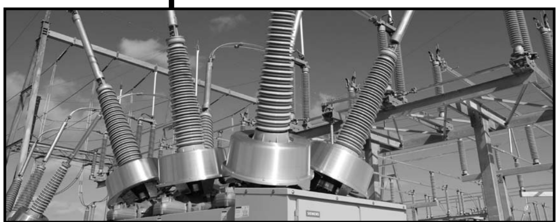

LCRA FY 2011 Annual Report

LCRA Board of Directors

Timothy Timmerman, Chair
Rebecca A. Klein, Vice Chair
Kathleen Hartnett White, Secretary
J. Scott Arbuckle
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The Board of Directors is composed of 15 members appointed by the governor. Directors represent counties in the electric and water service areas. The directors meet regularly to set strategic corporate direction for the general manager and staff, to approve projects and large expenditures, and to review progress on major activities and industry issues.

General Manager
Becky Motal

General Counsel
John W. Rubottom

General Auditor
W. Charles Johnson, Jr.

Chief Financial Officer
W. Brady Edwards

Treasurer
James Travis

Message from LCRA Leadership

"Texas is the finest portion of the globe that has blessed my vision," wrote Sam Houston, one of our state's preeminent historical figures. Especially fine, in our opinion, are the 61 Central and South Texas counties served by the Lower Colorado River Authority. More than 2 million people in this region depend on LCRA for energy, water and community services.

We are proud that LCRA continues to be a well run and financially sound organization, as shown in the accompanying financial report for our 2011 fiscal year. In addition, here are some of the year's other highlights:

We continued to build a balanced electric generation portfolio to meet our customers' current and projected demands. We significantly increased our commitment to renewable energy with the purchase of wind power from the Papalote Creek II wind power facility that was completed in November 2010. In April 2011 the LCRA Board authorized the replacement of the Thomas C. Ferguson Power Plant with a new natural gas-fired power plant that will be one of the most efficient, reliable and environmentally responsible electric generating facilities in Texas. LCRA also is a minority partner in the Sandy Creek Energy Station near Waco, which had been anticipated to begin commercial operations in 2012 at the time the auditors' report was issued, but is now scheduled to begin those operations in 2013.

These resources, along with our other generating facilities, will enable LCRA to continue serving the 33 electric customers (representing about two-thirds of our current load) that extended their power contracts to 2041, as well as our remaining 10 customers that will continue to be served to at least 2016. LCRA will explore all options – additional natural gas generation, clean coal technologies, cost-effective renewables, and demand management and conservation – as it continues to develop and upgrade its portfolio.

In December 2010 LCRA and other electric utilities began participating in the new nodal market system created by the Electric Reliability Council of Texas (ERCOT) to provide improved reliability and competitive pricing to electric consumers. LCRA has operated successfully in the new system, offering electricity at prices that are stable and consistent and competitive with other utilities.

LCRA's Transmission Services Corporation (TSC) affiliate received approval from the Public Utility Commission of Texas in January 2011 for a route for one of the major Competitive Renewable Energy Zone transmission lines that will carry West Texas wind power to the rest of the state. This is in addition to other projects LCRA TSC continues to build and implement to support our own system reliability needs as well as the ERCOT grid.

We continued to manage the basin's water resources to meet essential needs in the face of a two-year drought that rivals the Drought of Record of the 1950s. Concurrently, we worked with an advisory committee of stakeholders to update LCRA's Water Management Plan to make sure it is responsive to their needs, especially during periods of severe drought. The LCRA Board approved in October 2010 a Water Supply Resource Plan that will serve as a road map for meeting the basin's needs to the year 2100. Also beneficial was state approval in April 2011 of a permit for LCRA to capture floodwaters and other high flows in the Colorado River downstream of Austin for storage in yet-to-be-built reservoirs.

In November 2010, Board members approved plans for LCRA to divest its portfolio of water and wastewater utilities that had played a significant role in upgrading local communities' wastewater treatment standards but had not been paying for themselves. The divestiture process, if successful, should be completed by mid-2013.

LCRA also saw transitions in its top leadership during the year. In January 2011 Tim Timmerman succeeded Rebecca A. Klein as chair of LCRA's Board of Directors. Following the close of the fiscal year, Rebecca S. Motal succeeded Tom Mason as LCRA's 10th general manager; she also becomes LCRA's first female general manager. We continue LCRA's tradition of fiscal prudence and cost-effective strategies in carrying out LCRA's mission of protecting and harnessing our region's natural resources and providing valued public services to the people of Texas.

We welcome your review of our FY 2011 Annual Report and invite you to contact us if you need additional information on any matter.

Timothy Timmerman, Board Chair

Rebecca S. Motal, General Manager

Report of Management

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

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

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

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

W. Brady Edwards Chief Financial Officer	Craig Sloan Controller	Rebecca S. Motal General Manager

LOWER COLORADO RIVER AUTHORITY

FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2011 AND 2010

With Independent Auditors' Report

Lower Colorado River Authority
Financial Statements
Years Ended
June 30, 2011 and 2010

Table of Contents

Lower Colorado River Authority
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

Overview of the Financial Statements

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

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

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

Statements of Revenues, Expenses and Changes in Equity
This statement provides the operating results broken into the categories of operating revenues and expenses, nonoperating revenues and expenses, prior costs recovered from revenues, capital contributions, loss on early defeasance of debt, and extraordinary items.

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

Notes to the Financial Statements
The notes explain information in the financial statements and provide additional detailed information.

Financial Highlights

Condensed Balance Sheets

	June 30, 2011	June 30, 2010	June 30, 2009	2011 vs 2010	2010 vs 2009
	(Dollars in Thousands)				
Current assets	**$ 486,605**	$ 470,239	$ 481,865	3%	(2%)
Capital assets, net	**3,574,164**	3,455,694	3,244,069	3%	7%
Other long-term assets	**602,598**	576,594	496,070	5%	16%
Total Assets	**$ 4,663,367**	$ 4,502,527	$ 4,222,004	4%	7%
Current liabilities	**$ 574,124**	$ 529,842	$ 415,959	8%	27%
Long-term liabilities	**3,055,113**	2,987,421	2,931,331	2%	2%
Total Liabilities	**3,629,237**	3,517,263	3,347,290	3%	5%
Equity - Invested in capital assets, net of related debt	**676,710**	618,725	592,382	9%	4%
Equity - Restricted for debt service	**33,626**	41,488	-	(19%)	100%
Equity - Restricted for capital projects	**8,513**	9,029	213	(6%)	4139%
Equity - Restricted other	**26,704**	13,121	25,053	104%	(48%)
Equity - Unrestricted	**288,577**	302,901	257,066	(5%)	18%
Total Equity	**1,034,130**	985,264	874,714	5%	13%
Total Liabilities and Equity	**$ 4,663,367**	$ 4,502,527	$ 4,222,004	4%	7%

2011 Compared to 2010

At June 30, 2011, current assets increased $16.4 million, or 3 percent, from June 30, 2010. The increase was due to the fuel cost over-recovery (included as a regulatory credit for future recovery) of $20.6 million at June 30, 2010 shifting to an under-recovery (included in other assets) of $23.0 million at June 30, 2011. Also contributing to the increase in current assets was the coal inventory balance, which increased $19.5 million from prior year due to lower than forecasted coal burned during the current year. Finally, net receivables increased $21.2 million from fiscal year (FY) 2010. These increases were offset by a $47.3 million decrease in investments from June 30, 2010 as a result of lower revenue fund balances.

Compared to FY 2010, net capital assets increased $118.5 million, or 3 percent, as a result of increases in construction work in progress and utility plant in service primarily related to improvement of generation assets and new transmission assets.

Current liabilities increased $44.3 million, or 8 percent, primarily due to a $16.5 million increase in the current portion of bonds, notes and loans payable since more debt service is due within the next 12 months compared to the prior year. In addition, LCRA is no longer entering into new hedge transactions for the Energy Price Risk Management program, so $9.7 million of outstanding contracts are now due within current year compared to prior year. Also, contributing to the increase is a $9.7 million increase in settlement fees payable to Electric Reliability Council of Texas (ERCOT) due to the shift from the zonal to nodal market design in FY 2011. These increases were offset by the decrease in the regulatory credit for future recovery due to the fuel cost over-recovery shifting to an under-recovery at June 30, 2011.

