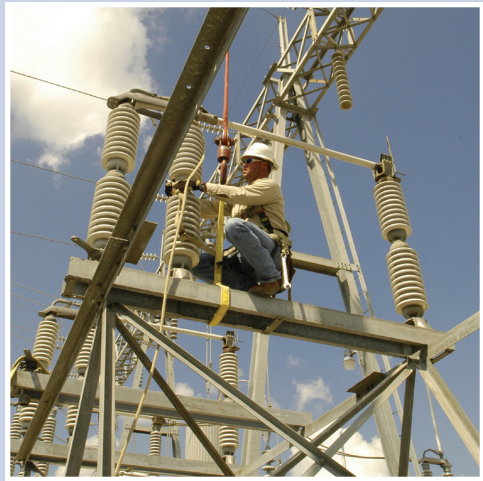
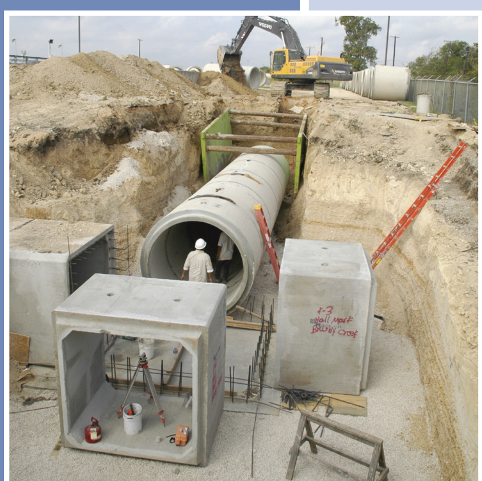
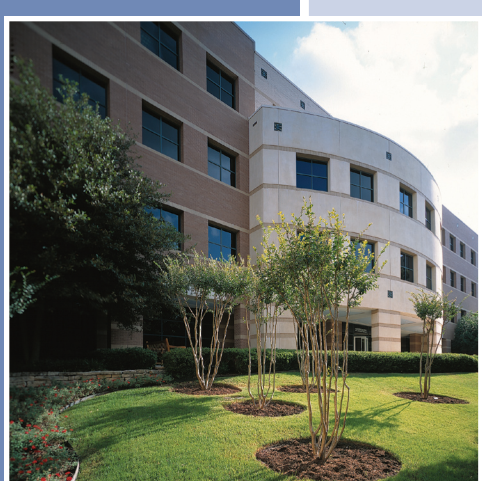
FY 2008 LCRA Annual Report

LCRA
ENERGY • WATER • COMMUNITY SERVICES
www.lcra.org







The mission of the Lower Colorado River Authority (LCRA) is to provide reliable, low-cost utility and public services in partnership with our customers and communities and to use our leadership role and environmental authority to ensure the protection and constructive use of the area's natural resources.

LCRA is a Texas conservation and reclamation district operating with no taxing authority.

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

Message from LCRA Leadership

The Lower Colorado River Authority (LCRA) during the 2008 fiscal year continued its nearly 74-year commitment to public service, providing affordable, reliable public power and protecting and using the resources of the lower Colorado River. We fulfilled our financial goals while responding to the region's growing needs for water, electricity and other services.

We ended the year with six new Board members, including a new Board chair, as well as a new general manager, general counsel and chief financial officer. Employees throughout LCRA remained focused on our customers and found better, more efficient and cost-conscious ways to deliver core services. This commitment to LCRA's mission and customers is apparent in the year's financial performance, and we expect that it will continue to drive future success for LCRA.

Operating revenues of $1.2 billion and operating expenses of $1 billion both were up by about $100 million compared to the previous fiscal year, due primarily to rising costs of fuel to produce electricity. LCRA completed the year with debt service coverage at 1.41x, down slightly from 1.51x in FY 2007 but well above LCRA's established targets and commitments to bondholders. Net capital assets grew by $241.7 million from FY 2007, with capital assets totaling $2.8 billion at year's end. Of approximately $374 million in capital expenditures, more than 80 percent was used by LCRA and LCRA Transmission Services Corporation to add or improve electric generation and transmission assets.

The region continued to attract new residents and businesses, and demands on energy and water resources grew accordingly. Although costs of fuel, commodities and contract labor rose and rate increases were necessary by year's end, LCRA's wholesale electric prices remained competitive. We took steps to rebalance our diverse generation portfolio and reduce dependence on the increasingly volatile energy market to serve LCRA's 43 wholesale electric customers. Specifically, we agreed to participate as an equity partner and power purchaser in the Sandy Creek Energy Station currently under construction near Waco, Texas, a move that will add more efficient coal-fired baseload power to our generation portfolio in the 2012 timeframe. We also are building a new, natural gas-fired quick-start generation unit to help manage costs when market prices are highest. We continued to invest in environmental improvements to existing generation units as well.

The LCRA Board of Directors approved rate increases for its water and wastewater utility operations and directed staff to explore divesting some of the utility's systems where appropriate for its customers and LCRA.

The Public Utility Commission of Texas (PUC) in June approved LCRA Transmission Services Corporation's third full rate case, enabling the nonprofit transmission corporation to collect $222.8 million in estimated annual revenues, effective April 20, 2008, for transmission, transformation and related services within the Electric Reliability Council of Texas region. The approved rate increase will enable LCRA Transmission Services Corporation to continue improving reliability and capacity of the Texas transmission system. The nonprofit transmission corporation this year also sought a role in wind-power related projects that will be designated by the PUC.

The need for a clean, abundant water supply for people, industry, agriculture and the environment will be critical to future generations. LCRA in FY 2008 continued progress on a Water Supply Resource Plan to serve the Central Texas region for the next century. Meanwhile, we successfully managed the existing supply during a continuing drought, which was punctuated by significant flooding at the beginning of the fiscal year. Water quality in the lower Colorado River remains high, and that resource continues to draw people to Central Texas and contribute to the region's economic well-being. LCRA continues to fund its operations with revenues it receives for its services, without appropriated tax money.

Looking ahead, we will continue to apply a conservative fiscal approach that should help the organization sustain financial stability during economically challenging times. We continue to fulfill an important mission that contributes to and helps support the prosperity of the region and the state of Texas.

R A Klein

Rebecca A. Klein, Board Chair

Thomas G. Mason, General Manager

LOWER COLORADO RIVER AUTHORITY

FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2008 and 2007

With Independent Auditors' Report

Report of Management

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

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

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

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

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

Lower Colorado River Authority
Management's Discussion and Analysis
Year Ended June 30, 2008

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," LCRA is considered a special-purpose government engaged only in business-type activities. Statement No. 34 requires the following components in a governmental entity's annual report:

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

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

Statements of Revenues, Expenses and Changes in Equity
This statement provides the operating results broken into the categories of operating revenues and expenses, nonoperating revenues and expenses, prior costs recovered for revenue, capital contributions and special items.

Statements of Cash Flows
Sources and uses of cash are classified using the direct method as resulting from operating, non-capital financing, capital and related financing or investing activities.

Financial Highlights

Condensed Balance Sheets

	June 30, 2008	June 30, 2007	June 30, 2006	2008 vs 2007	2007 vs 2006
	(Dollars in Thousands)				
Current assets	$ 473,586	$ 397,068	$ 389,440	19%	2%
Capital assets, net	2,827,370	2,585,662	2,464,871	9%	5%
Other long-term assets	578,361	562,092	511,225	3%	10%
Total Assets	$ 3,879,317	$ 3,544,822	$ 3,365,536	9%	5%
Current liabilities	$ 482,436	$ 488,797	$ 335,856	(1%)	46%
Long-term liabilities	2,578,114	2,288,133	2,305,351	13%	(1%)
Total Liabilities	3,060,550	2,776,930	2,641,207	10%	5%
Equity - Invested in capital assets, net of related debt	636,236	584,942	568,927	9%	3%
Equity - Restricted other	31,873	24,622	29,551	29%	(17%)
Equity - Unrestricted	150,658	158,328	125,851	(5%)	26%
Total Equity	818,767	767,892	724,329	7%	6%
Total Liabilities and Equity	$ 3,879,317	$ 3,544,822	$ 3,365,536	9%	5%

2008 Compared to 2007

In FY 2008, current assets increased $76.5 million or 19 percent. This increase was due to a $45.4 million increase in net receivables primarily due to higher electric billing as a result of hotter temperatures compared to June 2007. The variance is also due to a $30.7 million increase in gas and coal inventory balances compared to prior year.

Other long-term assets increased $16.3 million or 3 percent compared to June 2007. This variance was caused by a decrease of $33.1 million in unrestricted investments offset by an increase of $43.5 million in deferred charges. The decrease in unrestricted investments results from investment purchases of $268.2 million less investment maturities of $306 million. The increase in deferred charges is primarily due to a $34.9 million increase in costs to be recovered as a result of more costs deferred to future period rate recoveries.

