing Activities		
Sale and maturity of investment securities	463.8	397.0
Purchase of investment securities	(444.2)	(376.5)
Interest received	5.7	3.7
Net cash provided by investing activities	25.3	24.2
Net Increase in Cash and Cash Equivalents	126.4	58.1
Cash and Cash Equivalents, Beginning of Year	187.6	129.5
Cash and Cash Equivalents, End of Year	$ 314.0	$ 187.6

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, 2013	2012
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 319.8	304.2
Nonoperating income - Sandy Creek delayed startup compensation	13.3	-
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	161.8	168.2
Changes in assets and liabilities:		
Accounts receivable	(10.3)	(1.4)
Inventories	2.9	0.3
Other current assets	14.0	17.0
Current liabilities	(54.3)	1.5
Other charges and deferred outflow of resources	8.5	4.6
Other credits, other long-term liabilities, and deferred inflow of resources	5.4	(74.2)
Net cash provided by operating activities	$ 461.1	$ 420.2
Noncash Investing Activities		
Investment market adjustments	$ (2.0)	$ (2.6)
Noncash Financing for Property, Plant and Equipment		
Purchase of equipment through short-term trade payables	$ 29.3	$ 22.8
Capital assets sold through long-term note receivables	$ -	$ 153.9

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

LOWER COLORADO RIVER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2013, and 2012

1. Significant Accounting Policies

Reporting Entity: The Lower Colorado River Authority (LCRA) is a conservation and reclamation district created by the Texas Legislature in 1934. It receives no state tax money and cannot levy taxes. It operates on revenues from the sale of wholesale electricity, water and other services. The LCRA Board of Directors (LCRA Board) is appointed by the governor of the State of Texas, with Senate approval, to serve six-year terms. The financial condition of LCRA is not controlled by or dependent on the State of Texas or any other political subdivision. Under the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* and *GASB Statement No. 61, The Financial Reporting Entity: Omnibus* – an amendment of GASB Statements No. 14 and No. 34, LCRA considers its relationship to the State to be that of a related organization.

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

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

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

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

Sandy Creek Energy Station: LCRA participates as a power purchaser and equity partner in the Sandy Creek Energy Station, a coal 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 in accordance with its accounting policies. 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.

Basis of Accounting: The accompanying financial statements of LCRA, a governmental entity, have been prepared using proprietary fund and accrual basis accounting. LCRA complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

LCRA's accounts are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from 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 are also considered operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as nonoperating.

Issued but not yet Effective Pronouncements: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will change the accounting and reporting requirements for pensions and replace GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* (Statement 27). The new standard is intended to provide more comparable and visible information within the annual financial statements of governments that provided defined benefit pensions. The new standard will require employers to report the difference between the actuarial total pension liability and the fair value of the legally restricted plan assets as the net pension liability on the statement of net position. Currently, a liability is only recorded if the actual contributions made to the plan were less than the actuarial calculated contributions for the year. In addition, there are new requirements as to how the actuarial study is completed and revised disclosures. LCRA is in the process of analyzing the impact of this statement on LCRA's financial position, results of operations, and cash flows.

Newly Adopted Standards for FY 2013: In FY 2013, LCRA implemented GASB Statement No. 61*, The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34.* The Statement modifies certain requirements for inclusion of component units in the financial reporting entity. In addition, the Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement clarifies the reporting of equity interest in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The implementation of Statement 61 did not have a material effect on LCRA's net position, results of operations or cash flows.

In FY 2013, LCRA early implemented GASB Statement No. 65, *Items previously reported as Assets and Liabilities.* In addition, LCRA implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. These Statements established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. It also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In addition these Statements also require certain debt-related costs to be expensed when incurred instead of amortizing the amounts over the life of the related debt. For comparative purposes, LCRA adjusted the FY 2012 financial statements. There was no cumulative impact on LCRA's net position. The implementation of these statements did not have a material impact on LCRA's financial position, results of operations or cash flows. However, $156.8 million of the $162.3 million balance in unamortized loss on refunding at June 30, 2012, was reclassified from Bonds, Notes, and Loans Payable to Deferred Outflows of Resources. The remaining $5.5 million was amortized and recorded as interest expense during FY 2013.

Major Customers and Electric Revenues: Sales of electricity to LCRA's one major customer represented approximately 21 percent of total electric revenue for FY 2013, and two major customers represented approximately 22 percent and 10 percent for FY 2012. No other customer represented more than 10 percent of LCRA's total electric revenues in FY 2013 or FY 2012.

Electric revenues represented approximately 96 and 95 percent of LCRA's operating revenues for FY 2013 and FY 2012, respectively.

A change in bill cycle occurred in FY 2013 moving the bill period from the 25th day of the month through the 24th day of the following month to a calendar month. This change resulted in six additional days of approximately $19 million in billings.

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

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

ERCOT Settlements Reporting: LCRA reports power balancing transactions, which represent wholesale purchases and sales of power for real-time balancing purposes as measured in 15-minute intervals. These purchases and sales with the Electric Reliability Council of Texas (ERCOT), as the balancing energy clearinghouse agent, are reported net. In FY 2013 these settlements resulted in net sales of power to LCRA and in FY 2012 these settlements resulted in net purchases of power to LCRA. These amounts are classified as power production expense and the revenues included are $41.1 million for FY 2013 and $136.3 million for FY 2012.

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, then unrestricted resources as they are needed.

Accounts Receivable and Allowance for Doubtful Accounts: Accounts receivable balances were $201.8 million and $190.3 million at June 30, 2013, and 2012, respectively. The balance at June 30, 2013, includes a wholesale customer past due balance related to current litigation. LCRA accounts receivable balances are subject to risk of nonpayment. Allowances to account for that risk have been calculated based on a three-year average of write-offs taken. The write-offs taken in FY 2013 were $0.3 million and in FY 2012 were $0.6 million. The write-off amounts represent an immaterial percentage of total sales in FY 2013 and FY 2012. The allowance for doubtful accounts balances were $0.4 million and $0.5 million at June 30, 2013, and 2012, respectively. Please see discussion of the accounts receivable from defaulting customers in Note 10, Litigation.

Notes Receivable: Notes receivable balances were $129.4 million and $153.5 million at June 30, 2013, and 2012, respectively. The balance at June 30, 2013, was primarily related to a $127.2 million (net of discount of $3.4 million) outstanding balance related to the sale of the West Travis County water and wastewater facility sold in FY 2012. Of the $129.4 million, $91.9 million is classified as current and presented as current portion of notes receivable on the Statements of Net Position. The remaining primary portion of the outstanding balance is for two tract land sales. Management believes all of the balance will be collected. As a result, there is no allowance for doubtful accounts related to the balances as of June 30, 2013, and 2012.

Other Long-Term Assets: Other long-term assets are comprised primarily of prepaid rent on LCRA general office complex land and an advance to FPP for operating costs.

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 costs of repairs and minor replacements are charged to operating expense as incurred. Costs of asset replacements and betterments are capitalized. The net book value of depreciable plant retired, along with removal expense less salvage value, is charged to nonoperating expense on the 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.

*Intangible Assets***:** Intangible assets include water rights, easements and internally generated software. Water rights and easements are stated at cost, have an indefinite life, are not amortized, and are now disclosed under the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Internally generated software is 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: In FY 2012, LCRA changed its method of accounting for coal inventory from the Last-In, First-Out (LIFO) method to the average cost method (see Note 1, *Change in Accounting Principle*). Stored natural gas, fuel oil, and materials and supplies are stated at average cost in both FY 2013 and FY 2012.

Nonfuel: Nonfuel inventories are stated at the lower of cost or market using the average cost method and are subject to write-off when deemed to be obsolete. LCRA has established a reserve for excess and obsolete inventory which is based primarily on inventory aging and historical analysis. The reserve is intended to adjust the net realizable value of inventory that LCRA may not be able to use due to obsolescence. The balance in the reserve was $0.8 million at both June 30, 2013 and June 30, 2012.

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 TSC 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 TSC debt includes long-term revenue bonds, commercial paper, and other notes outstanding. Amortization of debt discount and premium is computed using the effective interest method over the life of the related bond issues. Debt issue cost related to bond issues is expensed as incurred.

Refunding and Defeasance of Debt: For debt refunding, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a component of deferred outflows of resources. Gains or losses created by refunding transactions are amortized over the shorter of the remaining terms of the new issues or the refunded bonds. For debt defeasance, 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 Loss on early defeasance of debt, if significant. If not significant, the difference is recognized immediately as interest expense.

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

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

FY 2013 transmission revenues of $309.8 million were the result of rate changes authorized during the prior fiscal year. The predominant rate of $4.67 per kilowatt (kW) was in place from March 8, 2012, through June 30, 2013. LCRA TSC will file an interim update of wholesale transmission rates with the PUC in October 2013.