Equity – Restricted for debt service equity classification decreased $7.9 million from FY 2010 because debt service reserves were used for debt service.

Equity – Restricted other increased $13.6 million, or 104 percent, due to a new reserve of cash for $6.5 million set aside to partially fund the decommissioning of the Ferguson gas plant in 2014. In addition, $5.4 million was set aside to fund future infrastructure needs.

2010 Compared to 2009

At June 30, 2010, current assets decreased $11.6 million, or 2 percent, from June 30, 2009. The decrease was primarily a result of a decrease in coal inventory, which was a consequence of management's decision to reduce the number of days in coal inventory to desired levels. Compared to FY 2009, net capital assets increased $211.6 million, or 7 percent, as a result of increases in construction work in progress and utility plant in service primarily related to new generation and transmission assets, offset by sales of water system assets. Other long-term assets increased $80.5 million, or 16 percent, compared to the previous year, resulting from an increase in restricted and unrestricted investments primarily because of new debt service reserve funds that did not exist in the prior year.

Current liabilities increased $113.9 million, or 27 percent, as a result of a higher tax-exempt commercial paper balance at June 30, 2010, compared to June 30, 2009. The increase in tax-exempt commercial paper is offset by a decrease in regulatory credits for future recovery as a result of recognizing $64.2 million of revenues collected through the fuel and power cost recovery rate that had previously been deferred as a regulatory liability associated with the fuel-related operating reserve. In addition, the increase in current liabilities is related to an accrual at year end for above-budget generation net revenues of $29.1 million that will be credited to customers in FY 2011 in accordance with LCRA Board of Directors' (LCRA Board) policy. No such accrual was made in the prior year.

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

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

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

Condensed Statements of Revenues, Expenses and Changes in Equity

	Year Ended June 30,			2011 vs 2010 Favorable/ (Unfavorable)	2010 vs 2009 Favorable/ (Unfavorable)
	2011	**2010**	**2009**		
	(Dollars in Thousands)				
Operating revenues	**$ 1,185,848**	$ 1,217,459	$ 1,311,880	(3%)	(7%)
Operating expenses	**(955,918)**	(920,767)	(1,097,458)	(4%)	16%
Operating income	**229,930**	296,692	214,422	(23%)	38%
Interest and other income	**9,669**	15,986	15,642	(40%)	2%
Interest and other expenses	**(184,668)**	(174,269)	(163,572)	(6%)	(7%)
Prior costs recovered from revenues	**(13,035)**	(12,871)	(18,802)	(1%)	32%
Income before capital contributions, loss on early defeasance of debt, and extraordinary item	**41,896**	125,538	47,690	(67%)	163%
Capital contributions	**7,728**	11,777	11,606	(34%)	1%
Loss on early defeasance of debt	**(758)**	(8,451)	-	91%	(100%)
Extraordinary Item	**-**	(18,314)	-	100%	(100%)
Change in equity	**48,866**	110,550	59,296	(56%)	86%
Equity, Beginning of Year	**985,264**	874,714	815,418	13%	7%
Equity, End of Year	**$ 1,034,130**	$ 985,264	$ 874,714	5%	13%

2011 Compared to 2010

Operating revenues decreased $31.6 million, or 3 percent, in FY 2011 compared to FY 2010. The primary reason for the decrease is due to lower electric revenues because of lower rates that resulted from the decreased cost of fuel passed on to customers.

Operating expenses increased $35.2 million from prior year, or 4 percent, primarily because of an increase in ERCOT net settlement fees as a result of the shift from zonal to nodal market design.

Capital contributions decreased $4.0 million from the previous year due to a grant program ending at the end of FY 2010 that funded capital projects.

Loss on early defeasance of debt decreased $7.7 million from the previous fiscal year due to fewer pay downs of debt with proceeds from capital assets that were sold during the fiscal year compared to prior fiscal year.

There were no extraordinary items recorded in FY 2011.

2010 Compared to 2009

Operating revenues decreased $94.4 million, or 7 percent, in FY 2010 compared to FY 2009. The primary reason for the decrease is due to lower electric revenues due to lower rates which resulted from the decreased cost of fuel passed on to customers. These lower rates were partially offset by higher volume of energy sales and the recognition of $64.2 million in revenues collected through the fuel and power cost recovery rate that had previously been deferred as a regulatory liability associated with the fuel-related operating reserve.

Operating expenses decreased $176.7 million, or 16 percent, primarily because of lower fuel expenses caused by low natural gas prices.

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

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

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

In FY 2010, LCRA adjusted FY 2009 beginning equity to reflect the implementation of GASB Statement No.51, *Accounting and Financial Reporting for Intangible Assets.*

Extraordinary Item

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

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

SAWS sued LCRA, alleging breach of contract and sought $1.2 billion in damages. In February 2010, a Travis County district court ruled that SAWS' claims were barred under the legal principle of governmental immunity. SAWS appealed the ruling to the Third Court of Appeals in Austin, which issued its opinion on July 29, 2011, reversing the lower court's decision to dismiss on immunity grounds. The case was remanded to the lower court for further proceedings. LCRA filed a Motion for Clarification and Rehearing with the Court of Appeals on Sept. 14, 2011.

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

Capital Expansion and Improvement Program

LCRA's capital improvement and expansion program for FY 2012 through FY 2016 is expected to be $1.9 billion, with $1.4 billion, or 74 percent, to be debt funded. The majority of forecasted capital costs is for expansion of transmission services, dam improvements and generation facilities as well as additional corporate infrastructure and facilities. LCRA Transmission Services Corporation (LCRA TSC) continues to increase its transmission system investment due to the need for additional electric transmission capability statewide.

The capital budget is expected to be applied as follows:

(1) $718 million for transmission projects;

(2) $865 million for generation and system improvements;

(3) $178 million for dam improvements and hydroelectric facilities; and

(4) $135 million for parks and corporate facilities.

LCRA's forecasted capital program includes funds to be used to respond to regulatory requirements and for projects assigned to LCRA TSC by the Public Utility Commission of Texas (PUC) to meet the Competitive Renewable Energy Zones objectives. The capital program also includes funds for the purchase of 100 megawatts (MW) of additional base load power production capacity by 2012. On April 20, 2011, the LCRA Board approved the Ferguson Replacement Project, which involves building an approximate 540 (MW), combined-cycle power plant to replace the 420-MW Ferguson unit, which was built in 1974. The capital program includes funds to build the new plant.

Rehabilitation of the floodgates at Buchanan Dam, as well as continued construction of a new office building at the Dalchau Service Center and Western Maintenance Facility, are also included in the five-year plan.

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

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

Status of Long-Term Power Supply Contracts

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

Regulatory Activity

LCRA TSC plans on filing a transmission cost of service rate application with the PUC in FY 2012.

Capital Asset Activity

Fiscal Year 2011

- In November 2010, the LCRA Board directed the general manager to seek a qualified buyer(s) for all water and wastewater utility assets. LCRA is still in the process of obtaining bids for the assets and if accepted, plans to divest the systems by FY 2014. Total FY 2011 revenues related to the water and wastewater utilities were $37.5 million. Net book value of the related assets was $237.0 million as of June 30, 2011.

- $307.3 million was expended for construction activities in FY 2011. The majority of these costs were for purchase and construction of additional generation and transmission facilities and improvements to existing generation facilities. $0.8 million of donated assets was received during FY 2011 for a total increase in construction work in progress of $308.1 million.

- $157 million of depreciation expense and $32.6 million of asset retirements were recorded in FY 2011 on plant in service.