2007 Compared to 2006

In FY 2007, other long-term assets increased $50.9 million or 10 percent. This increase was due primarily to the LCRA revenue fund purchasing investment securities with maturities over one year, as well as increases in the construction fund related to issuances of tax exempt commercial paper.

Current liabilities increased $152.9 million or 46 percent in FY 2007 due primarily to the issuance of tax-exempt commercial paper to fund construction costs.

Long-term liabilities decreased $17.2 million or 1 percent in FY 2007 as a result of a decrease in accounts payable primarily related to construction for LCRA Transmission Services Corporation, a component unit of LCRA (see Note 1).

Condensed Statements of Revenues, Expenses and Changes in Equity

	Year Ended June 30,			2008 vs 2007	2007 vs 2006
	2008	2007	2006	Favorable/ (Unfavorable)	Favorable/ (Unfavorable)
	(Dollars in Thousands)				
Operating revenues	$ 1,187,825	$ 1,091,886	$ 1,045,407	9%	4%
Operating expenses	(1,036,087)	(943,032)	(909,262)	(10%)	(4%)
Operating income	151,738	148,854	136,145	2%	9%
Interest and other income	24,072	32,509	14,878	(26%)	119%
Interest and other expenses	(158,313)	(142,750)	(120,917)	(11%)	(18%)
(Prior) Costs to be recovered from revenues	27,761	(5,134)	(13,715)	641%	63%
Income before capital contributions and special item	45,258	33,479	16,391	35%	104%
Capital contributions	5,617	11,477	11,304	(51%)	2%
Special Item - Loss on early defeasance of debt	-	(1,393)	(1,450)	100%	4%
Change in equity	50,875	43,563	26,245	17%	66%
Equity, Beginning of Year	767,892	724,329	698,084	6%	4%
Equity, End of Year	$ 818,767	$ 767,892	$ 724,329	7%	6%

2008 Compared to 2007

Operating income remained stable from FY 2007 to FY 2008 due to an increase in rates offset by an increase in fuel expense. Interest and other income decreased $8.4 million or 26 percent due to the cancellation of the securities lending program in May 2007. In FY 2008 there was an increase in interest and other expenses of $15.6 million or 11 percent primarily due to $10.6 million less interest capitalized to projects in FY 2008 compared to FY 2007. Most of the decrease in capitalized interest is a result of Transmission Services Corporation paying for debt service in current rates as a result of an early settlement of the rate case. The increase is also due to $9.2 million of amortization of a loss on refunding recognized in April 2008 related to the refunding of LCRA Transmission Services

Corporation Series 2003A Bonds offset by a decrease of $8 million due to the cancellation of the securities lending program.

Costs to be recovered from revenues increased $32.9 million due to more costs deferred to future period rate recoveries.

Capital contributions decreased $5.9 million or 51 percent from prior year primarily resulting from less construction related contributions for water utilities in FY 2008 compared to FY 2007.

2007 Compared to 2006

Operating income remained stable from FY 2006 to FY 2007 due to a slight decrease in rates offset by higher demand. Interest and other income increased $17.6 million or 119 percent from FY 2006. This increase was primarily due to additional interest income recorded for the securities lending program begun in July 2006. Also in FY 2007, interest and other expenses increased $21.8 million or 18 percent compared to FY 2006. This increase was primarily due to interest expense recorded related to the securities lending program in FY 2007. This program was cancelled in May 2007.

Costs to be recovered from revenues decreased $8.6 million or 63 percent in FY 2007 as more cost were recovered through rates this fiscal year compared to FY 2006.

Capital Expansion and Improvement Program

LCRA's capital improvement program for FY 2009 through FY 2013 is $2.7 billion, with $2.2 billion or 81 percent to be debt funded. The forecasted capital expenses are for the expansion of generation facilities, transmission services and water and wastewater services, as well as additional corporate infrastructure and facilities. LCRA continues to expand its portfolio of generation resources to provide long-term stability and competitiveness in energy prices and will continue its water and wastewater services expansion due to the region's growing population. LCRA TSC continues to maintain and expand the electric transmission system to ensure reliable service.

The capital budget is expected to be applied as follows:

(1) $1.4 billion for generation and system improvements.

(2) $928 million for transmission projects.

(3) $260 million for dam improvements and modernization, and acquisition and construction of water and wastewater utilities and facilities.

(4) $144 million for parks and corporate facilities.

LCRA's forecasted capital program includes funds for the implementation of self-build peaking technology for 2010 and the installation of SO2 scrubbers for two coal-fired generating units jointly owned by LCRA and the City of Austin.

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

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

Capital Asset Activity

- $373.7 million was expended for construction activities in FY 2008. The majority of these costs were for purchase and construction of additional generation and transmission facilities and improvements to existing generation facilities.
- $132 million of depreciation expense and asset retirements were recorded in FY 2008 on plant in service.
- For additional detail, see Capital Asset Activity table in Note 7 of the Notes to the Financial Statements.

Debt Activity

- During FY 2008, LCRA issued $207.8 million of tax-exempt commercial paper, of which $110.1 million was on behalf of LCRA TSC. In addition, LCRA issued $1.6 million of taxable commercial paper. The proceeds were used to fund various capital projects and refund debt.
- In FY 2008, LCRA made $81.3 million of scheduled payments and $133.4 million of interest payments.
- In FY 2008, LCRA repaid $5.1 million of tax-exempt commercial paper.
- On January 3, 2008, LCRA defeased approximately $2.5 million from the LCRA Series 1999A, 1999B, 1999E, 1999F, 2001, 2002, 2003, and 2004D.
- On February 5, 2008, LCRA on behalf of LCRA TSC refunded $6.4 million of LCRA TSC tax-exempt commercial paper.
- On April 22, 2008, LCRA on behalf of LCRA TSC used $50 million of tax-exempt commercial paper proceeds to refund $50 million of LCRA TSC Series 2003A Auction Rate bonds.
- On June 11, 2008, LCRA on behalf of LCRA TSC issued approximately $165.2 million of Transmission Contract Refunding Revenue Bonds, Series 2008. The proceeds from the issue were used to refund $158.6 million of tax-exempt commercial paper. LCRA also issued $196 million of LCRA Series 2008 Refunding Revenue Bonds. The proceeds from this issue were used to refund $204.4 million of tax-exempt commercial paper.
- For additional detail, see Note 3 of the Notes to the Financial Statements.

Deloitte.

Deloitte & Touche LLP
Suite 2300
333 Clay Street
Houston, TX 77002-4196
USA

Tel: +1 713 982 2000
Fax: +1 713 982 2001
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the Lower Colorado River Authority ("LCRA") as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of LCRA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of LCRA as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte & Touche LLP

October 6, 2008

LOWER COLORADO RIVER AUTHORITY

BALANCE SHEETS

(Dollars in Thousands)

	June 30, 2008	June 30, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 113,209	$ 116,852
Investments	39,703	48,069
Receivables, net	173,482	128,039
Accrued interest receivable	477	690
Inventories	132,048	101,374
Other	14,667	2,044
Total current assets	473,586	397,068
Long-term Assets:		
Restricted cash and cash equivalents	23,135	24,866
Restricted investments	66,325	58,499
Unrestricted investments	53,947	87,058
Capital assets:		
Utility plant in service	3,775,800	3,538,063
Construction work in progress	308,223	200,272
Oil and gas property	28,158	28,158
Other physical property	53,591	51,995
Less accumulated depreciation	(1,338,402)	(1,232,826)
Capital assets, net	2,827,370	2,585,662
Water rights, net	87,397	87,397
Other	11,107	11,348
Deferred charges:		
Costs to be recovered from future revenues	251,586	216,695
Unamortized debt expense	35,475	31,251
Contract extension settlement with major customers	6,583	7,358
Other	42,806	37,620
Deferred charges, net	336,450	292,924
Total long-term assets	3,405,731	3,147,754
Total Assets	$ 3,879,317	$ 3,544,822

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

LOWER COLORADO RIVER AUTHORITY
BALANCE SHEETS
(Dollars in Thousands)

	June 30, 2008	June 30, 2007
Liabilities		
Current Liabilities:		
Accounts payable	$ 212,458	$ 192,463
Compensated absences	11,030	9,872
Bonds, notes, and loans payable	258,948	286,462
Total current liabilities	482,436	488,797
Long-term Liabilities:		
Accounts payable from restricted assets	43,033	17,592
Bonds, notes, and loans payable	2,358,284	2,123,227
Deferred credits and other	176,797	147,314
Total long-term liabilities	2,578,114	2,288,133
Total liabilities	3,060,550	2,776,930
Equity		
Invested in capital assets, net of related debt	636,236	584,942
Restricted other	31,873	24,622
Unrestricted	150,658	158,328
Total equity	818,767	767,892
Total Liabilities and Equity	$ 3,879,317	$ 3,544,822

LOWER COLORADO RIVER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY

(Dollars in Thousands)