FY 2012 transmission revenues of $281.2 million were the result of rate changes authorized during the prior fiscal year. The predominant rate of $4.32 per kilowatt (kW) was in place from May 12, 2011, through March 7, 2012. LCRA TSC filed an update of wholesale transmission rates with the PUC on Nov. 4, 2011, and the PUC commissioners approved the new rate of $4.67 per kW on March 8, 2012.

Regulatory Assets and Credits: LCRA applies the accounting requirements of GASB Statement 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 would otherwise be charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates. In addition, rate actions of the regulator may impose a 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 asset is amortized over the life of LCRA's outstanding long-term debt, while a regulatory credit is recognized and charged to income when the associated costs are incurred. LCRA's regulatory assets amounted to $205.3 million and $243.4 million at June 30, 2013, and 2012, respectively. The 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 relating to other postemployment benefits. The balance of regulatory assets also includes an under-recovery of fuel costs of $7.7 million at June 30, 2012, and no balance at June 30, 2013.

Regulatory credits amounted to $20.9 million and $9.1 million at June 30, 2013, and 2012, respectively. The balance of regulatory credits also includes an over-recovery of fuel costs of $6.1 million at June 30, 2013.

In FY 2013, LCRA implemented GASB Statement No. 65, *Items previously reported as Assets and Liabilities* (Statement 65). As it relates to regulatory accounting, Statement 65 requires debt issuance costs be recognized as interest expense when occurred on the Statement of Revenues, Expenses and Changes in Net Position. However, no impact to net income occurred. This is due to GASB Statement No. 62, allowing for the capitalization of debt funded issue costs (interest expense) until the associated debt is paid. Therefore, the interest expense was offset by recognizing the amount in costs to be recovered.

Other Current Liabilities: Other current liabilities are comprised primarily of unbilled electric revenue, transmission cost of service (TCOS) liabilities, property tax accruals, and liabilities related to the hedging program.

Other Credits and Other Long-Term Liabilities: Other credits and other long-term liabilities are $117.4 million and $116.2 million at June 30, 2013, and 2012, respectively. Other credits and other long-term liabilities consist of environmental liabilities, supplemental executive retirement program liabilities, accrual for other post employment benefits, unearned revenues and the long-term portion of current liabilities.

Capitalized Interest: Interest can be capitalized as a part of the cost of capital assets if the assets are financed by debt proceeds. During FY 2013, LCRA did not capitalize interest. During FY 2012, LCRA capitalized $3.4 million.

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

Gas Price Management: Spot prices for natural gas ranged from $2.58 to more than $4.36 per million British thermal units (MMBtu) in FY 2013. In an effort to mitigate the financial and market risk associated with these price fluctuations, LCRA entered into futures contracts, swaps and options for energy price risk management purposes. Derivative instruments are recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period. LCRA is using Statement 62 accounting as a component of the fuel factor for its investment derivatives. Gains and losses related to the investment derivative contracts deemed to be 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*). LCRA has canceled the hedging program and is no longer entering into any new derivative contracts as of June 30, 2013.

Estimation of Fair Value: The estimated market value of long-term debt, based on current market yields, was $3.9 billion and $3.8 billion at June 30, 2013, and 2012, respectively.

Natural Gas Development and Production: LCRA has adopted the full-cost method of accounting for natural gas development and production. Under this method, all costs directly associated with acquisition and development of oil and gas properties are capitalized and depleted to expense over the life of proved reserves on a units-of-production method. Depletion expense totaled approximately $0.1 million for both FY 2013 and FY 2012.

Contract Extension Settlement with Major Customers: According to the terms of a 1987 settlement with two major customers, their wholesale power contracts were extended to 2016, and in return, LCRA reimbursed the customers for their costs incurred in planning generating facilities. These costs are amortized over the period affected by the contract extension. The amortization expenses were $0.8 million for both FY 2013 and FY 2012.

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, 2013, and no impairment as of June 30, 2012.

Depreciation, Depletion and Amortization: LCRA depreciates its plant in service on a straight-line basis over the estimated useful lives of the various classes of these assets. Annual depreciation expense, expressed as a percentage of depreciable plant, was approximately 4 percent for both FY 2013 and FY 2012. Depreciation, depletion and amortization expense for FY 2013 and FY 2012 was $161.8 million and $168.2 million, respectively.

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

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

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

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

In accordance with Statement 62, FY 2012 financial statements are presented adopting the new accounting principle as a change to beginning net position. However, the change in accounting does not impact LCRA's net position because coal expense is recovered from customers through fuel revenues. The cumulative impact of the change in principle increased inventory by $3.7 million and reduced the over-recovery of fuel costs liability by a corresponding $3.7 million. This applies to both FY 2012 beginning net position and ending net position.

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

2. Financial Instruments

As of June 30, 2013, and 2012, LCRA had the following investments and maturities:

	June 30, 2013		June 30, 2012	
	(Dollars in Millions)			
Type of Investment	**Market Value**	**WAM (Years)***	**Market Value**	**WAM (Years)***
Investments				
U.S. Government Securities	$ 284.3	1.14	$ 289.5	1.11
U.S. Agency Discount Notes	-	-	16.5	0.91
Cash Equivalents				
Investment Pools	286.8	0.19	161.0	0.20
Total	$ 571.1	0.66	$ 467.0	0.79

Cash and Investments as of June 30, 2013, and 2012 consisted of the following:

	June 30, 2013	June 30, 2012
Cash	$ 27.2	$ 26.6
Investments and Cash equivalents	571.1	467.0
Total Cash and Investments	$ 598.3	$ 493.6

*Weighted Average Maturity

External Investment Pool: LCRA investments included an investment pool with TexPool at June 30, 2013, and 2012. The State Comptroller of Public Accounts oversees TexPool, and the pool seeks to maintain a $1 value per share as required by the Texas Public Funds Investment Act. There are no minimum balance requirements for TexPool participants, and there is no limit on the number of accounts per participant.

LCRA investments included an investment pool with Local Government Investment Cooperative (LOGIC) at June 30, 2013, and 2012. First Southwest Company and J.P. Morgan Investment Management, Inc. oversee LOGIC and 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 Wells Fargo at June 30, 2013, and 2012. Federated Investment Management Company oversees Federated Prime Cash Obligations Funds and the pool seeks to maintain a $1 value per share as required by SEC 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, 2013, and 2012, LCRA had investments in separate accounts holding U.S. Treasuries, held for the use of debt service reserves, totaling $162.0 million and $165.7 million, respectively.

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

Credit Risk: LCRA's investment activities are governed by state statute (Texas Public Funds Investment Act), which specifies the type and ratings of investments governmental entities are allowed to purchase. In addition, LCRA Board policy and internal operating procedures further restrict investment activities.

	June 30, 2013		
Credit Risk	**Standard & Poor's**	**Moody's Ratings**	**Fitch Ratings**
TexPool investment pool	AAAm		
LOGIC investment pool	AAAm		
Federated Securities Corporation money market mutal fund	AAAm	Aaa-mf	AAAmmf
U.S. Treasuries	AA+u	Aaa	AAA

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

3. Long-Term Debt and Commercial Paper

Changes during FY 2013 and FY 2012 in long-term debt, including current portions, are as follows (dollars in millions):