- In June 2011, LCRA sold the Elgin Wastewater System. The assets taken off the books had a net book value of $6.7 million. LCRA also retired an additional $0.5 million of construction work in progress associated with the Elgin asset. Based on the proceeds from the sale, LCRA recorded a loss of $2.2 million under nonoperating expense on the Statements of Revenues, Expenses and Changes in Equity.

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

Fiscal Year 2010

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

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

- In December 2009, LCRA sold the Brushy Creek Regional Wastewater System. The assets taken off the books had a net book value of $107.8 million. The gain recorded on the sale totaled $6.8 million. In February 2010, LCRA sold the wastewater system in Hutto. Those assets had a net book value of $6.0 million. The gain recorded on the sale totaled $1 million. Gains are reported under nonoperating revenue in the Statement of Revenues, Expenses and Changes in Equity.

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

Debt Activity

Fiscal Year 2011

- During FY 2011, LCRA issued $227.3 million of tax-exempt commercial paper, of which $165.7 million was on behalf of LCRA TSC. In addition, LCRA issued $0.2 million of taxable commercial paper. The proceeds were used to fund various capital projects and refund debt.

- In FY 2011, LCRA made $125.3 million of scheduled debt payments and $158.6 million of interest payments.

- In FY 2011, LCRA made $9.9 million of tax-exempt commercial paper payments and $0.4 million of taxable commercial paper payments.

- In June 2011, LCRA used the proceeds from the sale of the Elgin Wastewater System to pay down $4.1 million of debt related to the purchase and improvement of the facility.

- On Nov. 22, 2010 LCRA issued $373.8 million of LCRA Series 2010 A&B Refunding Revenue Bonds. The proceeds from the issue were used to pay off $215 million in LCRA tax-exempt commercial paper and pay down a portion of LCRA Series 2001, 2001A, 2004, 2006 and 2008A bonds.

Fiscal Year 2010

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

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

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

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

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

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

- On May 18, 2010, LCRA TSC issued $200 million of LCRA TSC Series 2010 Refunding Revenue Bonds. The proceeds from the bond issuance were used as follows:
  - to refund tax-exempt commercial paper ($136.6 million);
  - to create the LCRA TSC 2010 debt service fund ($10.9 million); and
  - to increase the LCRA TSC construction fund ($61.2 million).
- For additional detail, see Note 3 of the Notes to the Financial Statements.

Subsequent Events

In August 2011, one major rating agency downgraded debt issued by the U.S. government, and debt explicitly guaranteed by the U.S. government, from AAA to AA+, a one-level downgrade. The other two rating agencies reaffirmed the AAA rating. While the impact of this downgrade is not fully known at this time, it is not expected to significantly affect LCRA's investment values or collectability.

Contacting LCRA's Management

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the Lower Colorado River Authority (LCRA) as of June 30, 2011 and 2010, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, LCRA adopted the provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective July 1, 2009.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LCRA as of June 30, 2011 and 2010, 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.

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 30, 2011

LOWER COLORADO RIVER AUTHORITY
BALANCE SHEETS
(Dollars in Thousands)

	June 30, 2011	June 30, 2010
Assets		
Current Assets:		
Cash and cash equivalents	$ 113,241	$ 117,456
Investments	51,940	99,246
Receivables, net	179,792	158,556
Accrued interest receivable	354	1,331
Inventories, net	105,323	88,378
Other	35,955	5,272
Total current assets	486,605	470,239
Long-term Assets:		
Restricted cash and cash equivalents	16,338	27,266
Restricted investments	182,642	166,737
Unrestricted investments	94,410	71,415
Capital assets:		
Depreciable:		
Utility plant in service	4,477,232	4,046,728
Oil and gas property	28,158	28,158
Other physical property	43,243	42,183
Less accumulated depreciation	(1,613,574)	(1,485,984)
Depreciable capital assets, net	2,935,059	2,631,085
Nondepreciable:		
Utility plant in service	193,681	124,184
Water rights	94,781	94,781
Other physical property	19,906	19,753
Construction work in progress	330,737	585,890
Nondepreciable capital assets	639,105	824,608
Other	19,947	18,176
Deferred charges		
Costs to be recovered from revenues	234,718	235,686
Unamortized debt expense	40,709	41,762
Contract extension settlement with major customers	4,260	5,034
Other	9,574	10,519
Deferred charges, net	289,261	293,001
Total long-term assets	4,176,762	4,032,288
Total Assets	$ 4,663,367	$ 4,502,527

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

LOWER COLORADO RIVER AUTHORITY
BALANCE SHEETS
(Dollars in Thousands)

	June 30, 2011	June 30, 2010
Liabilities		
Current Liabilities:		
Accounts payable	$ 74,364	$ 63,899
Interest payable	22,327	20,776
Other current liabilities	78,851	49,591
Regulatory credits for future recovery	37,251	50,092
Compensated absences	13,298	13,914
Bonds, notes, and loans payable	348,033	331,570
Total current liabilities	574,124	529,842
Long-term Liabilities:		
Accounts payable from restricted assets	47,640	54,341
Bonds, notes, and loans payable	2,871,151	2,791,933
Deferred credits and other	136,322	141,147
Total long-term liabilities	3,055,113	2,987,421
Total liabilities	3,629,237	3,517,263
Equity		
Invested in capital assets, net of related debt	676,710	618,725
Restricted for debt service	33,626	41,488
Restricted for capital projects	8,513	9,029
Restricted other	26,704	13,121
Unrestricted	288,577	302,901
Total equity	1,034,130	985,264
Total Liabilities and Equity	$ 4,663,367	$ 4,502,527

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

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

	Year Ended June 30, 2011	Year Ended June 30, 2010
Operating Revenues		
Electric	$ 1,075,344	$ 1,103,062
Water, wastewater and irrigation	63,625	65,962
Other	46,879	48,435
Total operating revenues	1,185,848	1,217,459
Operating Expenses		
Fuel	340,825	391,464
Purchased power	162,715	117,333
Operations	249,200	212,111
Maintenance	44,137	58,930
Depreciation, depletion and amortization	159,041	140,929
Total operating expenses	955,918	920,767
Operating income	229,930	296,692
Nonoperating Revenues (Expenses)		
Interest and other income	9,669	15,986
Interest and other expenses	(184,668)	(174,269)
Total nonoperating revenues (expenses)	(174,999)	(158,283)
Income before prior costs recovered from revenues, capital contributions, loss on early defeasance of debt and extraordinary item	54,931	138,409
Prior Costs Recovered from Revenues	(13,035)	(12,871)
Capital Contributions	7,728	11,777
Loss on Early Defeasance of Debt	(758)	(8,451)
Extraordinary Item (See Note 1, Extraordinary Item)	-	(18,314)
Change in Equity	48,866	110,550
Total Equity, Beginning of Year	985,264	874,714
Total Equity, End of Year	$ 1,034,130	$ 985,264

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, 2011	2010
Cash Flows From Operating Activities		
Received from customers	$ 1,128,717	$ 1,219,553
Payments for goods and services	(619,745)	(597,783)
Payments to employees	(181,390)	(173,177)
Other revenues	17	1,381
Net cash provided by operating activities	327,599	449,974
Cash Flows From Noncapital Financing Activities		
Grant proceeds received	1,125	1,463
Other revenues (expenses)	81	(1,358)
Net cash provided by noncapital financing activities	1,206	105
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(315,996)	(499,882)
Proceeds from sale of capital assets	15,338	134,172
Debt issue costs	(2,670)	(9,885)
Contributed capital received for capital costs	8,539	12,530
Proceeds from bond issues and commercial paper	637,649	993,894
Debt principal payments	(125,335)	(124,020)
Interest paid	(158,629)	(146,208)
Payments to refund and defease debt	(414,582)	(686,449)
Net cash used in capital and related financing activities	(355,686)	(325,848)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	396,491	236,231
Purchase of investment securities	(393,670)	(374,705)
Interest received	8,839	10,632
Infrastructure financial assistance activity	78	138
Net cash provided by (used in) investing activities	11,738	(127,704)
Net Decrease in Cash and Cash Equivalents	(15,143)	(3,473)
Cash and Cash Equivalents, Beginning of Year	144,722	148,195
Cash and Cash Equivalents, End of Year	$ 129,579	$ 144,722