	Year Ended June 30, 2008	Year Ended June 30, 2007
Operating Revenues		
Electric	$ 1,064,075	$ 991,333
Water, wastewater and irrigation	62,488	55,863
Other	61,262	44,690
Total operating revenues	1,187,825	1,091,886
Operating Expenses		
Fuel	470,184	399,790
Purchased power	178,073	177,381
Operations	221,477	208,844
Maintenance	44,125	44,462
Depreciation, depletion and amortization	122,228	112,555
Total operating expenses	1,036,087	943,032
Operating income	151,738	148,854
Nonoperating Revenues (Expenses)		
Interest and other income	24,072	32,509
Interest and other expenses	(158,313)	(142,750)
Total nonoperating revenues (expenses)	(134,241)	(110,241)
Income before (prior) costs to be recovered from revenues, capital contributions and special item	17,497	38,613
(Prior) Costs to be Recovered from Revenues	27,761	(5,134)
Income before capital contributions and special item	45,258	33,479
Capital Contributions	5,617	11,477
Special Item - Loss on Early Defeasance of Debt	-	(1,393)
Change in Equity	50,875	43,563
Total Equity, Beginning of Year	767,892	724,329
Total Equity, End of Year	$ 818,767	$ 767,892

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

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

	Year Ended June 30, 2008	2007
Cash Flows From Operating Activities		
Received from customers	$ 1,162,806	$ 1,077,517
Payments for goods and services	(775,365)	(649,331)
Payments to employees	(162,805)	(160,194)
Other expenses	(5,650)	(2,583)
Net cash provided by operating activities	218,986	265,409
Cash Flows From Noncapital Financing Activities		
Grant proceeds received	8,210	9,605
Other expenses	(1,613)	(8,076)
Net cash provided by noncapital financing activities	6,597	1,529
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(353,043)	(285,641)
Proceeds from sale of capital assets	6,696	241
Debt issue costs	(7,019)	(1,893)
Contributed capital received for capital expenses	5,937	10,379
Proceeds from bond issues and commercial paper	699,162	405,358
Debt principal payments and commercial paper redemptions	(86,421)	(89,345)
Interest paid	(125,731)	(112,203)
Payments to refund and defease debt	(421,990)	(154,381)
Net cash used in capital and related financing activities	(282,409)	(227,485)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	306,003	276,649
Purchase of investment securities	(268,212)	(296,546)
Interest received	13,519	23,858
Infrastructure financial assistance activity	142	485
Net cash provided by investing activities	51,452	4,446
Net Increase (Decrease) in Cash and Cash Equivalents	(5,374)	43,899
Cash and Cash Equivalents, Beginning of Year	141,718	97,819
Cash and Cash Equivalents, End of Year	$ 136,344	$ 141,718

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

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

	Year Ended June 30, 2008	2007
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 151,738	$ 148,854
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	122,228	112,555
Changes in assets and liabilities:		
Accounts receivable	(45,360)	12,033
Inventories	(30,674)	(3,748)
Other current assets	(12,623)	(1,186)
Current liabilities	22,467	20,604
Other deferred charges and long-term assets	(6,359)	(7,983)
Deferred credits and other long-term liabilities	17,569	(15,720)
Net cash provided by operating activities	$ 218,986	$ 265,409
Noncash Investing Activities		
Investment market adjustments	$ 4,140	$ 4,910
Noncash Financing for Property, Plant and Equipment Expenditures		
Purchase of equipment through short-term trade payables	$ 24,410	$ -
Asset retirement obligation	$ -	$ (9,270)
Acquisition of Alleyton water/wastewater facility	$ -	$ 2,446

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

1. Significant Accounting Policies

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

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

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

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

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

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

Fayette Power Project: LCRA's coal-fired generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with the City of Austin (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.

Basis of Accounting: The accompanying financial statements of LCRA, a governmental entity, have been prepared using proprietary fund and accrual basis accounting. LCRA implements all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) pronouncements that do not conflict with or contradict GASB pronouncements. LCRA's accounts are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Issued But Not Yet Effective Pronouncements: In December 2007, the FASB issued Statement No. 141 Revised, "Business Combinations." This statement addresses the treatment of assets and liabilities acquired in a business combination. The new standard requires the acquiring entity to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to financial statement users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This statement is effective for LCRA beginning in FY 2009. The implementation of this FASB statement is not expected to have a material effect on the LCRA's financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. This statement is effective for the LCRA's financial assets and liabilities beginning in FY 2009. FASB Staff Position No. FAS 157-2 delays the effective date for Statement No. 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. Therefore, this statement is effective for the LCRA's nonfinancial assets and liabilities beginning in FY 2010. The implementation of this FASB statement is not expected to have a material effect on the LCRA's financial position, results of operations or cash flows in FY 2009. If there are any conflicts with this Statement's requirements and any current or future GASB guidance regarding fair value measurements, LCRA will follow the requirements of the GASB.

In May 2008, the FASB issued Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles". This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with GAAP. The LCRA plans to adopt Statement No. 162 when it becomes effective. The adoption of this statement is not expected to have a material effect on the LCRA's financial position, results of operations or cash flows.

Newly Adopted Standards for FY 2008: *GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."* This Statement establishes standards for the accrual basis of measurement and recognition of postemployment benefits other than pensions (OPEB) expense over a period that approximates employees' years of service. In addition, the Statement provides information about actuarial accrued liabilities associated with OPEB plans and whether and to what extent progress is being made in funding the plans. GASB No. 45 disclosures are in Note 5, "Other Postemployment Benefits".

GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." This Statement identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation. The guidance defines when to recognize a liability for the cost of pollution remediation in the financial statements and how to measure the amount of the liability. The suggested method to value the liability is the "expected-cash-flows" technique. The implementation of GASB 49 did not have a material effect on the LCRA's financial position, results of operations, or cash flows.

GASB Statement No. 50, "Pension Disclosures." The Statement amends pension disclosures. The Statement more closely aligns current pension disclosure requirements with recently issued other postemployment disclosure requirements. Generally, the Statement requires disclosures regarding the funding status of governments' pension plans and contribution rates. Pension disclosures can be found in Note 4, "Retirement and 401(K) Plan Benefits."

Major Customers and Electric Revenues: Sales of electricity to LCRA's three major customers represented approximately 42 percent of total electric revenue for FY 2008 and 44 percent for FY 2007. No other customer accounts for more than 25 percent of LCRA's total electric revenues in FY 2008.

Electric revenues represented approximately 94 percent of LCRA's operating revenues for both FY 2008 and FY 2007.

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 ERCOT, as the balancing energy clearinghouse agent, are reported net. These amounts have historically represented a net purchase of power to LCRA; however, during FY 2008 and FY 2007 major components of these amounts resulted in net sales of power and ancillary services. These amounts are classified as electric revenues. The amounts included in electric revenues were $41.3 million for FY 2008 and $39.1 million for FY 2007.

Restricted Funds: Restricted funds consist of construction funds derived from debt issues, system revenues that have been designated for specific purposes by the Board and other funds with legal or contractual constraints.

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

Water Rights: Water rights are stated at cost, net of accumulated amortization of $7.4 million as of June 30, 2008 and 2007. Beginning in FY 2003, in accordance with accounting and reporting requirements, water rights are no longer being amortized but are evaluated annually to determine whether they are impaired and whether an indefinite life is reasonable.

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

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

Refunding and Defeasance of Debt: For debt refunding, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction from or an addition to the debt liability. For debt defeasances, the difference between the carrying amount of the debt and the amount of funds needed to retire the debt is recognized immediately in the Statements of Revenues, Expenses and Changes in Equity as a special item in FY 2007, but as interest expense in FY 2008. Prior to FY 2008, debt defeasances were reported as a special item because they were infrequent in nature and under the control of management. As of FY 2008, the LCRA has defeased debt in each of the last three fiscal years, and as such debt defeasances are no longer infrequent and are not required to be reported as a special item.

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

Rates and Regulations: LCRA's electric, water and wastewater rates are set by LCRA's 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 LCRA's 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.

Senate Bill (SB) 7, passed by the Texas Legislature in 1999, provided for retail electric open competition to begin in January 2002, continued electric transmission open access, and fundamentally redefined and restructured the Texas electric industry. Under SB 7, LCRA has structurally unbundled its electric generation business and assets from its electric transmission business and assets. SB 7 also allows retail customers of investor-owned utilities, as well as the retail customers of those municipally owned utilities and electric cooperatives that elect to participate in retail competition, to choose their electric supplier.

The greatest potential impact on LCRA from SB 7 could result from actions of its wholesale electric customers. If LCRA's larger wholesale electric customers open their territories to retail competition, there is a potential that such customers could lose end-user customers to other retail electric providers resulting in a reduced electric load, thus reducing the requirements served by LCRA under the existing wholesale power agreements. On the other hand, if LCRA's wholesale electric customers are successful in retaining existing customers and in growing their customer base, requirements served by LCRA under the existing wholesale power agreements could increase.