Series	Balance June 30, 2011	Increase	(Decrease)	Balance June 30, 2012	Increase	(Decrease)	Balance June 30, 2013	Amount Due in FY 2014
LCRA TSC 2003B	$ 206.5	$	$ (158.2)	$ 48.3	$	$ (48.3)	$ -	$
LCRA TSC 2003C	106.0		(45.2)	60.8		(60.8)	-	
LCRA TSC 2004	104.7		(58.6)	46.1		(46.1)	-	
LCRA TSC 2005	109.3		(58.8)	50.5		(50.5)	-	
LCRA TSC 2006	118.1		(77.1)	41.0		(41.0)	-	
LCRA TSC 2006A	120.1		(4.5)	115.6		(4.5)	111.1	4.5
LCRA TSC 2008	163.2		(2.5)	160.7		(4.3)	156.4	6.0
LCRA TSC 2009	118.6			118.6		-	118.6	
LCRA TSC 2010	200.0		(4.1)	195.9		(4.3)	191.6	4.5
LCRA TSC 2011A	-	409.2	(20.3)	388.9		(15.8)	373.1	16.0
LCRA TSC 2011B	-	190.0	(4.4)	185.6		(9.1)	176.5	8.8
LCRA TSC 2013	-			-	311.4		311.4	1.5
LCRA TSC 2013A	-			-	197.4		197.4	1.7
LCRA 2012B	-			-	200.7	(14.6)	186.1	6.2
LCRA 2012A	-			-	287.4	(3.5)	283.9	5.6
LCRA 2011 Taxable	-	22.0	(0.3)	21.7		(3.9)	17.8	
LCRA 2010B	128.9		(5.9)	123.0		(6.2)	116.8	6.4
LCRA 2010A	244.3		(5.3)	239.0		(5.4)	233.6	5.6
LCRA 2010	363.8		(57.5)	306.3		(59.5)	246.8	61.5
LCRA 2009	165.8		(9.9)	155.9		(5.8)	150.1	2.7
LCRA 2008A	172.9		(2.6)	170.3		(3.9)	166.4	5.0
LCRA 2008	186.3		(3.3)	183.0		(163.4)	19.6	3.3
LCRA 2006	50.9		(6.9)	44.0		(36.7)	7.3	
LCRA 2004	31.0			31.0		(31.0)	-	
LCRA 2004D	32.1		(1.9)	30.2		(17.5)	12.7	
LCRA 2003	68.7		(4.0)	64.7		(49.2)	15.5	0.1
LCRA 2002	104.9		(12.1)	92.8		(3.4)	89.4	2.6
LCRA 2001A	94.8		(17.9)	76.9		(17.2)	59.7	0.1
LCRA 2001	28.9		(0.9)	28.0		(0.9)	27.1	1.0
LCRA 1999A	117.1			117.1		-	117.1	10.4
LCRA 1999B	24.8		(2.4)	22.4		(15.9)	6.5	6.5
LCRA 1999F	12.6		(12.6)	-			-	
Camp Swift Note Payable	-	0.3		0.3			0.3	
LCRA TWDB Note Payable	10.5		(10.5)	-			-	
Add: Unamortized Net Premium/Discount	86.7	51.3	(29.2)	108.8	139.3	(33.8)	214.3	7.8
Subtotal	$ 3,171.5	$ 672.8	$ (616.9)	$ 3,227.4	$ 1,136.2	$ (756.5)	$ 3,607.1	$ 167.8
Taxable Commercial Paper	22.3	0.1	(22.4)	-			-	
Tax-Exempt Commercial Paper	197.7	304.9	(240.3)	262.3	497.2	(568.3)	191.2	191.2
Total	$ 3,391.5	$ 977.8	$ (879.6)	$ 3,489.7	$ 1,633.4	$ (1,324.8)	$ 3,798.3	$ 359.0 [1]

[1] Total amount due in FY 2013 was $415.1 million.

Interest rates and maturity dates for bonds, notes and commercial paper are as follows as of June 30, 2013:

Series	May 15, From	May 15, To
LCRA TSC 2006A (4.20%-5.00%)	2014	2036
LCRA TSC 2008 (5.00%-5.25%)	2014	2035
LCRA TSC 2009 (3.75%-5.50%)	2016	2036
LCRA TSC 2010 (3.20%-5.00%)	2014	2040
LCRA TSC 2011A (4.50%-5.00%)	2014	2041
LCRA TSC 2011B (2.00%-5.00%)	2014	2026
LCRA TSC 2013 (3.25%-5.00%)	2014	2043
LCRA TSC 2013A (3.00%-5.00%)	2014	2036
LCRA 1999A (5.50%-5.875%)	2014	2020
LCRA 1999B (5.875%-6.00%)	2014	2014
LCRA 2001 (5.00%)	2014	2031
LCRA 2001A (5.00%-5.375%)	2014	2032
LCRA 2002 (4.75%-5.00%)	2014	2031
LCRA 2003 (5.00%-5.25%)	2014	2033
LCRA 2004D (4.75%-5.00%)	2014	2034
LCRA 2006 (4.00%-5.00%)	2014	2036
LCRA 2008 (5.00%-5.75%)	2014	2037
LCRA 2008A (5.00%-7.25%)	2014	2037
LCRA 2009 (3.25%-5.625%)	2014	2039
LCRA 2010 (3.00%-5.00%)	2014	2020
LCRA 2010A (4.00%-5.00%)	2014	2040
LCRA 2010B (3.00%-5.00%)	2014	2024
LCRA 2011 Taxable (Variable) (2)	2014	2014
LCRA 2012A (4.00%-5.00%)	2014	2039
LCRA 2012B (3.00%-5.00%)	2014	2037
Taxable Commercial Paper (1)		
Tax-Exempt Commercial Paper (1)		

(1) Commercial paper rates are variable as of June 30, 2013. Rates ranged from 0.14% - 0.18%. Outstanding notes are issued with maturities of 270 days or less from their respective issue dates.

(2) Matures November 1.

LCRA's debt as of June 30, 2013, has been rated by Fitch, Moody's and Standard & Poor's, respectively, as follows:

FITCH, MOODY'S AND STANDARD & POOR'S

Refunding and Improvement Revenue Bonds: A, A1 and A (Uninsured)
Commercial Paper: F-1, P-1, A-1
Commercial Paper Series B: F-1+, P-1, A-1+
LCRA Transmission Services Corporation Contract Refunding Revenue Bonds: A+, A2, A (Uninsured)
LCRA Transmission Services Corporation Commercial Paper: F-1, P-1, A-1
LCRA Transmission Services Corporation Commercial Paper Series B: F-1, P-2, A-1

Both Standard & Poor's and Moody's placed a negative watch on possible downgrade of the rating on LCRA revenue bonds due to the litigation dispute between LCRA and eight of its wholesale power customers (see Note 10 of the Notes to the Financial Statements). Standard & Poor's rates LCRA and LCRA TSC as a whole for credit rating purposes, and has therefore placed a negative watch on the LCRA TSC's rating as well.

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

Ending June 30	Principal	Interest	Total
2014	$ 160.0	$ 170.7	$ 330.7
2015	183.3	160.3	343.6
2016	179.8	151.9	331.7
2017	129.3	143.0	272.3
2018	137.1	136.6	273.7
2019-2023	680.7	579.0	1,259.7
2024-2028	622.2	415.8	1,038.0
2029-2033	651.3	253.8	905.1
2034-2038	488.0	99.7	587.7
2039-2043	161.1	16.5	177.6
	3,392.8	2,127.3	5,520.1
Unamortized Net Discount	214.3		214.3
Total	$3,607.1	$2,127.3	$5,734.4

New and Refunding Bonds: During FY 2013, LCRA issued $232.5 million of tax-exempt commercial paper. In addition, LCRA on behalf of LCRA TSC issued $264.7 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.

On Dec. 12, 2012, LCRA issued $287.4 million Refunding Revenue Bonds, Series 2012A, and $200.7 million of Refunding Revenue Bonds, Series 2012B, for a total par of $488.1 million. Series 2012A was a current refunding of commercial paper and bonds. A portion of the $340.9 million proceeds from Series 2012A were used to refund $248.3 million of tax-exempt commercial paper for LCRA and $81.0 million currently callable bonds from LCRA Series 2001A, 2004, 2004D and 2006. Series 2012B was an advance refunding of bonds only from LCRA Series 2003, 2008, 2008A and 2009 totaling $201.0 million. The escrow for the advanced refunding totaled $223.6 million. The refunding resulted in an accounting loss of $15.7 million.

Due to the refunding of the bonds, LCRA reduced its aggregate debt service payments by $52.0 million, resulting in an economic gain (the difference between the present value of the old and new debt service payments) of $46.1million.

On March 21, 2013, LCRA TSC issued $311.4 million Transmission Contract Refunding Revenue Bonds, Series 2013 Transmission Contract Refunding Revenue Bonds. Series 2013 was a refunding of $320.0 million tax-exempt commercial paper only.

On April 25, 2013, LCRA TSC issued $197.4 million Transmission Contract Refunding Revenue Bonds, Series 2013A. Series 2013A was a current refunding of bonds only. A cash deposit totaling $252.6 million was placed in an irrevocable escrow account to defease $246.8 million of LCRA TSC Series 2003B, 2003C, 2004, 2005 and 2006 Series bonds, all of which were entirely refunded. The refunding resulted in an accounting loss of $11.1 million.

Due to the refunding of the bonds, LCRA TSC reduced its aggregate debt service payments by $74.7 million, resulting in an economic gain of $33.5 million.

During FY 2012, LCRA issued $0.1 million of taxable commercial paper and $119.4 million of tax-exempt commercial paper. In addition, LCRA on behalf of LCRA TSC issued $185.5 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. A $22.0 million taxable bond was issued in place of the taxable commercial paper facility.

On Oct. 20, 2011, LCRA, on behalf of LCRA TSC, issued $409.2 million of Transmission Contract Refunding Revenue Bonds, Series 2011A, and $190.0 million of Transmission Contract Refunding Revenue Bonds, Series 2011B, for a total of $599.2 million. Series 2011A was a current refunding of commercial paper and bonds. A portion of the proceeds from Series 2011A were used to refund $221.0 million of tax-exempt commercial paper. In addition, government agency securities totaling $199.6 million was placed in an irrevocable escrow account to defease $194.5 million of currently callable LCRA TSC Series 2004, 2005 and 2006 bonds. Series 2011B was an advance refunding of bonds only. Government agency securities totaling $201.9 million were placed in an irrevocable escrow account to defease $190.0 million of LCRA TSC Series 2003B and 2003C bonds. The refunding resulted in an accounting loss of $27.3 million.