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, 2011	Year Ended June 30, 2010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 229,930	$ 296,692
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	159,041	140,929
Changes in assets and liabilities:		
Accounts receivable	(21,499)	13,909
Inventories	(18,022)	20,585
Other current assets	(31,056)	(220)
Current liabilities	21,736	(31,573)
Other deferred charges and long-term assets	(1,980)	(7,664)
Deferred credits and other long-term liabilities	(10,551)	17,316
Net cash provided by operating activities	$ 327,599	$ 449,974
Noncash Investing Activities		
Investment market adjustments	$ (5,585)	$ (6,904)
Noncash Financing for Property, Plant and Equipment		
Purchase of equipment through short-term trade payables	$ 1,063	$ -

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

LOWER COLORADO RIVER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended 2011 and 2010

1. Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

Major Customers and Electric Revenues: Sales of electricity to LCRA's two major customers represented approximately 20 percent and 10 percent of total electric revenue for FY 2011, and 26 percent and 11 percent for FY 2010, respectively. No other customer accounts for more than 10 percent of LCRA's total electric revenues in FY 2011 or FY 2010.

Electric revenues represented approximately 94 and 93 percent of LCRA's operating revenues for FY 2011 and FY 2010, respectively.

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

ERCOT Settlements Reporting: LCRA reports power balancing transactions, which represent wholesale purchases and sales of power for real-time balancing purposes as measured in 15-minute intervals. These purchases and sales with the Electric Reliability Council of Texas (ERCOT), as the balancing energy clearinghouse agent, are reported net. These amounts have historically represented a net purchase of power to LCRA; however, during FY 2010, major components of these amounts resulted in net sales of power and ancillary services. These amounts are classified as power production expense. The amount of revenue included in power production expense was $27.0 million for FY 2010. In FY 2011 these settlements resulted in net purchases of power to LCRA. These amounts are classified as power production expense, and the revenue included in this amount is $57.6 million for FY 2011.

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

Long-term Note Receivable: Long-term note receivable balances were $4.2 million at June 30, 2011 and 2010. Two note receivables due from municipal corporations relate to financial assistance for infrastructure projects, and the remaining two note receivables are due from a private third-party for a tract land sale.

Allowance for Doubtful Accounts: LCRA accounts receivable balances are subject to risk of non-payment. Allowances to account for that risk have been calculated based on a three-year average of write-offs taken. The write-offs taken in FY 2011 were $0.2 million and in FY 2010 were $0.7 million. These write-off amounts represent an immaterial percentage of total sales in FY 2011 and FY 2010, respectively. Management believes that the allowance for doubtful accounts balance is sufficient as of June 30, 2011 and 2010, to cover risk of nonpayment.

Capital Assets

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

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

Inventories

Fuel: 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.

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

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

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

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

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

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

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

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

Regulatory Assets and Liabilities: LCRA applies Statement 62. Accordingly, certain costs may be capitalized as a regulatory asset that would otherwise be charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates. In addition, rate actions of the regulator may impose a liability on LCRA. A regulatory liability occurs when a regulator requires refunds to customers or provides current rates intended to recover costs that are expected to be incurred in the future. 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 $264.6 million and $243.9 million at June 30, 2011 and 2010, respectively. The regulatory assets, which are included under deferred charges, will be recovered through rates in future years, and consist of depreciation of debt-funded assets, costs related to outstanding debt and costs relating to other postemployment benefits. The balance of regulatory assets at June 30, 2011 also includes an under-recovery of fuel costs for $23.0 million.

Regulatory liabilities amounted to $37.3 million and $50.1 million at June 30, 2011 and 2010, respectively. Included in those balances are amounts to be returned to LCRA's electric customers in the form of a one-time credit to their bill in accordance with LCRA Board policy: $29.7 million and $29.1 million at June 30, 2011 and 2010, respectively. The balance at June 30, 2011 also includes a deferral of $6.5 million in revenues to be used for the decommissioning of the Ferguson Power Plant. In FY 2010, LCRA recognized $64.2 million in revenues collected through the fuel and power cost recovery rate that had previously been deferred as a regulatory liability associated with the fuel-related operating reserve. Also included in the balance of regulatory liabilities at June 30, 2010 is the cumulative over-recovery of fuel costs for $20.6 million (see Fuel Factor discussion in Note 1).

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

Deferred Credits: Deferred credits and other long-term liabilities are $136.3 million and $141.1 million at June 30, 2011 and 2010, respectively. Deferred credits and other consists of environmental liabilities, supplemental executive retirement program liabilities, the accrual for Other Post Employment Benefits, deferred revenues and long-term portion of current liabilities.

Capitalized Interest: Interest is capitalized as a part of the cost of capital assets if the assets are financed by debt proceeds. During FY 2011 and FY 2010, LCRA capitalized $6.9 million and $8.2 million of interest, respectively.

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

Gas Price Management: Spot prices for natural gas ranged from $2.98 to more than $7.30 per million British thermal units (MMBtu) in FY 2011. In an effort to mitigate the financial and market risk associated with these price fluctuations, LCRA entered into futures contracts, swaps and options for energy price risk management purposes. Derivative instruments are recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period. LCRA is using Statement 53 accounting as a component of the fuel factor for its investment derivatives, and gains and losses related to the investment derivative contracts that are deemed to be ineffective hedges are recognized in current earnings. Gains and losses on financial contracts that are effective hedges are deferred on the balance sheets (see Note 9, Derivative Instruments).

Estimation of Fair Value: The estimated market value of long-term debt, based on current market yields, was $3.5 billion and $3.4 billion at June 30, 2011 and 2010, respectively.

Natural Gas Development and Production: LCRA has adopted the full-cost method of accounting for natural gas development and production. Under this method, all costs directly associated with acquisition and development of oil and gas properties are capitalized and depleted to expense over the life of proved reserves on a units-of-production method. For years ended June 30, 2011 and 2010, depletion expense totaled approximately $0.1 million for both years.

Contract Extension Settlement with Major Customers: According to the terms of a 1987 settlement with two major customers, their wholesale power contracts were extended to 2016, and in return, LCRA reimbursed the customers for their costs incurred in planning generating facilities. These costs are amortized over the period affected by the contract extension. The amortization expenses were $0.8 million for both FY 2011 and FY 2010.

Impairment: LCRA evaluates the carrying value of its property, plant and equipment, and other long-lived assets when major events or changes in circumstances indicate a decline in an asset’s service capacity. Impairment is measured using methods that isolate the asset’s service capacity that has been rendered unusable. There were no impairments noted as of June 30, 2011 and 2010.

Depreciation, Depletion and Amortization: LCRA depreciates its plant in service on a straight-line basis over the estimated useful lives of the various classes of these assets. Annual depreciation expense, expressed as a percentage of depreciable plant, was approximately 3.5 percent and 3.4 percent for both FY 2011 and FY 2010, respectively. Depreciation, depletion and amortization expense for FY 2011 and FY 2010 were $159.0 million and $140.9 million, respectively.

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

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

Periodically, LCRA reviews the useful lives of depreciable assets. Changes in useful lives are accounted for as a change in accounting estimate. In FY 2011, a change in the estimated life of certain 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 $0.4 million on the Statement of Revenues, Expenses and Changes in Equity for the year ended June 30, 2011 and could increase depreciation and amortization expense by up to $3.9 million in each future year that those assets are still in service.

On April 20, 2011 the LCRA Board approved the Ferguson Replacement Project, which involves building an approximate 540-MW, combined-cycle power plant to replace the gas-fired 420-MW Ferguson unit built in 1974. In FY 2011, LCRA decreased the remaining useful life of the Ferguson plant to Dec. 31, 2013, to coincide with the new plant coming online in FY 2014. The change of the estimated lives of these assets increased depreciation and amortization expense by $0.4 million on the Statement of Revenues, Expenses and Changes in Equity for the year ended June 30, 2011, $4.2 million for the fiscal years ended June 30, 2012, and June 30, 2013, and $2.1 million for the fiscal year ended June 30, 2014.