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

FY 2007 transmission revenues of $169 million are the result of rate changes authorized during FY 2007. The predominant rate of $2.88 per kW was in place from Sept. 21, 2006 through June 30, 2007. LCRA TSC filed an interim update of wholesale transmission rates with the PUC on July 25, 2006. The filing, Docket No. 32987, was approved by the PUC Commissioners on Sept. 21, 2006. The approved rate was $2.88 per kW, effective as of Sept. 21, 2006.

FY 2008 transmission revenues of $180.2 million are the result of rate changes authorized during the fiscal year. The predominant rate of $3.02 was in place from Oct. 2, 2007 through April 19, 2008. LCRA TSC filed an interim update of wholesale transmission rates with the PUC on July 23, 2007, and the PUC Commissioners approved the new rate of $3.02 per kW on Oct. 2, 2007. On Nov. 15, 2007 LCRA TSC filed a wholesale transmission rate case with the PUC and the PUC Commissioners approved the new rate of $3.51 effective April 20, 2008. LCRA TSC filed an interim update of wholesale transmission rates with the PUC on July 25, 2008.

Regulatory Assets and Liabilities: LCRA applies the accounting requirements of FASB Statement of Financial Accounting Standards No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation." Accordingly, certain costs may be capitalized as a regulatory asset that would otherwise be charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates. In addition, rate actions of the regulator may impose a liability on LCRA. A regulatory liability occurs when a regulator requires refunds to customers or provides current rates intended to recover costs that are expected to be incurred in the future. Any regulatory asset is amortized over the life of LCRA's outstanding long-term debt, while a regulatory liability is recognized and charged to income when the associated costs are incurred. LCRA's regulatory assets amounted to $262.3 million and $228.6 million at June 30, 2008 and 2007, respectively. Regulatory liabilities amounted to $0.8 million and $1.2 million at June 30, 2008 and 2007, respectively. The regulatory assets, which are included under deferred charges, consist of depreciation of debt-funded assets and costs related to outstanding debt. Debt-funded costs are deferred pending future recovery through the inclusion of the related debt service in rates. Regulatory liabilities are included in deferred credits and other long-term liabilities.

For the last three years, LCRA has been engaged with its electric wholesale customers in negotiations for the extension of their long-term power supply contracts. Thirty of LCRA's existing customers, representing approximately 30 percent of its load, have entered into amended and restated contracts that extend to 2041. LCRA continues to be involved in ongoing negotiations with remaining customers to define their long-term relationship and develop terms of a contract extension.

LCRA has reviewed and will continue to monitor the relevance of SFAS 71 in light of SB 7 and future changes in the Texas electric industry. As of June 30, 2008, and for the foreseeable future, management believes that SFAS 71 will continue to apply and anticipates no material losses from the write-off of regulatory assets.

Capitalized Interest: Interest that is financed by debt proceeds is capitalized as part of the cost of capital assets and deferred charges. During FY 2008 and FY 2007, LCRA capitalized $12.3 million and $17.8 million of interest, respectively.

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 financial 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 $5 to more than $13 per mmBtu in FY 2008. In an effort to mitigate the financial and market risk associated with these price fluctuations, LCRA enters 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 in current earnings. LCRA is using mark-to-market accounting as a component of the fuel factor for its derivatives, and gains and losses related to the financial contracts are recognized in current earnings.

Natural Gas Development and Production: LCRA has adopted the full-cost method of accounting for natural gas development and production. Under this method, all costs directly associated with acquisition and development of oil and gas properties are capitalized and depleted to expense over the life of proved reserves on a units-of-production method. For the years ended June 30, 2008 and 2007, depletion expense totaled approximately $0.4 million, respectively.

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

Impairment: LCRA evaluates the carrying value of its property, plant and equipment, and other long-lived assets when major events or changes in circumstances indicate a decline in an asset's service capacity. Impairment is measured using methods that isolate the asset's service capacity that has been rendered unusable.

Depreciation, Depletion and Amortization: LCRA depreciates its plant in service on a straight-line basis over the estimated useful lives of the various classes of these assets. Annual depreciation expense, expressed as a percentage of depreciable plant, was approximately 3 percent for both FY 2008 and FY 2007. Depreciation, depletion and amortization expense for FY 2008 and 2007 was $122.2 million and $112.6 million, respectively.

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

Hydraulic Production Plant	20 - 100 years
Steam Production Plant	25 - 40 years
Transmission Plant	35 - 65 years
General Plant	4 - 45 years
Irrigation Plant	15 - 75 years
Sewage and Water Treatment Plant	10 - 50 years
Telecommunication Facilities	10 - 25 years

Periodically, LCRA reviews the useful lives of depreciable assets. Changes in useful lives are accounted for as a change in accounting estimate in accordance with Statement of Financial Accounting Standard No. 154, *Accounting Changes and Error Corrections.* In FY 2008, a change in the estimated life of certain transmission capital assets was necessitated by related technological advances and construction material used. The change in the estimated lives of these assets increased depreciation and amortization expense by $0.75 million on the Statement of Revenues, Expenses and Changes in Equity for the year ended June 30, 2008 and could increase depreciation and amortization expense by up to $3.0 million in each future year that those assets are still in service.

Water rights are not amortized but are evaluated annually to determine whether they are impaired and whether an indefinite life is reasonable. Gains or losses created by refunding transactions are amortized over the shorter of the remaining terms of the new issues or the refunded bonds. Amortization of debt discount and premium is computed using the interest method over the life of the related bond issues. Amortization of debt issue cost is computed on the straight-line method over the life of the related bond issues, which approximates the interest method. Other deferred charges are amortized on a straight-line basis ranging from 20 to 40 years.

Statements of Cash Flows: All highly liquid investments (including investments in restricted funds) with an original maturity of 90 days or less are considered cash equivalents.

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

2. Financial Instruments

As of June 30, 2008 and 2007, LCRA had the following investments and maturities:

Investments	June 30, 2008 Market Value[1]	June 30, 2008 WAM (Years)[2]	June 30, 2007 Market Value[1]	June 30, 2007 WAM (Years)[2]
Cash Equivalents				
U.S. Government Securities	$ 4,986	0.18	$ -	-
U.S. Agency Discount Notes	17,983	0.11	12,462	0.18
Commercial Paper	46,000	0.10	28,500	0.11
Money Market Fund	66,467	0.22	99,564	0.10
Investments				
U.S. Government Securities	134,084	1.24	188,728	0.98
U.S. Agency Discount Notes	25,891	0.46	4,897	0.48
Total	$ 295,411	0.68	$ 334,151	0.61

Cash and investments as of June 30, 2008 and 2007 consisted of the following:

	June 30, 2008	June 30, 2007
Cash	$ 908	$ 1,193
Investments	295,411	334,151
Total Cash and Investments	$ 296,319	$ 335,344

[1] Dollars in Thousands

[2] Weighted Average Maturity

External Investments Pool: LCRA investments included a money market fund with TexPool at June 30, 2008 and 2007. 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.

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 rising interest rates by investing a majority of its investment portfolio in securities with short-term maturities and holding investments to maturity.

Credit Risk: LCRA investment activities are governed by state statute (Public Funds Investment Act) which specifies the type and ratings of investments governmental entities are allowed to purchase. In addition, LCRA Board policy, internal operating procedures and applicable bond resolutions further restrict investment activity. At June 30, 2008 and 2007, LCRA investment in the investment pool (money market) was rated AAAm by Standard & Poor's. Investments in commercial paper were rated A-1+ by Standard & Poor's and P-1 by Moody's Ratings. Investments in US Agencies were rated Aaa by Moody's Ratings.

Concentration of Credit Risk: As of June 30, 2008, LCRA had commercial paper representing 5.08 percent of LCRA investments from a single issuer. LCRA has no formal policy to limit the amount that may be invested in any one issuer. The Public Funds Investment Act requires investments in commercial paper to be rated A-1, P-1, or an equivalent rating. However, LCRA's internal investment strategy requires higher commercial paper ratings of A-1+ or P-1, and management closely monitors the portfolio mix to provide diversity and limit concentration.

Estimation of Fair Value: The carrying amounts of receivables and certain other liabilities approximate market value due to the short maturity of these instruments. The estimated market value of long-term debt, based on current market yields was $2.9 billion and $2.7 billion at June 30, 2008 and 2007, respectively.

Hedging Instruments: LCRA's gas activities subject LCRA's earnings to variability based on fluctuations in the market price of natural gas, as measured by changes in the delivered price of natural gas at various points in the system's natural gas grid. During FY 2008, spot prices for natural gas ranged from about $5 to more than $13 per mmBtu. In an effort to mitigate the financial and market risk associated with these activities for the customers, LCRA routinely enters into natural gas swaps, futures contracts and options for other than trading purposes. This use of these types of transactions for the purpose of reducing exposure to price risk is generally referred to as hedging, with the results matching the financial impact of these transactions with the cash impact resulting from consummation of the transaction being hedged. These contracts are commitments to either purchase or sell designated quantities of a commodity at a specified price and at a specified date. These contracts may be settled in cash or through delivery of the specified commodity; however, in general, LCRA settles futures contracts in cash. LCRA holds highly liquid contracts with terms ranging up to 18 months. Initial margin requirements, which are flat fees per contract, and daily margin calls are met in cash or short-term liquid government securities. The financial impact of these futures contracts, the effects of which were substantially offset by the physical gas purchases, was to recognize a gain of approximately $15.5 million during 2008 and a loss of approximately $3.7 million during 2007. Net income is not affected because this activity is a component of the fuel costs passed through to the customers and is included in the balance sheet fuel over- or under-recovery account.