Due to the refunding of the bonds, LCRA TSC reduced its aggregate debt service payments by $36.3 million, resulting in an economic gain of $32.5 million.

The principal associated with the bonds previously refunded by LCRA but remaining outstanding at June 30, 2013, and 2012, totals $408.6 million and $439.0 million, respectively. 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 at June 30, 2013, and 2012.

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

Series	Redeemable on or after…	In increments of…	At a redemption price of…	Maturing on and after…
LCRA TSC 2006A	May 15, 2016	5,000	100 + accrued interest	May 15, 2017
LCRA TSC 2008	May 15, 2018	5,000	100 + accrued interest	May 15, 2019
LCRA TSC 2009	May 15, 2019	5,000	100 + accrued interest	May 15, 2020
LCRA TSC 2010	May 15, 2020	5,000	100 + accrued interest	May 15, 2021
LCRA TSC 2011A	May 15, 2021	5,000	100 + accrued interest	May 15, 2022
LCRA TSC 2011B	May 15, 2021	5,000	100 + accrued interest	May 15, 2022
LCRA 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 1999A	Currently Callable	5,000	100 + accrued interest	
LCRA 1999B	Currently Callable	5,000	100 + accrued interest	
LCRA 2001	Currently Callable	5,000	100 + accrued interest	
LCRA 2001A	Currently Callable	5,000	100 + accrued interest	
LCRA 2002	Currently Callable	5,000	100 + accrued interest	
LCRA 2003	Currently Callable	5,000	100 + accrued interest	
LCRA 2004D	Currently Callable	5,000	100 + accrued interest	
LCRA 2006	Currently Callable	5,000	100 + accrued interest	
LCRA 2008	May 15, 2015	5,000	100 + accrued interest	May 15, 2016
LCRA 2008A	May 15, 2018	5,000	100 + accrued interest	May 15, 2019
	May 15, 2015	5,000	100 + accrued interest	May 15, 2037
LCRA 2009	May 15, 2019	5,000	100 + accrued interest	May 15, 2020
LCRA 2010A	May 15, 2020	5,000	100 + accrued interest	May 15, 2021
LCRA 2010B	May 15, 2020	5,000	100 + accrued interest	May 15, 2021
LCRA 2011 Taxable	Quarterly	100,000	100 + accrued interest	
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

The LCRA bonds outstanding as of June 30, 2013, and 2012, are parity debt under the Master Resolution and are collateralized by a lien on and pledge of the pledged revenues. Pledged revenues are defined to include all amounts received pursuant to contractual commitments and all lawfully available funds of LCRA. The LCRA Transmission Contract Revenue Bonds Series 2006A, 2008, 2009, 2010, 2011A, 2011B, 2013 and 2013A are solely secured by the obligation of LCRA TSC to make installment payments to LCRA from the net revenues of LCRA TSC (subordinate to first lien on gross revenues securing the purchase price payments under the initial contractual commitment). Net revenues are defined as gross revenues less any purchase price payments due to LCRA and less the operating and maintenance expenses during the period.

Commercial Paper: LCRA is authorized to issue up to $350.0 million in short-term tax-exempt obligations and $350.0 million in short-term taxable obligations to provide system improvements, acquire fuel reserves and facilities, refund outstanding debt, and pay interest on outstanding debt. On Aug. 15, 2012, the LCRA Board authorized the issuance of up to $250.0 million in LCRA Commercial Paper Notes, Series B and Taxable Series B. This commercial paper program expires May 15, 2032. Under both programs outstanding notes are issued in denominations of $100,000 or more with maturities of 270 days or less from their respective issue dates. It is management's intent to periodically renew outstanding commercial paper upon maturity, and to periodically convert the commercial paper balances to long-term bonds.

LCRA maintains credit facilities with banks that provide available borrowings sufficient to pay the principal of the notes. LCRA has entered into a revolving credit agreement with a bank that is obligated to lend LCRA amounts of up to $175.0 million for the tax-exempt series. This facility expires on May 19, 2014. Under the new LCRA Series B program on Sept. 12, 2012, LCRA entered into a $100.0 million credit facility available to pay $91.7 million principal and $8.3 million interest. This facility expires Sept. 11, 2015. LCRA had an additional revolving credit agreement with banks that were obligated to lend LCRA aggregate amounts of up to $25.0 million for the taxable series, which was allowed to expire on Nov. 1, 2011. Failure by LCRA to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused lines of credit. There were no borrowings under any of the agreements as of June 30, 2013.

LCRA issued a $22.0 million taxable bond in place of the taxable commercial paper facility. The outstanding balance on the taxable bond was $17.8 million at June 30, 2013. This bond expires on Nov. 1, 2014.

LCRA TSC is authorized to issue tax-exempt commercial paper notes in an aggregate amount of principal and interest not to exceed $350.0 million under its commercial paper programs. The commercial paper programs expire on May 15, 2042. It is management's intent to periodically renew outstanding commercial paper upon maturity, and to periodically convert the commercial paper balances to long-term bonds.

LCRA TSC maintains two credit facilities with banks that provide available borrowing sufficient to pay the principal and interest on the notes. LCRA TSC Tax-Exempt Series is a $200.0 million credit facility, which is available for the payment of $183.7 million of principal and $16.3 million of interest. This agreement expires on April 25, 2015. Additionally, LCRA TSC Series B is a $150.0 million facility, available for the payment of $137.8 million of principal and $12.2 million of interest. This agreement expires on June 18, 2014. Failure by LCRA or LCRA TSC to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused line of credit. There were no borrowings under either credit facility agreement as of June 30, 2013.

Letters of Credit: LCRA maintains two facilities with two banks for the issuing of letters of credit. At June 30, 2013, a $50.0 million letter of credit and a $60.0 million letter of credit were outstanding under each facility. No outstanding amounts were borrowed against either facility at June 30, 2013. These facilities expire on Jan. 7, 2014 and Jan. 10, 2014, respectively.

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, 2043.

Other Long-Term Liabilities: In October 1999, LCRA entered into a long-term water supply agreement with the City of Austin. LCRA used the proceeds related to the agreement to pay down debt related to the acquisition of water rights, purchase additional water rights, and help fund other programs related to its river management operations. LCRA unearned revenue related to this agreement of $69.5 million and $72.3 million at June 30, 2013, and 2012, respectively.

Changes during FY 2013 and FY 2012 of other long-term liabilities were as follows (dollars in millions):

Description	Balance June 30, 2011 [5]	Increase	(Decrease)	Balance June 30, 2012 [5]	Increase	(Decrease)	Balance June 30, 2013 [5]
Unearned Revenues - City of Austin [1]	$ 75.1	$	$ (2.8)	$ 72.3	$	$ (2.8)	$ 69.5
Payables Related to Debt Funded Capital [2]	22.1	147.0	(127.3)	41.8	84.0	(64.0)	61.8
SAWS Project Advances Liability [3]	18.8	11.2	(21.3)	8.7		(1.1)	7.6
Derivative Market Adjustments	7.6		(6.8)	0.8		(0.8)	-
Water and Wastewater Acquisition Payments [4]	8.6		(8.6)	-			-
Accrued Interest Payable on TWDB Note [4]	2.9		(2.9)	-			-
Environmental Liabilities	4.7	0.4	(4.9)	0.2	0.3	(0.2)	0.3
Other Long-Term Liabilities	22.7	12.2	(21.3)	13.6	29.2	(25.1)	17.7
Total	$ 162.5	$ 170.8	$ (195.9)	$ 137.4	$ 113.5	$ (94.0)	$ 156.9

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

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

[3] Feasibility study with San Antonio Water System to address the long-term water needs in region. Balance at June 30, 2013, represents the remaining total payments owed to SAWS as the result of the termination of the project and related settlement.

[4] These payables do not exist on or after June 30, 2012, due to the sale of water and wastewater facilities.