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

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

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

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

SAWS sued LCRA, alleging breach of contract, and sought $1.23 billion in damages. In February 2010, a Travis County district court ruled that SAWS' claims were barred under the legal principle of governmental immunity. SAWS appealed the ruling to the Third Court of Appeals in Austin, which issued its opinion on July 29, 2011, reversing the lower court's decision to dismiss on immunity grounds. The case was remanded to the lower court for further proceedings. LCRA filed a Motion for Clarification and Rehearing with the Court of Appeals on Sept. 14, 2011.

The contract provides that if the contract is terminated, LCRA must reimburse SAWS 50 percent of the amount SAWS paid toward the feasibility studies. To date, SAWS has not terminated the agreement. LCRA believes that termination of the SAWS contract is probable and, as a result, accrued an $18.8 million liability for the 50 percent share of costs through June 30, 2010, to be refunded to SAWS in accordance with the contract. LCRA also recorded its share of the study phase expenses, shown as an extraordinary item, for $18.3 million for the twelve months ended June 30, 2010. There were no additional costs incurred related to the study in FY 2011.

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

2. Financial Instruments

As of June 30, 2011 and 2010, LCRA had the following investments and maturities:

	June 30, 2011			June 30, 2010		
	(Dollars in Thousands)					
Type of Investment		**Market Value**	**WAM (Years)***		**Market Value**	**WAM (Years)***
Investments						
U.S. Government Securities	$	328,992	1.32	$	329,398	1.41
Commercial Paper		-	-		8,000	0.25
Cash Equivalents						
Commercial Paper		6,000	0.14		-	-
Investment Pools		101,974	0.23		144,061	0.20
Total	$	436,966	1.02	$	481,459	1.03

Cash and Investments as of June 30, 2011 and 2010 consisted of the following:

		2011		2010
Cash	$	21,605	$	661
Investments and Cash equivalents		436,966		481,459
Total Cash and Investments	$	458,571	$	482,120

*Weighted Average Maturity

External Investment Pool: LCRA investments included an investment pool with TexPool, at June 30, 2011 and 2010. The State Comptroller of Public Accounts oversees TexPool and the pool seeks to maintain a $1 value per share as required by the Texas Public Funds Investment Act. There are no minimum balance requirements for TexPool participants, and there is no limit on the number of accounts per participant.

Debt Service Reserve Funds: LCRA has debt service reserve funds which include investments suitable to provide reserves to meet any shortfalls in funds available to make required debt service payments. Debt service reserve funds are not to be used except in the case of insufficient funds. As of June 30, 2011 and 2010, LCRA had investments in separate accounts holding U.S. Treasuries, held for the use of debt service reserves, totaling $140.8 and $133.5 million, respectively.

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

Credit Risk: LCRA's investment activities are governed by state statute (Texas Public Funds Investment Act), which specifies the type and ratings of investments governmental entities are allowed to purchase. In addition, LCRA Board policy and internal operating procedures further restrict investment activity. At June 30, 2011 and 2010, LCRA's investment in the Texpool investment pool was rated AAAm by Standard & Poor's. LCRA's investment in the Federated Securities Corporation investment pool was rated AAAm by Standard & Poor's, Aaa by Moody's Ratings, and AAA by Fitch Ratings. Investments in commercial paper were rated A-1+ by Standard & Poor's and F1 by Fitch Ratings. Investments in U.S. Treasuries were rated AAAu by Standard & Poor's and Aaa by Moody's Ratings.

3. Long-Term Debt and Commercial Paper

Changes during FY 2011 and FY 2010, of long-term debt, including current portions as follows (dollars in thousands):

Series	Balance June 30, 2009	Increase	(Decrease)	Balance June 30, 2010	Increase	(Decrease)	Balance June 30, 2011	Amount Due in FY 2012
LCRA TSC 2003B	$ 221,860	$	$ (7,690)	$ 214,170	$	$ (7,690)	$ 206,480	$ 8,785
LCRA TSC 2003C	115,010		(4,515)	110,495		(4,515)	105,980	4,515
LCRA TSC 2004	113,065		(4,185)	108,880		(4,185)	104,695	4,185
LCRA TSC 2005	117,730		(4,200)	113,530		(4,200)	109,330	4,200
LCRA TSC 2006	127,170		(4,540)	122,630		(4,540)	118,090	4,540
LCRA TSC 2006A	129,095		(4,490)	124,605		(4,490)	120,115	4,490
LCRA TSC 2008	165,205			165,205		(2,020)	163,185	2,525
LCRA TSC 2009	118,550			118,550			118,550	
LCRA TSC 2010	-	200,000		200,000			200,000	4,125
LCRA 2010B	-			-	129,535	(650)	128,885	5,930
LCRA 2010A	-			-	244,245		244,245	5,295
LCRA 2010	-	423,235	(5,400)	417,835		(54,015)	363,820	56,615
LCRA 2009	171,455		(2,330)	169,125		(3,315)	165,810	2,850
LCRA 2008A	207,725		(4,780)	202,945		(30,050)	172,895	2,600
LCRA 2008	192,400		(2,965)	189,435		(3,135)	186,300	3,265
LCRA 2006	75,260		(1,890)	73,370		(22,470)	50,900	990
LCRA 2004	91,335		(3,180)	88,155		(57,215)	30,940	
LCRA 2004D	46,395		(12,590)	33,805		(1,695)	32,110	705
LCRA 2003	75,890		(4,685)	71,205		(2,485)	68,720	2,615
LCRA 2002	110,295		(3,210)	107,085		(2,215)	104,870	2,325
LCRA 2001A	128,360		(3,280)	125,080		(30,305)	94,775	3,325
LCRA 2001	92,420		(15,595)	76,825		(47,910)	28,915	885
LCRA 1999A	346,915		(229,775)	117,140			117,140	
LCRA 1999B	197,525		(165,165)	32,360		(7,535)	24,825	2,385
LCRA 1999E	18,710		(15,070)	3,640		(3,640)	-	
LCRA 1999F	86,385		(70,665)	15,720		(3,050)	12,670	12,670
LCRA 1999G	30,880		(30,880)	-			-	
LCRA 1999H	710		(710)	-			-	
LCRA 1999I	2,990		(230)	2,760		(2,760)	-	
LCRA TWDB Note Payable	10,500			10,500			10,500	
LCRA TWDB Note Payable	14,040		(14,040)	-			-	
Add: Unamortized Net Premium/Discount	32,678	46,959	(9,536)	70,101	36,370	(19,730)	86,741	5,489
Subtotal	$ 3,040,553	$ 670,194	$ (625,596)	$ 3,085,151	$ 410,150	$ (323,815)	$ 3,171,486	$ 145,309
Unamortized Net Losses [4]	(194,593)		14,945	(179,648) [2]	(9,446)	16,792	(172,302) [3]	(17,276)
Taxable Commercial Paper	22,300	400		22,700	200	(600)	22,300	22,300
Tax-Exempt Commercial Paper	52,000	323,300	(180,000)	195,300	227,300	(224,900)	197,700	197,700
Total	$ 2,920,260	$ 993,894	$ (790,651)	$ 3,123,503	$ 628,204	$ (532,523)	$ 3,219,184	$ 348,033 [1]

(1) Total amount due in FY 2011 was $331.6 million.

(2) $75,981 is associated with LCRA 1999 A, B, and F refunding bonds and $39,072 is associated with LCRA TSC 2003B refunding bonds, and $64,595 is associated with LCRA 2010 refunding bonds.

(3) $67,810 is associated with LCRA 1999 A, B, and F refunding bonds, $37,200 is associated with LCRA TSC 2003B refunding bonds, and $58,054 is associated with LCRA 2010 refunding bonds, and $9,238 is associated with LCRA 2010AB refunding bonds.

(4) Represents unamortized net losses on refunded debt.