All derivative instruments are recorded on the balance sheet at their fair value, which generally reflects the estimated amounts that LCRA would receive or pay to terminate the contracts. At June 30, 2008, LCRA held no hedging liabilities, and the fair value of LCRA's hedging assets was $10.1 million. Changes in the fair value of the derivatives are recorded in current earnings as a component of the fixed-fuel factor. LCRA has not designated any of the derivatives as hedging instruments, as allowed by FASB 133.

Counterparties expose LCRA to credit-related losses in the event of nonperformance, but LCRA does not expect any counterparties to fail to meet their obligations, given their high credit ratings.

3. Long-Term Debt

Changes during FY 2008 and FY 2007, of long-term debt, including current portions as follows (in thousands):

Series	May 15, From	To	Balance June 30, 2006	Increase (Decrease)	Balance June 30, 2007	Increase (Decrease)	Balance June 30, 2008	Amount Due [5] in FY 2009
LCRA TSC 2003A (Auction Rate) [1]	2030	2032	$ 50,000	$	$ 50,000	$ (50,000)	$ -	$
LCRA TSC 2003B (5.00%-5.375%)	2009	2031	237,240	(7,690)	229,550		229,550	7,690
LCRA TSC 2003C (5.00%-5.25%)	2009	2033	125,560	(4,565)	120,995	(1,470)	119,525	4,515
LCRA TSC 2004 (3.00%-5.00%)	2009	2034	125,490	(8,255)	117,235		117,235	4,170
LCRA TSC 2005 (3.50%-5.00%)	2009	2035	126,095		126,095	(4,175)	121,920	4,190
LCRA TSC 2006 (4.50%-5.00%)	2009	2036	135,925	(4,270)	131,655		131,655	4,485
LCRA TSC 2006A (4.00%-5.00%)	2009	2036	-	133,585	133,585		133,585	4,490
LCRA TSC 2008 (5.00%-5.25%)	2011	2035	-		-	165,205	165,205	
LCRA 2008 (5.00%-5.75%)	2009	2037	-		-	195,960	195,960	3,560
LCRA 2006 (4.00%-5.00%)	2009	2036	80,305	(1,610)	78,695	(1,675)	77,020	1,760
LCRA 2004 (4.00%-5.00%)	2009	2029	100,300	(2,910)	97,390	(2,990)	94,400	3,065
LCRA 2004A (3.50%-3.50%) [2]	2007	2007	90	(90)	-		-	
LCRA 2004D (3.00%-5.00%)	2009	2034	48,910	(830)	48,080	(840)	47,240	845
LCRA 2003 (3.25%-5.25%)	2009	2033	90,880	(8,905)	81,975	(4,225)	77,750	1,860
LCRA 2002 (3.50%-5.00%)	2009	2031	116,610	(1,580)	115,030	(2,725)	112,305	2,010
LCRA 2001A (5.00%-5.375%)	2009	2032	138,205	(3,540)	134,665	(3,035)	131,630	3,270
LCRA 2001 (5.00%-8.00%)	2009	2031	95,755	(735)	95,020	(1,350)	93,670	1,250
LCRA 1999A (5.50%-5.875%)	2014	2020	347,480		347,480	(565)	346,915	
LCRA 1999B (5.875%-6.00%)	2009	2014	348,450	(49,065)	299,385	(43,150)	256,235	58,710
LCRA 1999E (5.25%-5.75%)	2010	2011	20,655		20,655	(1,945)	18,710	
LCRA 1999F (5.50%-5.75%)	2010	2012	97,905		97,905	(11,520)	86,385	
LCRA 1999G (4.00%-4.85%) [2] [3]	2008	2016	38,105	(2,125)	35,980	(2,400)	33,580	2,700
LCRA 1999H (3.20%-3.65%) [2] [4]	2009	2011	4,265	(1,400)	2,865	(1,205)	1,660	950
LCRA 1999I (3.45%-4.15%) [4]	2009	2020	3,430	(130)	3,300	(145)	3,155	165
LCRA TWDB Note Payable (6.05%-6.10%)	2020	2034	10,500		10,500		10,500	
LCRA TWDB Note Payable (5.58%-5.83%)	2022	2038	14,040		14,040		14,040	
Add: Unamortized Net Premium			35,593	(3,139)	32,454	11,918	44,372	1,030
Subtotal			$ 2,391,788	$ 32,746	$ 2,424,534	$ 239,668	$ 2,664,202	$ 110,715
Unamortized Net Losses on Refunded Debt			(246,216)	13,271	(232,945) [6]	22,875	(210,070) [7]	(14,867)
Taxable Commercial Paper (Variable Rate)			18,100	2,200	20,300	1,600	21,900	21,900
Tax-Exempt Commercial Paper (Variable Rate)			78,400	119,400	197,800	(56,600)	141,200	141,200
Total			$ 2,242,072	$ 167,617	$ 2,409,689	$ 207,543	$ 2,617,232	$ 258,948

(1) Auction Rate debt was redeemed in full on April 22, 2008.
(2) Represents yield rate of Capital Appreciation Bonds.
(3) Maturity Date is July 1.
(4) Maturity Date is January 1.
(5) Total amount due in FY 2008 is $286.5 million.
(6) $181,694 is associated with LCRA 1999 A-I refunding bonds and $51,251 is associated with LCRA TSC 2003A and 2003B refunding bonds.
(7) $167,986 is associated with LCRA 1999 A-I refunding bonds and $42,084 is associated with LCRA 2003B refunding bonds.

LCRA's debt as of June 30, 2008, has been rated by Fitch, Moody's and Standard & Poor's, respectively, as follows:

FITCH, MOODY'S AND STANDARD & POOR'S

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

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

Ending June 30	Principal	Interest	Total
2009	$ 109,685	$ 134,130	$ 243,815
2010	113,230	129,927	243,157
2011	120,920	123,976	244,896
2012	127,215	117,467	244,682
2013	134,100	111,241	245,341
2014-2018	645,095	445,925	1,091,020
2019-2023	487,685	294,415	782,100
2024-2028	368,600	183,475	552,075
2029-2033	349,875	92,261	442,136
2034-2038	163,425	17,281	180,706
	$ 2,619,830	$ 1,650,098	$ 4,269,928
Unamortized Net Premium	44,372		44,372
Total	$ 2,664,202	$ 1,650,098	$ 4,314,300

New and Refunding Bonds: During FY 2008, LCRA issued $1.6 million of taxable commercial paper and $207.8 million of tax-exempt commercial paper. In addition, LCRA on behalf of LCRA TSC issued $110.1 million of tax-exempt commercial paper.

During FY 2008, LCRA deposited funds into an escrow account to defease debt early. On January 3, 2008, LCRA defeased approximately $2.5 million from LCRA Series 1999 A, 1999 B, 1999 E, 1999 F, 2001, 2002, 2003, and 2004 D bonds. Pursuant to the stipulations of the Revenue Bonds and in the opinion of LCRA's Bond Counsel, the repayment of these obligations constitutes a legal defeasance. These defeasances reduce future debt service requirements.

On April 22, 2008 LCRA TSC used $50 million of tax-exempt commercial paper proceeds to refund $50 million of TSCorp 2003A Auction Rate bonds.

On June 11, 2008, LCRA issued $196 million of LCRA Refunding Revenue Bonds, Series 2008. The proceeds from the bond issuance were used to refund $204.4 million of tax-exempt commercial paper. Also on June 11, 2008, LCRA on behalf of LCRA TSC issued $165.2 million of LCRA Transmission Contract Revenue Bonds, Series 2008. The proceeds from the bond issuance were used to refund $158.6 million of tax-exempt commercial paper which included the $50 million issued to refund the TSCorp 2003A Auction Rate bonds.

During FY 2007, LCRA issued $6.5 million of taxable commercial paper and $95.9 million of tax-exempt commercial paper. In addition, LCRA on behalf of LCRA TSC issued $165 million of tax-exempt commercial paper.

On December 6, 2006, LCRA on behalf of LCRA TSC issued $133.6 million of LCRA Transmission Contract Refunding Bonds, Series 2006A. The proceeds from the bonds issuance were used to refund $130 million of tax-exempt commercial paper.