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

4. Retirement and 401(k) Plan Benefits

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

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

Effective Jan. 1, 2002, the plan was amended to provide cash balance benefit features. Active employees as of Dec. 31, 2001, were given the opportunity to remain participants under the pension provisions (Retirement Program A) or to elect to become participants under the cash balance provisions (Retirement Program B). Employees hired prior to Jan. 1, 2002, who elected Program A and who worked at least 1,000 hours per annum were eligible plan participants in the plan upon completion of six months of service and became 100 percent vested after three complete years of service. An employee who was employed by LCRA prior to Jan. 1, 2002, and who elected Program B was eligible to participate in the cash balance benefit plan as of Jan. 1, 2002, and became 100 percent vested after three complete years of service. Any employee hired after Jan. 1, 2002, and before May 1, 2012, who works at least 1,000 hours per annum is automatically enrolled in Program B, is eligible to participate in the plan after three consecutive months of service and is 100 percent vested after three complete years of service. On March 21, 2012, the LCRA Board of Directors amended the plan, effective May 1, 2012, to close the plan to new participants. Employees hired on or after May 1, 2012, are eligible to participate in Retirement Program C, a defined contribution plan that includes a 401(k) but no retirement plan.

Under Program A, employees may retire with unreduced accrued benefits at age 65 with five years of service, or when the total of their age and service equals 80. Retirement benefits are based on years of service and base pay levels at retirement. The retirement benefit for an employee who has reached his or her normal retirement date is a single lump-sum payment equal to the participant's accrued balance or monthly payments as provided by the plan.

Funding Policy: Beginning in FY 2008 LCRA implemented a funding policy with predetermined contribution rates whereby LCRA would contribute 9.7 percent of biweekly aggregate employee payroll for 10 years ending with its FY 2017 and then subsequently contribute a lower rate each year thereafter. In the April 1, 2011, actuarial valuation, the plan's actuaries recommended the continued use of the 9.7 percent of payroll initial contribution rate with a subsequent contribution rate of 8.6 percent of payroll. The fixed contribution rates were designed to fund the plan's normal cost and to amortize the plan's unfunded actuarial accrued liability (UAAL) over a reasonable period of time. The UAAL amortization period was 21.5 years as of April 1, 2011.

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

In order for a public employee retirement plan to have an adequate contribution arrangement, contributions must be made that are sufficient to pay the plan's normal cost and to amortize the plan's total UAAL over a reasonable period of time. Based on the professional judgment of the plan's actuaries and the actuarial assumptions and methods used in the April 1, 2012 valuation, the maximum acceptable amortization period for the plan is considered to be 25 years. Furthermore, given the closed group of employee participants, the actuaries believed the amortization of the UAAL should switch from a level percent of participant payroll contributions to level dollar contributions. This funding methodology is also consistent with the accounting requirements in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

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

For the plan year ending March 31, 2014, the actuaries' recommended contribution is $20.1 million payable as of April 1, 2013. This will fund the plan's normal cost for the year and will amortize the UAAL as a level dollar amount over the remaining 24 years. Paid biweekly, the annual aggregate amount actuarially equivalent to the April 1, 2013, amount is $20.9 million.

Annual Pension Cost: For the fiscal year ending June 30, 2013, the employer's annual pension cost (APC) of $19.6 million was based on the annual required contributions (ARC) for the last nine months of the plan year ending March 31, 2013 (based on the April 1, 2012, actuarial valuation), plus the ARC for the first three months of the plan year ending March 31, 2014 (based on the April 1, 2013, actuarial valuation). The ARCs were in compliance with the GASB Statement No. 27 parameters in both of the actuarial valuations based on the entry age actuarial cost method. The actuarial assumptions for both valuations included (a) a 7.50 percent investment rate of return, net of administrative and investment-related expenses, and (b) projected base pay increases of 4.0 percent to 11.1 percent per year varying by entry age and years of service. Both (a) and (b) reflect an inflation component of 3.25 and 3.75 percent for the April 1, 2013, and 2012 actuarial valuation reports, respectively. The assumptions did not include any postretirement benefit increases. The UAAL was being amortized with level dollar amounts over a closed amortization period of 25 years as of April 1, 2012. In the April 1, 2013, actuarial valuation, the UAAL was amortized with level dollar amounts over a closed amortization period of 24 years.

Schedule of Funding Progress
Unaudited
(Dollars in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Annual Covered Payroll[1]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
April 1, 2011	$ 343.1	$ 494.0	69%	$ 150.9	$ 155.9	97%
April 1, 2012[2]	339.8	501.6	68	161.8	141.5	114
April 1, 2013[3]	354.8	508.7	70	153.9	123.3	125

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

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

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2011	$ 16.8	100%	$ -
June 30, 2012	17.8	100	-
June 30, 2013	19.6	100	-

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

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

Employees are eligible to participate in the plan immediately upon employment. Eligible employees who elect to participate in the plan may contribute a minimum of 1 percent of their annual compensation, up to a maximum not to exceed $17,500 in 2013. Employees age 50 or older may contribute an additional $5,500 in 2013.

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 the employee 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, 2013, 2012 and 2011 are presented below:

	2013	2012	2011
	(Dollars in Millions)		
Employer contributions	$ 4.1	$ 4.3	$ 4.0
Employee contributions	10.3	11.8	11.6

5. Other Postemployment Benefits

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

Funding Policy: In January 2011, LCRA began funding its employees' and retirees' medical healthcare claim costs (see Note 6). The LCRA OPEB funding policy pays only for current healthcare costs. LCRA contributes a portion of healthcare costs for retirees but makes no contribution for terminated employees. LCRA may contribute up to 80 percent of the total healthcare costs (cost share amount) depending on the retiree's retirement option choice (see note 4). For Program A retirees, LCRA contributes 100 percent of the cost share amount. For Program B retirees, LCRA may contribute 0, 25, 50, 75 or 100 percent of the cost share amount based on the retiree's length of service. In FY 2013 and FY 2012 retirees contributed $3.0 million and $2.8 million, respectively, 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 healthcare costs, which means no assets were set aside for future benefits. Therefore, a net OPEB obligation exists at year-end. The following represents the ARC, OPEB cost, contributions made, and changes in the net OPEB obligation for fiscal years 2013 and 2012:

Year Ended June 30,	**2013**	**2012**
	(Dollars in Millions)	
Annual required contribution	$ 13.7	$ 13.2
Interest on net OPEB obligation, beginning of year	1.4	1.0
Adjustment to annual required contribution	(1.0)	(0.8)
Annual OPEB cost (expense)	14.1	13.4
Contributions made - LCRA	(7.9)	(5.4)
Increase in net OPEB obligation	6.2	8.0
Net OPEB obligation, beginning of year	29.4	21.4
Net OPEB obligation, end of year	$ 35.6	$ 29.4

LCRA's annual OPEB cost, the percentage of the annual OPEB cost contributed and the net OPEB obligation for FY 2011 through FY 2013 were as follows:

Unaudited
(Dollars in Millions)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$11.5	49%	$21.4
June 30, 2012	13.4	41	29.4
June 30, 2013	14.1	56	35.6

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, 2009	$ -	$181.2	0%	$181.2	$139.3	130%
July 1, 2011	-	213.1	0	213.1	144.5	147
July 1, 2013	-	211.7	0	211.7	135.8	156

[1] Actuarial valuations are only required every two years.
[2] Based on projected payroll as of valuation date.

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

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

In the July 1, 2013, actuarial valuation the Entry Age Normal cost method was used. The actuarial assumptions included a 4.25 percent discount rate, a 3.25 percent inflation rate and a projected annual healthcare cost trend rate of 7.5 percent for FY 2013 reduced by decrements of 0.5 percent to an ultimate rate of 5.5 percent after six years. As of the July 1, 2013, valuation, the Unfunded Actuarial Accrued Liability is being amortized on an open basis as a level 5.38 percent of projected payroll over a 30-year amortization period.

6. Commitments and Contingencies

Construction: Construction commitments through 2018 total $177.3 million for LCRA.

Sandy Creek Project: LCRA has signed an agreement to participate as a power purchaser and 11 percent equity partner in the Sandy Creek Energy Station, a coal-fired electric generation plant located near Waco, Texas. The facility has received an air permit from the Texas Commission on Environmental Quality and other necessary permits. In addition, LCRA is committed to purchase 100 MW of power capacity from the Sandy Creek Energy Services through a purchase power agreement.

The unit was under construction and was scheduled to be operational in 2012; however, during start-up testing in October 2011, there was a boiler failure which significantly delayed when the plant would go on-line. The plant went on-line in May 2013. The cost related to the boiler failure, net of insurance proceeds, was written off to the loss on disposition of property on the Statement of Revenues, Expenses and Changes in Net Position. Insurance proceeds received in subsequent years will be recorded as nonoperating revenues and construction work in progress in accordance with GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. LCRA received insurance proceeds related to the boiler failure of $4.9 million and $3.9 million during FY 2013 and FY 2012, respectively.

During the year, LCRA received $10.3 million of insurance proceeds for compensation of damages relating to the delay in the startup of Sandy Creek. The insurance company has disputed the payment of the proceeds, and there is a possibility that LCRA may be required to return a portion of or all of the proceeds. LCRA and the insurance company are in negotiation. LCRA cannot reasonably estimate the amount of proceeds that may have to be returned. Proceeds exceeding expenses resulting from the delay in startup are reflected as nonoperating revenues on the Statement of Revenues, Expenses and Changes in Net Position.