Interest rates and maturity dates for bonds, notes and commercial paper are as follows as of June 30, 2011.

	May 15,	
Series	**From**	**To**
LCRA TSC 2003B (5.00%-5.375%)	2012	2031
LCRA TSC 2003C (5.00%-5.25%)	2012	2033
LCRA TSC 2004 (4.75%-5.00%)	2012	2034
LCRA TSC 2005 (4.50%-5.00%)	2012	2035
LCRA TSC 2006 (4.50%-5.00%)	2012	2036
LCRA TSC 2006A (4.20%-5.00%)	2012	2036
LCRA TSC 2008 (5.00%-5.25%)	2012	2035
LCRA TSC 2009 (3.75%-5.50%)	2016	2036
LCRA TSC 2010 (3.20%-5.00%)	2012	2040
LCRA 2010B (3.00%-5.00%)	2012	2024
LCRA 2010A (2.00%-5.00%)	2012	2040
LCRA 2010 (3.00%-5.00%)	2012	2020
LCRA 2009 (3.25%-5.625%)	2012	2039
LCRA 2008A (5.00%-7.25%)	2012	2037
LCRA 2008 (5.00%-5.75%)	2012	2037
LCRA 2006 (4.00%-5.00%)	2012	2036
LCRA 2004D (4.75%-5.00%)	2012	2034
LCRA 2004 (4.50%)	2024	2029
LCRA 2003 (5.00%-5.25%)	2012	2033
LCRA 2002 (4.75%-5.00%)	2012	2031
LCRA 2001A (5.00%-5.375%)	2012	2032
LCRA 2001 (5.00%)	2012	2031
LCRA 1999A (5.50%-5.875%)	2014	2020
LCRA 1999B (5.875%-6.00%)	2012	2014
LCRA 1999F (5.75%)	2012	2012
LCRA TWDB Note Payable (6.05%-6.10%)	2020	2034
Taxable Commercial Paper (1)		
Tax-Exempt Commercial Paper (1)		

(1) Taxable and tax-exempt commercial paper rates are variable; as of June 30, 2011 rates ranged from 0.12% - 0.35%. Outstanding notes are issued with maturities of 270 days or less from their respective issue dates.

LCRA's debt as of June 30, 2011, has been rated by Fitch, Moody's and Standard & Poor's, respectively, as follows:

FITCH, MOODY'S AND STANDARD & POOR'S

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

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

Ending June 30	Principal	Interest	Total
2012	$ 139,820	$ 157,205	$ 297,025
2013	144,115	150,965	295,080
2014	156,040	143,765	299,805
2015	164,820	136,005	300,825
2016	171,585	127,665	299,250
2017-2021	621,165	532,508	1,153,673
2022-2026	566,875	377,014	943,889
2027-2031	561,385	235,111	796,496
2032-2036	474,305	94,601	568,906
2037-2040	84,635	8,745	93,380
	$ 3,084,745	$ 1,963,584	$ 5,048,329
Unamortized Net Premium/Discount	86,741		86,741
Total	$ 3,171,486	$ 1,963,584	$ 5,135,070

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

On Nov. 22, 2010, LCRA issued $244.2 million of LCRA Refunding Bonds, Series 2010A, and $129.5 million of LCRA Refunding Bonds, Series 2010B, for a total of $373.7 million. Series 2010A was a current refunding of $215.0 million of tax-exempt commercial paper and $47.1 million of LCRA Series 2001. Cash totaling $47.6 million was placed in an irrevocable escrow account to defease these currently callable bonds. Series 2010B was an advanced refunding of bonds only. Government agency securities totaling $137.0 million were placed in an irrevocable escrow account to defease $134.6 million of LCRA Series 2001A, 2004, 2006 and 2008A. The refunding resulted in an accounting loss of $9.4 million.

Due to the refunding of the bonds, LCRA reduced its aggregate debt service payments by $30.0 million, resulting in an economic gain (the difference between the present values of the old and new bond debt service payments) of $19.8 million.

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

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

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

The principal associated with the bonds that have been previously refunded by LCRA but remain outstanding at June 30, 2011 and 2010, totals $297 million and $308 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, 2011 and 2010.

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

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

The LCRA bonds outstanding as of June 30, 2011 and 2010, are parity debt under the Master Resolution and are collateralized by a lien on and pledge of the pledged revenues. Pledged revenues are defined to include all amounts received pursuant to contractual commitments and all lawfully available funds of LCRA. The LCRA Transmission Contract Revenue Bonds Series 2003B, 2003C, 2004, 2005, 2006, 2006A, 2008, 2009, and 2010 are solely secured by the obligation of LCRA TSC to make installment payments to LCRA from the net revenues of LCRA TSC (subordinate to first lien on gross revenues securing the purchase price payments under the initial contractual commitment). Net revenues are defined as gross revenues less any purchase price payments due to LCRA and less the operating and maintenance expenses during the period.

Commercial Paper: LCRA is authorized to issue up to $350 million in short-term tax-exempt obligations and $25 million in short-term taxable obligations to provide system improvements, acquire fuel reserves and facilities, refund outstanding debt and pay interest on outstanding debt. Outstanding notes were issued in denominations of $100,000 or more with maturities of 270 days or less from their respective issue dates. The commercial paper program expires on May 15, 2020. It is management's intent to periodically renew outstanding commercial paper upon maturity and to periodically convert the commercial paper balances to long-term bonds.

LCRA maintains credit facilities with banks that provide available borrowings sufficient to pay the principal of the notes. LCRA has entered into a revolving credit agreement with a bank that is obligated to lend LCRA amounts of up to $250 million for the tax-exempt series. The $250 million credit line is composed of two agreements of $175 million and $75 million. Both agreements expire on May 19, 2014. LCRA has an additional revolving credit agreement with banks that are obligated to lend LCRA aggregate amounts of up to $25 million for the taxable series, which expires on Nov. 1, 2011. Failure by LCRA to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused lines of credit. There were no borrowings under any of the agreements as of June 30, 2011, and June 30, 2010.

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

LCRA TSC maintains credit facilities with banks that provide available borrowing sufficient to pay the principal and interest on the notes. A $150 million credit agreement is available to pay $136.7 million of principal and $13.3 million of interest. This agreement expires on Dec. 15, 2015. A $100 million credit agreement is available to pay $91.8 million of principal and $8.2 million of interest. This agreement expires on June 18, 2012. Failure by LCRA or LCRA TSC to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused line of credit. There were no borrowings under either credit facility agreement as of June 30, 2011 and June 30, 2010.

Letter of Credit: LCRA maintains a facility with a bank for the issuing of letters of credit. At June 30, 2011, a $50 million letter of credit was outstanding under this facility. This facility expires on Dec. 22, 2011.

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

Other Long-Term Liabilities: In October 1999, LCRA entered into a long-term water-supply agreement with the City of Austin. LCRA used the proceeds related to the agreement to pay down debt related to the acquisition of water rights, purchase additional water rights, and help fund other programs related to its river management operations. LCRA had deferred revenue related to this agreement of $75 million and $78 million at June 30, 2011 and 2010, respectively.

Changes during FY 2011 and FY 2010 of other long-term liabilities were as follows (dollars in thousands):

Description	Balance June 30, 2009 [5]	Increase	(Decrease)	Balance June 30, 2010 [5]	Increase	(Decrease)	Balance June 30, 2011 [6]
Deferred Revenues - City of Austin [1]	$ 80,612		$ (2,677)	$ 77,935		$ (2,811)	$ 75,124
Payables Related to Debt Funded Capital [2]	39,792	79,623	(87,185)	32,230	49,692	(59,872)	22,050
SAWS Project Advances / FAS 5 Liability [3]	28,883	18,792	(28,883)	18,792	13	(7)	18,798
Derivative Market Adjustments [4]	-	17,294		17,294		(9,714)	7,580
Water / Wastewater Acquisition Payments [4]	4,082	4,561		8,643		(20)	8,623
Accrued Interest Payable on TWDB Note [4]	6,302		(3,387)	2,915			2,915
Environmental Liabilities [5]	-	2,563	(1,381)	1,182	9,312	(5,755)	4,739
Other Long Term Liabilities	20,951	51,516	(51,586)	20,881	109,002	(107,195)	22,688
Total	$ 180,622	$ 174,349	$ (175,099)	$ 179,872	$ 168,019	$ (185,374)	$ 162,517

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

4. Retirement and 401(k) Plan Benefits

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

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

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

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

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

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

In the April 1, 2011, actuarial valuation, the balance of the original $51.2 million of the UAAL was $38.7 million, and it will be amortized over the remaining closed six-year period. The remainder of the UAAL is $112.2 million. The funding policy will continue to be 9.7 percent of payroll through June 30, 2017, as scheduled, and has a subsequent contribution rate of 8.6 percent of payroll. With this funding policy, the remainder of the UAAL is expected to be amortized in 26 years. The weighted average amortization period for the total UAAL is 22 years.