During FY 2007, LCRA deposited funds into an escrow account to defease debt early. On January 18, 2007, LCRA defeased approximately $5.1 million from LCRA Series 2001A and LCRA Series 2003. In addition, on April 26, 2007, LCRA on behalf of LCRA TSC defeased approximately $19 million from the LCRA TSC Series 2003B, 2003C, 2004 and 2006 Contract Refunding Revenue Bonds. Pursuant to the stipulations of the Revenue Bonds and in the opinion of LCRA's Bond Counsel, the repayment of these obligations constitutes a legal defeasance. These defeasances reduce future debt service requirements.

The principal associated with the bonds that have been previously refunded by LCRA but remain outstanding at June 30, 2008 and 2007, totals $329 million and $368 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 that sufficient monies are available for payment of principal, premium, if any, and interest on the refunded bonds when due. None of these refunded bonds are included in LCRA's outstanding long-term debt at June 30, 2008 and 2007.

Optional Redemption: The LCRA TSC Series 2008 bonds that mature on and after May 15, 2019, are redeemable at the option of LCRA, on May 15, 2018, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and, if in part, the particular Bonds or portion thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The LCRA Series 2008 bonds that mature on and after May 15, 2016, are redeemable at the option of LCRA, on May 15, 2015, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and, if in part, the particular Bonds or portion thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The LCRA TSC Series 2006A bonds that mature on and after May 15, 2017, are redeemable at the option of LCRA, on May 15, 2016, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and, if in part, the particular Bonds or portion thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2006 bonds that mature on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011 or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The LCRA TSC Series 2006 bonds that mature on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011 or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The LCRA TSC Series 2005 bonds that mature on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011 or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2004D bonds that mature on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011 or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The LCRA TSC Series 2004 bonds that mature on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2004 bonds that mature on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011 or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2003 bonds that mature on and after May 15, 2014, are redeemable at the option of LCRA, on May 15, 2013, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The LCRA TSC Series 2003C bonds that mature on and after May 15, 2014, are redeemable at the option of LCRA, on May 15, 2013, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The LCRA TSC Series 2003B bonds that mature on and after May 15, 2013, are redeemable at the option of LCRA, on May 15, 2012, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof (and if in part, the particular bonds or portions thereof to be redeemed shall be selected by LCRA in its sole discretion) at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2002 bonds maturing on and after May 15, 2014, are redeemable at the option of LCRA, on May 15, 2013, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2001A bonds maturing on and after May 15, 2012, are redeemable at the option of LCRA, on May 15, 2011, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof at a redemption price equal to the principal amount of such bonds to be redeemed, plus accrued interest to the redemption date.

The Series 2001 bonds maturing on or after May 15, 2011, are callable at the option of LCRA for a period of one year beginning on May 15, 2010, at the price of 101 percent plus accrued interest. These bonds are also callable at LCRA's option on May 15, 2011, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof at the price of 100 percent plus accrued interest.

The Series 1999A bonds, Series 1999B bonds, Series 1999E bonds and Series 1999F bonds maturing on or after May 15, 2010, are callable at the option of LCRA for a period of one year beginning on May 15, 2009, at the price of 101 percent plus accrued interest. These bonds are also callable at LCRA's option on May 15, 2010, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof at the price of 100 percent plus accrued interest.

The LCRA bonds outstanding as of June 30, 2008 and 2007, are parity debt under the Master Resolution and are collateralized by a lien on and pledge of the Pledged Revenues. Pledged Revenues are defined to include all amounts received pursuant to Contractual Commitments and all lawfully available funds of LCRA. The LCRA Transmission Contract Revenue Bonds Series 2003B, 2003C, 2004, 2005, 2006, 2006A and 2008 are solely secured by the obligation of LCRA TSC to make Installment Payments to LCRA from the Net Revenues of LCRA TSC (subordinate to first lien on Gross Revenues securing the Purchase Price Payments under the Initial Contractual Commitment). Net revenues are defined as Gross Revenues less any Purchase Price Payments due to LCRA and less the Operating and Maintenance Expenses during the period.

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

LCRA maintains credit facilities with banks that provide available borrowings sufficient to pay the principal of the notes. LCRA has entered into a revolving credit agreement with a bank that is obligated to lend LCRA amounts of up to $287.5 million for the Tax-Exempt Series. Of the $287.5 million, $112.5 million of this agreement expires on Oct. 13, 2008, and the remaining $175 million expired on June 27, 2008. LCRA extended the $175 million revolving credit agreement for one year, expiring on June 26, 2009. LCRA has an additional revolving credit agreement with banks that are obligated to lend LCRA aggregate amounts of up to $40 million for the Taxable Series. This agreement had an expiration date of Nov. 1, 2008, and has been renewed to 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, 2008.

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

LCRA TSC maintains credit facilities with banks that provide available borrowing sufficient to pay the principal and interest on the notes. A $150 million credit agreement is available to pay $137 million of principal and $13 million of interest. This agreement expires on April 29, 2009. Another credit agreement of $100 million is available to pay $91 million of principal and $9 million of interest. This credit agreement expired on August 27, 2008. Management did not renew the credit agreement. 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, 2008.

Conduit Debt: At June 30, 2008, there are two series of Pollution Control Revenue Bonds outstanding with an aggregate principal amount payable of $50 million. The bonds mature in April 2027 and 2030, $25 million each year. The bonds were issued to finance the costs of acquiring, constructing and improving certain solid waste and sewage disposal facilities of a private-sector entity. LCRA executed an installment sale agreement with the entity whereby the proceeds of the bonds were used to finance a portion of the project. In turn, the entity agreed to make payments sufficient to pay, when due, the principal and interest on the bonds. The bonds do not constitute a debt or pledge of LCRA, and accordingly, have not been reported in the accompanying financial statements.

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, 2037.

4. Retirement and 401(k) Plan Benefits

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

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

Effective January 1, 2002, the Plan was amended to provide cash balance benefit features. Active employees as of December 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 January 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 become 100 percent vested after three complete years of service. Any employee who was employed by LCRA prior to January 1, 2002, and who elected Program B was eligible to participate in the cash balance benefit plan as of January 1, 2002, and became 100 percent vested after three complete years of service. Any employee hired after January 1, 2002, who works at least 1,000 hours per annum is automatically enrolled in Program B and is eligible to participate in the Plan after three consecutive months of service and is 100 percent vested after three complete years of service.

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

Funding Policy: The LCRA makes annual contributions to the plan that are actuarially determined as of each valuation date and consist of a normal cost contribution and an amortization of the unfunded actuarial accrued liability (UAAL) using the entry age normal actuarial cost method. In FY 2008, LCRA began a fixed rate funding policy for the Plan under which LCRA will contribute 9.7 percent of biweekly payroll for 10 fiscal years and 5.7 percent thereafter toward funding its pension plan. The rates are meant to fund the plan's normal cost and to amortize the plan's UAAL, which at April 1, 2007 was $107.6 million, over a reasonable period time.

The UAAL contribution amount is based on amortization of $51.2 million, as of July 1, 2007, of the UAAL over 10 year using a level percentage of payroll method on a close basis and amortization of the remaining UAAL, $56.4 million, over 21 years using a level percentage of payroll method on an open basis. Because actual expense may differ from actuarial assumptions, the amortization period for the remainder of the UAAL may be longer or shorter than the expected 21 years. The total weighted average amortization period for the total UAAL is 16.2 years as of the April 1, 2008 valuation date. The costs of administering the Plan are paid by the Plan and are considered in the determination of the required employer contribution rate.

Annual Pension Cost: The required contribution was determined as of the April 1, 2007 actuarial valuation using the entry age normal actuarial cost method. The original actuarial assumptions included (a) 7.75 percent investment rate of return, net of administrative expenses and (b) projected salary increases of 4.5 percent to 12.5 percent varying by entry age group and attained age. Both (a) and (b) reflect an inflation component of 4 percent.

Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Assets[2]	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll[1]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
April 1, 2006	$ 269,195,679	$ 382,758,278	70.3	$113,562,599	$ 143,978,576	78.9
April 1, 2007	296,039,961	403,626,660	73.3	107,586,699	147,840,508	72.8
April 1, 2008	317,407,521	426,749,406	74.4	109,341,885	153,614,048	71.2

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

Three-Year Annual Pension Cost (APC) Trend Information

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2006	$14,268,341	100%	$ -
June 30, 2007	16,700,651	100	-
June 30, 2008	15,286,276	100	-

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

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

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, not to exceed $15,500 in 2008. Employees age 50 or over may contribute an additional $5,000 in 2008. Effective January 1, 2002, employees under Program A of the Pension Plan receive an LCRA matching contribution equal to 25 percent of the first 4 percent of compensation that the employee had elected to contribute to the plan. Under Program B of the Pension Plan, LCRA provides matching contributions equal to 100 percent of the first 4 percent of compensation and 50 percent of the next 2 percent of compensation that the employee has elected to contribute to the plan. Contributions made by both the employer and employee are vested immediately. Amendments to the Plan are made only with the authority of the LCRA Board.