Ferguson Replacement Project: On April 20, 2011 the LCRA Board approved the Ferguson Replacement Project with a budget of $500.8 million. The project involves building an approximately 540-MW combined-cycle power plant to replace the 420-MW Thomas C. Ferguson Power Plant. The previous plant was built in 1974. LCRA and the selected contractor executed the contract for the project on Aug. 25, 2011. LCRA began construction on April 27, 2012. The project was approximately 50 percent completed as of June 30, 2013.

Leases: LCRA leases and operates certain transmission facilities and equipment owned by 11 of LCRA's wholesale electric customers. The leases are the basis for LCRA to provide the same service to all of its customers and for the cost of such service to be shared by all customers on a consistent basis. Payments for the leased facilities vary from year to year and are based on the original cost of the facilities, adjusted for depreciation. Payments 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 $14.1 million and $16.3 million in FY 2013 and 2012, respectively. Leases associated with transmission facilities comprise approximately 86 percent of total LCRA leases for FY 2013.

The following is a schedule by year of future minimum rental payments required under the operating leases for the remaining noncancellable lease terms as of June 30, 2013 (dollars in millions):

Fiscal Year	Minimum Lease Payments
2014	$ 13.3
2015	13.7
2016	14.1
2017	14.5
2018	15.0

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

In calendar year 2013, approximately 30 percent of FPP Units 1 and 2's annual requirements are being supplied through a long-term contract with terms expiring at the end of calendar year 2013. Also for calendar year 2013, approximately 20 percent of annual requirements are being supplied pursuant to an annual contract. An additional multi-year contract, supplying 30 percent of the annual requirements during calendar years 2013 and 2014, expires in 2014.

In calendar year 2013, approximately 25 percent of the annual fuel requirements for FPP Unit 3 are being provided pursuant to an annual contract. Two multi-year contracts supply approximately 50 percent of the annual requirements during calendar year 2013.

Any remaining calendar year 2013 coal requirements for FPP Units 1, 2 or 3 will be supplied under a mix of shorter-term contracts at spot market prices from multiple vendors. LCRA's management does not anticipate difficulties in purchasing the remaining requirements at the then-prevailing market prices because it uses multiple suppliers and various types of coal contracts.

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

Natural Gas: LCRA has several long-term contracts to provide a portion of the natural gas requirements to its gas-fired generation units through April 2014. LCRA is committed to buy a fixed amount of gas annually. LCRA's gas purchases under these contracts totaled $93.5 million for FY 2013 and $86.6 million for FY 2012, based on price indices. LCRA also paid $4.3 million and $4.2 million in FY 2013 and FY 2012, respectively, for firm transportation rights on intrastate pipelines, which deliver gas from other supply points.

Purchased Power: LCRA has five contracts with power marketers, who provide firm electric energy ranging from 50 MW to 300 MW per month for the period July 2013 through August 2013.

Wind Power: LCRA is committed to purchase 35 MW of wind power capacity from the Texas Wind Power Project. LCRA in turn sells 10 MW of this capacity to Austin Energy. In FY 2014, LCRA is also committed to purchase 30 MW of wind power capacity from the Delaware Mountain Wind Farm, 200 MW of wind power from Papalote Creek Wind Farm, and 51 MW of wind power from Indian Mesa Wind Farm. Total wind power capacity is 316 MW, of which 306 MW is for LCRA and its customers. LCRA expects to pay approximately $47.3 million in FY 2014 for purchases from all wind power plants, decreasing to approximately $41.1 million by FY 2020.

Water Project Study: In 2002, LCRA signed an agreement with the San Antonio Water System (SAWS) to study the feasibility of transferring surface water from the Colorado River basin to San Antonio. The series of comprehensive studies conducted and paid for by SAWS pursuant to the contract showed in 2009 that a transfer of water to San Antonio could not meet legislative and contractual requirements, due in part to continuing growth in LCRA's service area.

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

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

Insurance Self-Funding: In addition to the purchase of commercial insurance, LCRA has established a self-insurance program to finance risk of loss. LCRA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and employee medical costs.

LCRA self-funds each worker's compensation claim up to $0.75 million. Self-funding of property damage ranges from $0.1 million to $2.5 million depending on the insurance deductible. Claims that are covered events are covered by commercial general liability insurance up to the policy limits after meeting the deductible. Based on an insurance risk analysis, LCRA carries no commercial insurance on transmission lines. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. During the fiscal year, LCRA replaced general excess liability coverage with additional policies covering specific areas of potential liability, including pollution and employment practices.

As of Jan. 1, 2011, LCRA pays employees' and retirees' medical health care benefit claim costs up to $0.3 million per person per condition. Any cost above this limit is covered by insurance. In addition, insurance covers aggregate actual costs which exceed 115 percent of projected aggregate claim costs.

LCRA pays drug prescription benefits and carries no insurance. LCRA charges employees and retirees a premium for medical and prescription benefits.

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

Changes in the accrued liability amount for FY 2013 and 2012 were as follows (dollars in millions):

	Balance Beginning of Year	Changes in Estimates	Payments	Balance End of Year
FY 2012	$ 3.3	$ 22.2	$ (22.4)	$ 3.1
FY 2013	3.1	23.2	(23.2)	3.1

Grants: LCRA has received federal and state grants for specific purposes 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, 2013, was as follows:

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Ending Balance
			(Dollars in Millions)			
Utility plant in service:						
Depreciable assets	$4,366.0	$	$ 411.6	$ (92.0)	$	$ 4,685.6
Nondepreciable assets	195.5		22.5	(0.5)		217.5
Total utility plant in service	4,561.5	-	434.1	(92.5)	-	4,903.1
Construction work in progress:						
Nondepreciable assets	571.5	592.7	(438.1)			726.1
Oil and gas property:						
Depletable assets	28.2					28.2
Other physical property:						
Depreciable assets	45.2		4.0	(0.5)		48.7
Nondepreciable assets	20.9			(0.4)		20.5
Total other physical property	66.1	-	4.0	(0.9)	-	69.2
Less accumulated depreciation	(1,705.1)			50.0	(160.5)	(1,815.6)
Water Rights	94.8					94.8
Capital assets, net	$3,617.0	$ 592.7	$ -	$ (43.4)	$ (160.5)	$ 4,005.8

During FY 2013, LCRA sold three water and wastewater systems following the LCRA Board's direction to seek a qualified buyer for all water and wastewater utility assets. The assets taken off the books had a net book value of $21.6 million. As a result of the sales, LCRA recognized a net gain of $5.0 million, which is reflected on the Statement of Revenues, Expenses and Changes in Net Position as a special item. LCRA used proceeds from the sale of the three water and wastewater systems to pay down $26.6 million of debt related to the purchase and improvement of the facilities. Approximate revenues and expenses associated with the sold systems are shown below:

	Operating Revenues	Nonoperating Revenues	Operating Expenses	Nonoperating Expenses
	(Dollars in Millions)			
FY 2013	$ 0.1	$ -	$ 1.3	$ 1.1
FY 2012	2.1	0.1	1.6	1.1

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

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

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

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

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 the 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, and liabilities are required to be accounted for separately. LCRA TSC qualifies as a component unit and segment. GenTex qualifies as a component unit.

Segment and Component Unit information for LCRA TSC:

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF NET POSITION

(Dollars in Millions)

	Year Ended June 30, 2013	Year Ended June 30, 2012
Assets		
Current Assets:		
Total current assets	$ 150.3	$ 121.9
Long-term Assets:		
Depreciable capital assets, net	1,528.1	1,427.7
Nondepreciable capital assets, net	548.5	402.1
Accounts receivable from LCRA - restricted	86.2	92.3
Other assets	75.4	70.2
Total long-term assets	2,238.2	1,992.3
Total Deferred Outflow of Resources	66.6	70.5
Total Assets and Deferred Outflow of Resources	$ 2,455.1	$ 2,184.7
Current Liabilities:		
Accounts payable to LCRA	$ 3.4	$ 9.7
Other current liabilities	155.3	204.1
Total current liabilities	158.7	213.8
Long-term Liabilities:		
Accounts payable to LCRA from construction fund	27.5	31.0
Other long-term liabilities	1,865.9	1,607.7
Total long-term liabilities	1,893.4	1,638.7
Net Position		
Net investment in capital assets	275.3	227.4
Unrestricted	127.7	104.8
Total Net Position	403.0	332.2
Total Liabilities and Net Position	$ 2,455.1	$ 2,184.7

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

(Dollars in Millions)