Annual Pension Cost: The employer's annual pension cost of $16.8 million was based on the annual required contributions (ARC) for the last nine months of the plan year ending March 31, 2011 (based on the April 1, 2010, actuarial valuation), plus the annual required contributions for the first three months of the plan year ending March 31, 2012 (based on the April 1, 2011, actuarial valuation). The ARCs were equal to the fixed 9.7 percent contribution rate multiplied by the actual total employee payroll for the relevant periods. The ARC contribution rate was shown to be in compliance with GASB Statement No. 27 *Accounting for Pensions by State and Local Employers* parameters in both of the actuarial valuations based on the entry age actuarial cost method. The actuarial assumptions for the April 1, 2010 valuation included (a) 7.75 percent investment rate of return, net of administrative expenses, and (b) projected salary increases of 4.5 percent to 12.5 percent varying by entry age and years of service. Both (a) and (b) reflect an inflation component of 4.0 percent. The actuarial assumptions for the April 1, 2011, valuation included (a) 7.5 percent investment rate of return, net of administrative expenses, and (b) projected salary increases of 4 percent to 11.1 percent varying by entry age and years of service. Both (a) and (b) reflect an inflation component of 3.75 percent. The assumptions did not include any postretirement benefit increases.

Schedule of Funding Progress
Unaudited

Actuarial Valuation Date	(1) Actuarial Value of Assets[2]	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Annual Covered Payroll[1]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
April 1, 2009	$ 293,189,164	$ 454,306,114	64.5%	$ 161,116,950	$ 159,319,626	101.1%
April 1, 2010	328,296,440	479,705,702	68.4	151,409,262	165,612,608	91.4
April 1, 2011[3]	343,116,746	494,019,113	69.5	150,902,367	155,908,350	96.8

[1] Based on projected payroll as of valuation date.
[2] Actuarial value approximates market value.
[3] Actuarial assumptions, both economic and demographic, were changed as a result of an experience study.

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

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2009	$15,780,879	100%	$ -
June 30, 2010	16,541,229	100	-
June 30, 2011	16,832,855	100	-

[1] NPO is zero, as 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, or after-tax contributions (Roth), or a combination of both. The plan has received a favorable determination letter from the Internal Revenue Service and is exempt from federal income taxes, under the appropriate section of the Internal Revenue Code.

Employees are eligible to participate in the plan immediately upon employment. Eligible employees who elect to participate in the plan may contribute a minimum of 1 percent of their annual compensation, up to a maximum not to exceed $16,500 in 2011. Employees age 50 or older may contribute an additional $5,500 in 2011. Effective Jan. 1, 2002, employees under Program A of the pension plan receive an LCRA matching contribution equal to 25 percent of the first 4 percent of compensation that the employee had elected to contribute to the plan. Under Program B of the pension plan, LCRA provides matching contributions equal to 100 percent of the first 4 percent of compensation and 50 percent of the next 2 percent of compensation that the employee has elected to contribute to the plan. Contributions made by both the employer and employee are vested immediately. Amendments to the plan are made only with the authority of the LCRA Board.

Contributions by the LCRA and its employees for the years ended June 30, 2011, 2010 and 2009, are presented below:

	2011	2010	2009
	(Dollars in Thousands)		
Employer contributions	$ 3,952	$ 3,611	$ 3,262
Employee contributions	11,600	10,919	10,438

5. Other Postemployment Benefits

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

Funding Policy: In January 2011, LCRA began funding its employees' and retirees' medical healthcare claim costs (see Note 6). The LCRA OPEB funding policy pays only for current healthcare costs. LCRA contributes a portion of healthcare costs for retirees but makes no contribution for terminated employees. LCRA may contribute up to 80 percent of the total healthcare costs (cost share amount) depending on the retiree's retirement option choice (see Note 4). For Program A retirees, LCRA contributes 100 percent of the cost share amount. For Program B retirees, LCRA may contribute 0, 25, 50, 75 or 100 percent of the cost share amount based on the retiree's length of service. In FY 2011 and FY 2010 retirees contributed $2.3 million and $2.2 million, respectively, toward their health care costs.

Annual OPEB Cost and Net OPEB Obligation: The Annual Required Contribution (ARC) to the OPEB Plan is actuarially determined as of each valuation date. Actuarial valuations are performed on the OPEB Plan every two years. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The LCRA funding policy pays only for current health care costs, which means no assets were set aside for future benefits. Therefore, a net OPEB obligation exists at year-end. The following represents the ARC, OPEB cost, contributions made and changes in the net OPEB obligation for fiscal years 2010 and 2011:

Year Ended June 30,	**2011**	**2010**
Annual required contribution	$ 11,277,741	$ 10,792,097
Interest on net OPEB obligation, beginning of year	780,775	519,882
Adjustment to annual required contribution	(557,343)	(371,109)
Annual OPEB cost (expense)	11,501,173	10,940,870
Contributions made-LCRA	(5,671,878)	(5,723,012)
Increase in net OPEB obligation	5,829,295	5,217,858
Net OPEB obligation, beginning of year	15,615,503	10,397,645
Net OPEB obligation, end of year	$ 21,444,798	$ 15,615,503

LCRA annual OPEB cost, the percentage of the annual OPEB cost contributed, and the net OPEB obligation for FY 2009 through 2011 were as follows:

Unaudited

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$10,797,974	52%	$10,397,645
June 30, 2010	10,940,870	52	15,615,503
June 30, 2011	11,501,173	49	21,444,798

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

Unaudited

Actuarial Valuation Date[1]	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll [2]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
July 1, 2007	$ -	$170,075,954	0.00%	$170,075,954	$138,863,719	122.5%
July 1, 2009	-	181,172,802	0.00	181,172,802	139,270,831	130.1
July 1, 2011	-	213,082,028	0.00	213,082,028	144,514,823	147.4

[1] Actuarial valuations are only required on a biennial basis.
[2] Estimated based upon assumed payroll for fiscal year following the valuation date.

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

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

In the July 1, 2011, actuarial valuation the Entry Age Normal cost method was used. The actuarial assumptions included a 4.75 percent discount rate, a 3.75 percent inflation rate and a projected annual healthcare cost trend rate of 9 percent for FY 2013 reduced by decrements of 0.5 percent to an ultimate rate of 6 percent after six years. As of the July 1, 2011, valuation, the Unfunded Actuarial Accrued Liability is being amortized on an open basis as a level 5.44 percent of projected payroll over a 30-year amortization period.

6. Commitments and Contingencies

Construction: Construction commitments through 2016 total $123.3 million for LCRA.

Sandy Creek Project: LCRA has signed an agreement to participate as a power purchaser and 11 percent equity partner in the Sandy Creek Energy Station, a coal electric generation plant located near Waco, Texas. The facility has received an air permit from the Texas Commission on Environmental Quality and other necessary permits. The unit is under construction and scheduled to be operational in 2012. LCRA associated capital expenses are included in LCRA's construction budget. LCRA's purchases of power from the facility are expected to begin in FY 2013 and are estimated to be approximately $60 million annually. This estimate does not include the impacts from potential carbon legislation. LCRA estimates that beginning in 2016, carbon legislation could increase the amount paid for purchases from this facility by $15 to $30 million annually through 2025.