Contributions by the LCRA and the employees for the years ended June 30, 2008 and 2007 are presented below:

	2008	2007
	(Dollars in Thousands)	
Employer contributions	$3,000	$2,627
Employee contributions	$9,896	$9,329

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 of Directors (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 Board.

In FY 2008, LCRA implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions". Prior to GASB Statement No. 45, governments reported the cost of other postemployment benefits (OPEB) on a "pay-as-you-go" basis. The annual cash paid for these benefits was the annual expense. Under GASB Statement No. 45, state and local government employers must account for, and report, the annual cost of the OPEB in the same way they report costs related to pensions. As a result, the annual OPEB cost for government employers is based on an actuarially determined contribution amount rather than on the "pay-as-you-go" method.

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

Annual OPEB Cost and Net OPEB Obligation: The Annual Required Contribution (ARC) to the OPEB Plan is actuarially determined as of each valuation date. 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. In FY 2008, the ARC is equal to the OPEB annual expense (OPEB Cost). For the fiscal year, the LCRA funding policy paid only for current cost share premiums, which means no assets were set aside for future benefits. Therefore, a net OPEB obligation exists at year-end. The following represents the OPEB Cost for the year, the amount paid and changes in the net OPEB obligation for FY 2008:

Annual required contribution (OPEB Cost)	$10,262,376
Contributions made	5,105,185
Increase in net OPEB obligation (asset)	5,157,191
Net OPEB obligation (asset) – Beginning of year	-
Net OPEB obligation (asset) – End of year	$5,157,191

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$10,262,376	50%	$5,157,191

This schedule only contains information for FY 2008, as this is the year of GASB No. 45 implementation.

Funded Status and Funding Progress: As of July 1, 2007, the actuarial accrued liability (AAL) for benefits was $170,075,954 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $170,075,954. The covered payroll (annual payroll of active employees covered by the plan) was $138,863,719, and the ratio of the UAAL to the covered payroll was 122.5 percent. The Schedule of Funding Progress, presented below, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for future benefits. The schedule only contains information for FY 2008 as this is the year of GASB Statement No. 45 implementation.

Actuarial Valuation Date	(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 [1]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
July 1, 2007	$ -	$170,075,954	0.00%	$170,075,954	$138,863,719	122.5%

[1] 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 April 1, 2007 actuarial valuation the Entry Age Normal cost method was used. The actuarial assumptions included a 5 percent discount rate, a 4 percent inflation rate and a projected annual healthcare cost trend rate of 11 percent for FY 2008 reduced by decrements of 1 percent to an ultimate rate of 6 percent after five years. The UAAL is being amortized on an open basis as a level 4.37 percent of projected payroll over a thirty year amortization period.

6. Commitments and Contingencies

Construction: LCRA's construction budget provides for capital improvement projects with cash requirements through FY 2013 of approximately $2.7 billion, including $468.6 million in FY 2009.

LCRA's forecasted capital program includes LCRA's share of the remaining cost of SO_2 scrubbers for two coal-fired generating units jointly owned by LCRA and the City of Austin. The scrubbers must be installed by October 2012, under the provisions of a flexible air quality permit received from the Texas Commission on Environmental Quality in 2002.

LCRA's forecasted capital program also includes Phase 2 of the Peaker Project for equipment purchase, detailed engineering, construction, and commissioning. The peaker project should be completed in FY 2009. The objective of the project is to add peaking capacity to LCRA's system that will offset costs and risks associated with increasing dependence on market purchases to meet peak demand. The new peaking capacity will reduce cost to LCRA's wholesale customers by being available to generate during periods of peak energy prices.

Finally, LCRA's forecasted capital program also includes $211.4 million for the Clear Springs/Zorn-Hutto Project. The LCRA Transmission Services Corporation (LCRA TSC) is proposing to build a new 345-kilovolt double-circuit transmission line. The proposed project, in conjunction with another transmission line project being constructed by TXU Electric Delivery (TXU ED) north of the Hutto switching station, will address several regional transmission needs and has been recommended by the Electric Reliability Council of Texas (ERCOT).

Sandy Creek Project: LCRA has signed an agreement to participate as a power purchaser and equity partner in the Sandy Creek Energy Station, a coal electric generation plant located near Waco, Texas. The facility has received an air permit from the Texas Commission on Environmental Quality and other necessary permits. The unit is under construction and scheduled to be operational in 2012. LCRA associated capital expenses are included in LCRA's construction budget. LCRA's purchases of power from the facility are expected to begin in FY 2013 and are estimated to be approximately $60 – 70 million annually.

Leases: LCRA leases and operates certain transmission facilities and equipment owned by 11 of LCRA's wholesale customers. The leases are the basis for LCRA to provide the same service to all of its customers and for the cost of such service to be shared by all customers on a consistent basis. Payments for the leased facilities vary from year to year and are based on the original cost of the facilities, adjusted for depreciation, and are updated annually to reflect additions, retirements and depreciation. The terms of the leases are perpetual, but may be terminated by LCRA or the lessors upon five years written notice. In addition, LCRA leases towers and related space to provide shared communications with 26 public entities and leases a portion of its office facilities. LCRA has leases totaling approximately $14.6 million in FY 2008. Leases associated with transmission facilities comprise approximately 78 percent of total LCRA leases for FY 2008.

The following is a schedule by years of current and future minimum rental payments required under these operating leases for the remaining non-cancellable lease terms as of June 30, 2008 (in thousands).

Fiscal Year	Minimum Lease Payments
2008	$14,635
2009	14,675
2010	14,863
2011	14,496
2012	12,769
2013	12,991

Coal and Rail Contracts: For FY 2009 approximately 47 percent of the fuel requirements for the Fayette Power Project Units 1 and 2 (FPP 1 & 2) will be supplied by two multi-year contracts with mines in Wyoming. The first contract, which ends in the second quarter of FY 2008, will provide coal at a fixed price for its entire term with a fixed volume for each calendar year. The second contract which ends in the second quarter of FY 2010 will provide coal at a separate fixed price per year with a fixed volume for its entire term. Starting in the third quarter of FY 2009, two new multi-year contracts will supply part of FPP 1 & 2's fuel requirements. These new multi-year contracts each have separate fixed prices per calendar year and an annual fixed volume for the entire term. During FY 2008 and 2007, LCRA's share of FPP 1 & 2's multi-year contract purchases totaled $14.4 million and $18.7 million, respectively.

For FY 2009 approximately 44 percent of the fuel requirements for Fayette Power Project Unit 3 (FPP 3) will be supplied by two multi-year contracts with mines in Wyoming. The first contract, which ends in the second quarter of FY 2009, will provide coal at a separate fixed price per year with a fixed volume for each calendar year. The second contract which also ends in the second quarter of FY 2009 will provide coal at a fixed price for its entire term with a fixed volume for each calendar year. Starting in the third quarter of FY 2009, one new multi-year contract will supply part of FPP 3's fuel requirements. The new multi-year contract has a separate fixed price per year and an annual fixed volume. During FY 2008 and 2007, LCRA's multi-year contract purchases totaled $20.3 million and $12.6 million, respectively.

LCRA and Austin Energy have a multi-year transportation contract with one rail carrier to ship Powder River Basin coal to all three units at FPP. FPP committed to ship a specific, minimum volume of coal from the Powder River Basin under a common carrier tariff with a second rail carrier. Freight costs incurred by LCRA were approximately $95.8 million and $48.3 million in FY 2008 and FY 2007, respectively.

Natural Gas: LCRA has several long-term contracts to provide a portion of the natural gas requirements to its gas-fired generation units, through April 2014. LCRA is committed to buy a fixed amount of gas annually. LCRA's gas purchases under these contracts totaled $126.8 million for FY 2008 and $113.3 million for FY 2007, based on price indices. LCRA also pays approximately $3.4 million per year for firm transportation rights on intrastate pipelines that deliver gas from other supply points.

Purchased Power: LCRA has 14 contracts with power marketers who provide firm electric energy ranging from 50 MW to 600 MW per month, for the period July 2008 through September 2009. The total minimum commitment from these contracts is more than $3.2 million plus energy payments.

Wind Power: LCRA is committed to purchase 35 MW of wind power capacity from Texas' first commercial wind power plant, the Texas Wind Power Project. LCRA in turn sells 10 MW of this capacity to Austin Energy. During FY 2008, LCRA purchased 30 MW of wind power capacity from the Delaware Mountain Wind Farm. In FY 2008, LCRA also purchased 51 MW of wind power capacity from the Indian Mesa Wind Farm. Total wind power capacity is 116 MW, of which 106 MW is for LCRA and its customers. LCRA expects to pay approximately $9.2 million in FY 2009 for purchases from all wind power plants, increasing to approximately $11.5 million in FY 2016.