	Year Ended June 30, 2013	Year Ended June 30, 2012
Operating Revenues		
Transmission	$ 309.8	$ 281.2
Transformation	13.9	14.6
Other	1.1	0.6
Total Operating Revenues	324.8	296.4
Operating Expenses		
Operations	87.7	78.9
Maintenance	7.0	6.1
Depreciation and amortization	51.1	49.8
Total Operating Expenses	145.8	134.8
Operating Income	179.0	161.6
Nonoperating Revenues (Expenses)		
Interest and other income	2.6	2.3
Amortization of losses on refundings	(5.6)	(6.0)
Loss on disposition of property	(16.7)	(7.3)
Other expense	(8.2)	(8.5)
Interest on debt	(81.3)	(75.5)
Total Nonoperating Revenues (Expenses)	(109.2)	(95.0)
Income Before Cost to be (Prior Costs) Recovered from Revenues, Capital Contributions	69.8	66.6
Costs to be (Prior Costs) Recovered from Revenues	0.9	(25.3)
Capital Contributions	0.1	2.0
Change in Net Position	70.8	43.3
Total Net Position - Beginning of Year	332.2	288.9
Total Net Position - End of Year	$ 403.0	$ 332.2

LCRA TRANSMISSION SERVICES CORPORATION
STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	Year Ended June 30, 2013	2012
Cash Flows from Operating Activities		
Received from customers	$ 332.1	$ 281.7
Payments for goods and services	(98.6)	(95.3)
Net cash provided by operating activities	233.5	186.4
Cash Flows from Noncapital Financing Activities		
Grant proceeds received	-	0.2
Other expenses	(8.2)	(6.6)
Net cash used in noncapital financing activities	(8.2)	(6.4)
Cash Flows from Capital and Related Financing Activities		
Purchase of property, plant, equipment	(310.5)	(248.8)
Proceeds from sale of capital assets	4.8	-
Debt issue costs	(4.2)	(3.1)
Contributed capital received for capital costs	0.1	2.0
Proceeds from bond issues and commercial paper	824.9	878.4
Debt principal payments	(54.8)	(65.1)
Interest paid	(78.4)	(71.3)
Payments to refund and defease debt	(572.6)	(672.4)
Net cash used in capital and related financing activities	(190.7)	(180.3)
Cash Flows from Investing Activities		
Sale and maturity of investment securities	98.0	75.8
Purchase of investment securities	(128.0)	(69.3)
Interest received	0.7	0.5
Net cash provided by investing activities	(29.3)	7.0
Net Increase in Cash and Cash Equivalents	5.3	6.7
Cash and Cash Equivalents, Beginning of Year	47.2	40.5
Cash and Cash Equivalents, End of Year	$ 52.5	$ 47.2

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

	Year Ended June 30, 2013	Year Ended June 30, 2012
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 179.0	$ 161.6
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	51.1	49.8
Changes in assets and liabilities:		
Accounts receivable	7.4	(14.4)
Inventories	(0.6)	2.4
Current liabilities	1.6	-
Other charges and deferred outflow of resources	(5.0)	(12.8)
Other credits and other long-term liabilities	-	(0.2)
Net cash provided by operating activities	$ 233.5	$ 186.4
Noncash Investing Activities		
Investment market adjustments	$ (0.4)	$ (0.4)
Noncash Financing for Property, Plant and Equipment		
Purchase of equipment through short-term trade payables	$ 6.4	$ 0.6

Component Unit information for GenTex:

GENTEX POWER CORPORATION
STATEMENTS OF NET POSITION

(Dollars in Millions)

	Year Ended June 30, 2013	2012
Assets		
Current Assets:		
Accounts receivable from LCRA	$ -	$ 3.4
Other current assets	27.2	32.6
Total current assets	27.2	36.0
Long-term Assets:		
Depreciable capital assets, net	105.9	112.6
Other long-term assets	8.3	2.2
Total long-term assets	114.2	114.8
Total Deferred Outflow of Resources	-	1.1
Total Assets and Deferred Outflow of Resources	$ 141.4	$ 151.9
Liabilities		
Current Liabilities:		
Accounts payable to LCRA	$ 0.4	$ -
Other current liabilities	3.3	4.5
Total current liabilities	3.7	4.5
Total long-term Liabilities	93.5	99.5
Deferred Inflow of Resources	8.3	2.6
Net Position		
Net investment in capital assets	9.9	12.2
Restricted, other	2.3	2.3
Unrestricted	23.7	30.8
Total Net Position	35.9	45.3
Total Liabilities, Deferred Inflow of Resources, and Net Position	$ 141.4	$ 151.9

GENTEX POWER CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
(Dollars in Millions)

	Year Ended June 30, 2013	2012
Operating Revenues		
Electric	$ 112.3	$ 144.0
Total Operating Revenues	112.3	144.0
Operating Expenses		
Fuel	88.7	94.8
Operations	12.9	11.7
Maintenance	11.8	13.0
Depreciation, depletion, and amortization	6.6	6.6
Total Operating Expenses	120.0	126.1
Operating Income (Loss)	(7.7)	17.9
Nonoperating Expenses		
Other expenses	(1.7)	(1.7)
Loss on disposition of property	-	(1.1)
Total Nonoperating Expenses	(1.7)	(2.8)
Change in Net Position	(9.4)	15.1
Total Net Position - Beginning of Year	45.3	30.2
Total Net Position - End of Year	$ 35.9	$ 45.3

GENTEX POWER CORPORATION
STATEMENTS OF CASH FLOWS

(Dollars in Millions)

	Year Ended June 30, 2013	2012
Net cash provided by operating activities	$ 3.5	$ 20.4
Net cash used in noncapital financing activities	(1.7)	(1.7)
Net cash used in capital and related financing activities	-	(3.0)
Net Increase in Cash and Cash Equivalents	1.8	15.7
Cash and Cash Equivalents, Beginning of Year	30.4	14.7
Cash and Cash Equivalents, End of Year	$ 32.2	$ 30.4
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (7.7)	$ 17.9
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	6.6	6.6
Changes in assets and liabilities:		
Other current assets	4.8	(2.2)
Inventories	(0.1)	(0.1)
Current liabilities	(0.8)	1.9
Deferred outflow of resources	1.1	0.7
Other credits, other long-term liabilities, and deferred inflow of resources	(0.4)	(4.4)
Net cash provided by operating activities	$ 3.5	$ 20.4

9. Derivative Instruments

Hedging Instruments: LCRA entered into gas option contracts to hedge its price exposure to fluctuations in the market price of gas. The contracts were accounted for in accordance with Statement 53. Statement 53 addresses recognition, measurement and disclosure related to derivative instruments. Statement 53 requires derivatives to be reported on the 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 Net Position.

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

LCRA's management established a target unit price range and a risk hedging strategy for the outstanding gas purchases contracts. Derivative contracts were purchased in groups known as families, which are associated with individual future gas purchases. LCRA tested its fuel derivative instruments for effectiveness at the end of each month. If the net cash flow of the future gas purchased and the associated family of derivative instruments fell within the target unit price range established by management, the option contracts were considered effective and the change in fair value of the instruments was deferred on the Statements of Net Position. If deemed to be ineffective, the change in fair value of the instruments was immediately recognized in the Statements of Revenues, Expenses and Changes in Net Position as an operating expense and deferred to the Statements of Net Position through the fuel factor (see Note 1, *Fuel and Power Cost Recovery Factor* (Fuel Factor)). LCRA used the "Black" financial model to determine the fair value of its option contracts. This model estimates the fair value based on parameters such as the strike price, New York Mercantile Exchange (NYMEX) closing prices, implied volatility and time-to-expiration.

The following is a summary of the fair values, changes in fair value and notional amount of derivatives instruments outstanding as of June 30, 2013, and 2012 (gains shown as positive amounts, losses as negative):

Fiscal Year 2013

Type of Transaction	Duration	Classification	Volumes in MMBtu	Fair Value	Change in Fair Value
				(Dollars in Millions)	
Long Call	July 2008 - October 2012	Hedging Derivatives	-	$ -	$ 0.9
Short Call	July 2008 - October 2012	Hedging Derivatives	-	-	(0.5)
Short Put	July 2008 - October 2012	Hedging Derivatives	-	-	4.0
				$ -	$ 4.4
Long Call	July 2008 - October 2012	Investment Derivative	-	$ -	$ 1.4
Short Call	July 2008 - October 2012	Investment Derivative	-	-	(0.9)
Short Put	July 2008 - October 2012	Investment Derivative	-	-	7.0
				$ -	$ 7.5

Fiscal Year 2012

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

At June 30, 2013, LCRA did not have any liability for outstanding derivative instruments. The net liability recorded at June 30, 2012, for the total fair value of outstanding derivative instruments was $11.9 million. Changes in fair value for effective derivatives are reported on the Statements of Net Position as deferred outflows or inflows of resources. Changes in fair value for ineffective derivatives (investment derivative) are recognized as fuel operating expenses in the Statements of Revenues, Expenses and Changes in Net Position and deferred to the Statements of Net Position through the fuel factor.

LCRA generation customers previously had the ability to direct hedges for their fuel costs through LCRA's hedging program. LCRA did not evaluate these hedges under Statement 53 since the customer controlled the placing of the hedge, the notional amount and was ultimately responsible for the settlement. Prior to October 2012, participating customers' current month fuel expenses were adjusted on their monthly invoices for gains or losses as the contracts closed. In October and December 2012, participating customers requested LCRA take offsetting contracts to close their positions. Gains or losses were invoiced to the appropriate customer. LCRA records the market value of the customer contract on the Statements of Net Position as a current and long-term liability and an account receivable. Customers who participated in the program were responsible for current market net losses at the end of FY 2012, current market net losses of $2.7 million and long term liabilities of $0.8 million. LCRA has received the net gain or loss on all open customer directed contracts; however, there remains at the end FY 2013 $0.6 million in current liabilities and $0.1 million in long-term liabilities for open contracts.

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

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

Basis Risk: Basis risk is the risk that arises when a hedged item and a derivative that is attempting to hedge that item are based on different indices. LCRA is exposed to basis risk on its fuel hedges because it prices its financial derivative contracts on the NYMEX exchange while operationally, natural gas purchases are based on the Western Area Hub Association (WAHA) or the Houston Ship

Channel (HSC) index. This exposes LCRA to the basis risk between NYMEX and WAHA or HSC indices. For June 2013, the NYMEX price was $4.15 per MMBtu, the WAHA price was $4.13 per MMBtu, and the HSC price was $4.15 per MMBtu. For June 2012, the NYMEX price was $2.43 per MMBtu, the WAHA price was $2.59 per MMBtu, and the HSC price was $2.44 per MMBtu.

10. Financial Statement Disclosures related to Defaulting Customers

LCRA has entered into litigation with eight of its customers, separated into the following six cases:

- *Lower Colorado River Authority v. Central Texas Electric Cooperative, Inc., Fayette Electric Cooperative, Inc., and San Bernard Electric Cooperative, Inc.*
- *Lower Colorado River Authority v. City of Seguin, Texas*
- *Lower Colorado River Authority v. City of Georgetown, 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 over 40 customers, including the above-referenced cities and electric cooperatives (“co-ops”). Pursuant to the WPAs, LCRA agreed to provide goods and services (electricity and related services) to these customers, and these customers agreed to pay for same in accordance with a rate schedule that the LCRA could modify from time to time. The WPAs were “all requirements” contracts, meaning that these customers were required to purchase 100% of their electricity requirements from LCRA. The WPAs contained a Uniform Rate Clause that required the LCRA to offer a lower rate to a customer if the LCRA was offering that same lower rate to another, similarly-situated customer.

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 and co-ops gave notice in 2011 that they intended to terminate their WPAs in 2016. Another section of the amendments allowed the customers to obtain a portion of their electricity requirements from sources other than LCRA, but only with LCRA’s consent. In the years following the amendments (and after an annual analysis to determine whether it was a net benefit to the LCRA system), LCRA generally allowed its customers to obtain around 10% of their requirements from sources other than LCRA.

The LCRA customers who chose not to terminate their WPAs in 2016 entered into amended/restated contracts with LCRA through 2041 (the “2041 customers”). In conjunction, LCRA agreed to allow the 2041 customers the ability to reduce their requirements by up to 35% over time. For those customers who chose to terminate their WPAs in 2016 (the “2016 customers”), however, LCRA stood firm on the “all requirements” provision in the WPAs and required the 2016 customers to purchase 100% of their requirements from the LCRA, unless LCRA consented to the purchase of requirements from other sources.

In June 2012, the above-referenced cities and co-ops (with the exception of New Braunfels Utility (“NBU”)), sent letters to LCRA in which they asserted that LCRA was in breach of the WPAs. These cities and co-ops claimed that LCRA’s amended/restated contracts with the 2041 customers violated the Uniform Rate Clause because the 2016 customers were not allowed the same opportunities as the 2041 customers to reduce their requirements, claiming that they had been paying for power at a higher rate than the 2041 customers. These cities and co-ops threatened to terminate their WPAs if LCRA did not “cure” this alleged breach. These cities and co-ops also alleged that they were denied “the flexibility to reduce the reliance upon LCRA's power", which they alleged results in discriminatory treatment in violation of LCRA's enabling legislation. The cities and co-ops also complained that LCRA planned to retire certain bonds ahead of their normal payment schedule, which would impose additional costs on them.

LCRA instigated all of the above-referenced lawsuits except for the lawsuit involving NBU. LCRA filed all of its claims under Cause No. D-1-GN-12-002156 in Travis County. The original purpose of the lawsuit was two-fold: (1) to seek declaratory relief confirming that LCRA had not violated the WPAs or its enabling legislation; and (2) to seek temporary injunctive relief to prevent the cities and co-ops from terminating their WPAs.

LCRA dropped its request for temporary injunctive relief and moved forward on its requests for declaratory relief. Texas' mandatory venue laws required that LCRA's lawsuits against Boerne and Kerrville be transferred to their home counties, which is why LCRA has cases pending in Kendall and Kerr counties.

NBU filed its own lawsuit against LCRA in its home county of Comal. NBU's petition contains many of the same allegations with respect to LCRA's alleged breach of the Uniform Rate Clause and its alleged violations of its enabling legislation. LCRA answered NBU's case and filed special exceptions, affirmative defenses, and a counterclaim for relief similar to the relief that LCRA seeks in the other cases.

Georgetown, Boerne, and Seguin filed a Plea to the Jurisdiction, claiming that, as cities, they are immune from LCRA's suit under the doctrine of governmental immunity. Georgetown, Boerne, and Seguin claim that LCRA's cases against them should be dismissed on that basis. LCRA defeated Georgetown's and Seguin's pleas in their entirety. Those cases were then severed from the main case and are currently on appeal. So far, the appeals court has ruled in LCRA's favor in the Georgetown case. LCRA defeated, in part, Boerne's plea. That case is also on appeal.

LCRA's case against the co-ops, Kerrville, and NBU are progressing with trial dates beginning in December 2013. LCRA has filed additional claims for damages and attorneys' fees in the co-op cases and against Seguin, Kerrville, and NBU. In each case, counterclaims have been filed.

Claims and counter-claims have been filed as follows:

- Co-ops:
  - $45 million in consequential damages and attorneys' fees, and
  - $90 million in exemplary damages. It is LCRA's attorneys' opinion that LCRA is not subject to exemplary damages.
- NBU:
  - In excess of $20 million in damages
- KPUB:
  - In excess of $14 million in damages

LCRA plans to vigorously defend its actions. The outcome of the litigation is unknown at this time.

Included in fiscal 2013 electric revenues are $56.1 million of power and energy charges billed to the disputing customers pursuant to the WPAs, which management believes constitute revenues that LCRA is entitled to bill and collect under the WPAs given LCRA's continuing obligation to provide power and energy services to the disputing customers through the term of the WPAs in 2016. Seven of the eight 2016 customers have not been paying LCRA for services since September 2012 and the other customer has not been paying since January 2013. Accounts receivable as of June 30, 2013 include $56.1 million due from the 2016 customers. Due to the inherent uncertainties surrounding the ultimate resolution of LCRA's claims and the counter-claims of the disputing customers, the final amounts billed and collected under the WPAs may differ from the amounts recorded in the financial statements of LCRA as of June 30, 2013 by an amount which may be material to LCRA's financial position, results of operations, and cash flows.

LOWER COLORADO RIVER AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION (Unaudited)
As of and for the Years Ended June 30, 2013, and 2012
(Dollars in Millions)

Schedule of Funding Progress-Retirement Plan

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Annual Covered Payroll[1]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
April 1, 2011	$343.1	$494.0	69%	$150.9	$155.9	97%
April 1, 2012[2]	339.8	501.6	68	161.8	141.5	114
April 1, 2013[3]	354.8	508.7	70	153.9	123.3	125

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

Schedule of Contributions-Retirement Plan

Three-Year Annual Pension Cost (APC) Trend Information

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2011	$16.8	100%	$ -
June 30, 2012	17.8	100	-
June 30, 2013	19.6	100	-

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

Schedule of Funding Progress-Other Postemployment Benefits

Actuarial Valuation Date[1]	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll [2]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
July 1, 2009	$ -	$181.2	0%	$181.2	$139.3	130%
July 1, 2011	-	213.1	0	213.1	144.5	147
July 1, 2013	-	211.7	0	211.7	135.8	156

'Actuarial valuations are only required every two years.
[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, 2011	$11.5	49%	$21.4
June 30, 2012	13.4	41	29.4
June 30, 2013	14.1	56	35.6

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