Water Project Study: LCRA has entered into an agreement with the San Antonio Water System (SAWS) to study the feasibility of implementing the LCRA-SAWS Water Project. The project addresses long-term water needs in both the lower Colorado River basin and the San Antonio area. As proposed, the project would conserve and develop water in the region through the use of off-channel storage facilities, the conjunctive use of groundwater for agriculture, and agricultural conservation. The project would provide up to 150,000 acre-feet of water per year for the San Antonio region, provide a more reliable water supply for agricultural needs in the lower Colorado River basin, address rural water needs upstream of the LCRA Highland Lakes and increase lake levels in lakes Buchanan and Travis over those expected without the project. The study phase, estimated to be completed by March 2010 with a possible five-year extension at a total cost of approximately $49.1 million, includes engineering feasibility and environmental studies and costs to obtain necessary permits for development and transfer of water. LCRA, in its role as project manager, receives advances from SAWS to fund this study. SAWS has the option to cancel the study with a 100 percent refund of unexpended funds and a 50 percent refund of expended funds due to SAWS when cancelled. As of June 30, 2008, LCRA has received $34.8 million from SAWS, as well as grants of $0.6 million from U. S. Fish and Wildlife Service and $0.3 million from U. S. Department of Agriculture, for a total of $35.7 million and has expended $31.5 million in study costs.

Insurance Self-Funding: In addition to the purchase of commercial insurance, LCRA has established a self-insurance program to finance risk of loss. LCRA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. LCRA self-funds each worker's compensation claim up to $400,000 and each general liability claim up to a maximum of $2 million dependent on the insurance policy deductible. Self-funding of property damage varies from $100,000 to $2.5 million depending on the insurance deductible. Any claims or damages above self-funded amounts are covered by commercial general insurance. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Based on an insurance risk analysis, LCRA carries no commercial insurance on transmission lines.

Accrued Liability: The accrued liability presented in the table below is associated with obligations resulting from environmental regulations established by federal, state and local authorities. Although the effect of future environmental regulations upon existing and proposed facilities and operations cannot be determined, LCRA monitors proposed changes and takes actions necessary to mitigate adverse impacts to its operations. At the present, no materially adverse impacts are anticipated.

Changes in the accrued liability amount for FY 2007 and 2008 were as follows:

	Balance Beginning of Year	Changes in Estimates	Payments	Balance End of Year
FY 2007	$ 1,991,000	$ 194,000	$ 308,000	$ 1,877,000
FY 2008	$ 1,877,000	$ 227,000	$ 302,000	$ 1,802,000

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

7. Capital Asset Activity

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation/ Depletion	Ending Balance
			(Dollars in Thousands)			
Utility plant in service:						
Depreciable assets	$ 3,483,918	$	$ 250,803	$ (25,468)	$	$ 3,709,253
Non-depreciable assets	54,145		12,407	(5)		66,547
Total utility plant in service	3,538,063	-	263,210	(25,473)	-	3,775,800
Construction work in progress:						
Non-depreciable assets	200,272	373,727	(265,207)	(569)		308,223
Oil and gas property:						
Depletable assets	28,158					28,158
Other physical property:						
Depreciable assets	31,772		1,967	(401)		33,338
Non-depreciable assets	20,223		30			20,253
Total other physical property	51,995	-	1,997	(401)	-	53,591
Less accumulated depreciation	(1,232,826)		-	14,619	(120,195)	(1,338,402)
Capital assets, net	$ 2,585,662	$ 373,727	$ -	$ (11,824)	$ (120,195)	$ 2,827,370

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Transfer from Construction in Progress	Retirements	Depreciation/ Depletion	Ending Balance
			(Dollars in Thousands)			
Utility plant in service:						
Depreciable assets	$ 3,295,431	$ 425	$ 223,599	$ (35,537)	$	$ 3,483,918
Non-depreciable assets	35,862		18,299	(16)		54,145
Total utility plant in service	3,331,293	425	241,898	$ (35,553)	-	3,538,063
Construction work in progress:						
Non-depreciable assets	209,008	240,926	(249,705)	43		200,272
Oil and gas property:						
Depletable assets	28,158					28,158
Other physical property:						
Depreciable assets	27,275	(129)	5,040	(414)		31,772
Non-depreciable assets	20,073		150			20,223
Total other physical property	47,348	(129)	5,190	(414)	-	51,995
Less accumulated depreciation	(1,150,936)		2,617	24,884	(109,391)	(1,232,826)
Capital assets, net	$ 2,464,871	$ 241,222	$ -	$ (11,040)	$ (109,391)	$ 2,585,662

8. Segment Reporting

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

Segment information for LCRA TSC:

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

	June 30, 2008	June 30, 2007
Assets		
Current Assets	78,755	77,647
Long-Term Assets		
Restricted cash and cash equivalents	54	13,016
Restricted investments	72	123
Accounts receivable from LCRA - restricted	51,166	44,134
Capital assets:		
Utility plant in service	1,457,870	1,349,536
Construction work in progress	36,997	53,943
Less accumulated depreciation	(277,435)	(241,890)
Capital assets, net	1,217,432	1,161,589
Deferred charges:		
Costs to be recovered from revenues	68,234	42,837
Issue costs	21,037	17,294
Deferred charges, net	89,271	60,131
Total long-term assets	1,357,995	1,278,993
Total Assets	$ 1,436,750	$ 1,356,640
Liabilities		
Current Liabilities	69,712	106,471
Long-Term Liabilities		
Accounts payable to LCRA from Construction Fund	12,878	8,934
Accounts payable from restricted assets	7,270	11,625
Bonds, notes and loans payable	1,162,842	1,072,296
Deferred credits	397	1
Total long-term liabilities	1,183,387	1,092,856
Total liabilities	1,253,099	1,199,327
Equity		
Invested in capital assets, net of related debt	126,502	104,632
Unrestricted	57,149	52,681
Total equity	183,651	157,313
Total Liabilities and Equity	$ 1,436,750	$ 1,356,640

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

	Year Ended June 30, 2008	2007
Operating Revenues		
Transmission	$ 180,164	$ 169,013
Transformation	9,753	9,178
Other	822	635
Total operating revenues	190,739	178,826
Operating Expenses		
Operations	66,631	61,269
Maintenance	9,372	9,669
Depreciation and amortization	38,661	35,067
Total operating expenses	114,664	106,005
Operating income	76,075	72,821
Nonoperating Revenues (Expenses)		
Interest and other income	4,539	10,215
Interest and other expenses	(81,531)	(68,453)
Total nonoperating revenues (expenses)	(76,992)	(58,238)
Income before costs to be recovered from revenues, capital contributions, transfers in, and special item	(917)	14,583
Costs To Be Recovered from Revenues	25,397	1,269
Capital Contributions	1,132	1,859
Income before transfers in and special item	25,612	17,711
Transfers In	726	842
Special Item - Loss on Early Defeasance of Debt	-	(1,356)
Change in Equity	26,338	17,197
Total Equity, Beginning of Year	157,313	140,116
Total Equity, End of Year	$ 183,651	$ 157,313

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

	Year Ended June 30, 2008	2007
Cash Flows From Operating Activities		
Receipts from customers	$ 186,281	$ 176,484
Payments to suppliers	(76,236)	(71,371)
Net cash provided by operating activities	110,045	105,113
Cash Flows From Noncapital Financing Activities		
Other expenses	(5,482)	(6,974)
Net cash used in noncapital financing activities	(5,482)	(6,974)
Cash Flows From Capital and Related Financing Activities		
Purchases of property, plant and equipment	(99,966)	(181,059)
Debt issue costs	(5,489)	(1,867)
Proceeds from long-term debt issues	173,402	137,958
Proceeds from commercial paper issues	110,100	165,000
Principal payments on long-term debt	(36,090)	(37,308)
Payments to defease and refund debt and related issue costs	(215,000)	(149,122)
Interest paid	(43,111)	(32,854)
Cash received on sale of assets	4	16
Capital contributions	1,132	1,859
Accounts payable to LCRA	(12,751)	2,105
Net cash used in capital and related financing activities	(127,769)	(95,272)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	79,994	68,947
Purchase of investment securities	(72,808)	(71,312)
Interest received	3,964	8,258
Net cash provided in investing activities	11,150	5,893
Net Increase (Decrease) in Cash and Cash Equivalents	(12,056)	8,760
Cash and Cash Equivalents, Beginning of Period	29,978	21,218
Cash and Cash Equivalents, End of Period	$ 17,922	$ 29,978

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

	Year Ended June 30, 2008	2007
Reconciliation of Operating Income to Net Cash Flows provided by Operating Activities		
Operating income	$ 76,075	$ 72,821
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	38,661	35,067
Changes in assets and liabilities:		
Accounts receivable - trade	(6,991)	(2,344)
Inventories	112	40
Current liabilities	2,188	(471)
Net cash provided by operating activities	$ 110,045	$ 105,113
Noncash Investing Activities		
Investment market adjustments	$ 504	$ 671
Noncash Financing for Property, Plant and Equipment Expenditures		
Purchase of equipment through short-term trade payables	$ 41	$ 56,206

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Lower Colorado River Authority
P.O. Box 220
Austin, Texas 78767-0220
1-800-776-5272

www.lcra.org