Ferguson Replacement Project: On April 20, 2011, the LCRA Board approved the Ferguson Replacement Project, which involves building an approximate 540-MW, combined-cycle power plant to replace the 420-MW Ferguson unit, which was built in 1974. As of June 30, 2011, no contractors have been selected for the engineering, procurement and construction of the new power plant.

Leases: LCRA leases and operates certain transmission facilities and equipment owned by 11 of LCRA's wholesale electric customers. The leases are the basis for LCRA to provide the same service to all of its customers and for the cost of such service to be shared by all customers on a consistent basis. Payments for the leased facilities vary from year to year and are based on the original cost of the facilities, adjusted for depreciation, and are updated annually to reflect additions, retirements and depreciation. The terms of the leases are perpetual but may be terminated by LCRA or the lessors upon five years written notice. In addition, LCRA leases towers and related space to provide shared communications with a number of public entities and leases a portion of its office facilities. LCRA's lease payments totaled approximately $17.3 million and $17.1 million in FY 2011 and 2010, respectively. Leases associated with transmission facilities comprise approximately 82 percent of total LCRA leases for FY 2011.

The following is a schedule by years of future minimum rental payments required under these operating leases for the remaining noncancellable lease terms as of June 30, 2011 (in thousands):

Fiscal Year	Minimum Lease Payments
2012	$ 16,616
2013	15,393
2014	15,652
2015	15,991
2016	16,438

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

In calendar year 2011, approximately 30 percent of FPP Unit 1 and 2's annual requirements are being supplied through a long-term contract whose terms expire at the end of calendar year 2011. Also for 2011, approximately 30 percent of annual requirements are being supplied pursuant to a multi-year contract whose term expires in 2012. An additional multi-year contract becomes effective in 2012, supplying 30 percent of the annual requirements during calendar years 2012 and 2013. Three separate short term contracts are supplying FPP Units 1 and 2 with 20 percent of the annual requirements in 2011, with an additional short term contact supplying 30 percent of annual requirements in 2012.

In calendar year 2011, approximately 65 percent of the annual fuel requirements for FPP Unit 3 are being provided pursuant to a combination of short-term contracts. A multi-year contract also provides approximately 25 percent of FPP Unit 3's coal needs for calendar year 2011. An additional multi-year contract becomes effective 2012, supplying approximately 40 percent of the annual requirements during calendar years 2012 and 2013. Two separate one-year contracts will supply approximately 25 percent of the annual fuel requirements for calendar year 2012.

Any remaining 2011 coal requirements for FPP Units 1, 2 or 3 will be supplied under a mix of shorter-term contracts at spot market prices from multiple vendors. LCRA's management does not anticipate difficulties in purchasing the remaining requirements at the then-prevailing market prices because it uses multiple suppliers and various types of coal contracts.

Rail Transportation Contracts: Both the Union Pacific Railroad and the BNSF Railway Company have transportation access to FPP. Currently, LCRA and Austin Energy are using multi-year transportation contracts with each provider to deliver coal to FPP.

Natural Gas: LCRA has several long-term contracts to provide a portion of the natural gas requirements to its gas-fired generation units through April 2014. LCRA is committed to buy a fixed amount of gas annually. LCRA's gas purchases under these contracts totaled $100.8 million for FY 2011 and $103.3 million for FY 2010, based on price indices. LCRA also paid $4.8 million and $3.6 million in FY 2011 and FY 2010, respectively, for firm transportation rights on intrastate pipelines, which deliver gas from other supply points.

Purchased Power: LCRA has nine contracts with power marketers who provide firm electric energy ranging from 50 MW to 200 MW per month for the period July 2011 through September 2012.

Wind Power: LCRA is committed to purchase 35 MW of wind power capacity from the Texas Wind Power Project. LCRA in turn sells 10 MW of this capacity to Austin Energy. In FY 2012, LCRA is also committed to purchase 30 MW of wind power capacity from the Delaware Mountain Wind Farm, 200 MW of wind power from Papalote Creek Wind Farm, and 51 MW of wind power from Indian Mesa Wind Farm. Total wind power capacity is 316 MW, of which 306 MW is for LCRA and its customers. LCRA expects to pay approximately $41.8 million in FY 2012 for purchases from all wind power plants, increasing to approximately $44.1 million by FY 2019.

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

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

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

Neither SAWS nor LCRA has terminated the contract, but SAWS has publicly announced it is considering termination. On Aug. 24, 2009, SAWS filed a lawsuit against LCRA. The lawsuit claimed LCRA is in breach of contract and sought $1.23 billion in damages. In February 2010, a Travis County district court dismissed the suit, having ruled SAWS' claims are barred under the legal principle of governmental immunity. SAWS appealed the ruling to the Third Court of Appeals in Austin, which reversed the lower court's decision to dismiss on immunity grounds. The case was remanded to the lower court for further proceedings. LCRA filed a Motion for Clarification and Rehearing with the Court of Appeals on Sept. 14, 2011.

LCRA believes that termination of the SAWS contract is probable and, as a result, accrued an $18.8 million liability for the 50 percent share of costs through June 30, 2010, to be reimbursed to SAWS and 100 percent of the unexpended funds as of June 30, 2010, to be refunded to SAWS. LCRA also recorded its share of the study phase expenses, shown as extraordinary expense on the Statements of Revenues, Expenses, and Changes in Equity, for $18.3 million for the 12 months ended June 30, 2010.

As of June 30, 2011, LCRA has received $35.3 million from SAWS, as well as grants of $0.6 million from the U. S. Fish and Wildlife Service and $0.3 million from the U. S. Department of Agriculture. Study projects costs funded by SAWS through June 30, 2011, totaled $34.8 million.

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

LCRA self-funds each worker's compensation claim up to $500,000 and each general liability claim up to a maximum of $2 million depending on the insurance policy deductible. Self-funding of property damage varies from $100,000 to $2.5 million depending on the insurance deductible. Claims that are covered events are covered by commercial general insurance up to the policy limits after meeting the deductible. There were no significant changes in coverage from the prior year. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Based on an insurance risk analysis, LCRA carries no commercial insurance on transmission lines.

As of Jan. 1, 2011, LCRA self-funds employees' and retirees' medical health care benefit claim costs up to $250,000 per person per condition. Any cost above this limit is covered by insurance. In addition, insurance covers aggregate actual costs which exceed 115 percent of projected aggregate claim costs. LCRA self-funds drug prescription benefits and carries no insurance. LCRA charges employees and retirees a premium for medical and prescription benefits.

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

Changes in the accrued liability amount for FY 2011 and 2010 were as follows (dollars in thousands):

	Balance Beginning of Year	Changes in Estimates	Payments	Balance End of Year
FY 2010	$788	$ 307	$ (446)	$ 649
FY 2011	649	12,189	(9,586)	3,252

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, 2011, was as follows:

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Transfers In/Out	Ending Balance
	(Dollars in Thousands)						
Utility plant in service:							
Depreciable assets	$ 4,046,728		$ 485,533	$ (55,029)			$4,477,232
Non-depreciable assets	124,184		69,724	(227)			193,681
Total utility plant in service	4,170,912	-	555,257	(55,256)	-	-	4,670,913
Construction work in progress:							
Non-depreciable assets	585,890	308,050	(556,731)	(6,472)			330,737
Oil and gas property:							
Depletable assets	28,158						28,158
Other physical property:							
Depreciable assets	42,183		1,321	(261)			43,243
Non-depreciable assets	19,753		153	-		-	19,906
Total other physical property	61,936		1,474	(261)	-	-	63,149
Less accumulated depreciation	(1,485,984)			29,418	(157,008)		(1,613,574)
Water Rights	94,781						94,781
Capital assets, net	$ 3,455,693	$308,050	$ -	$ (32,571)	$ (157,008)		$3,574,164

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

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation	Transfers In/Out	Ending Balance
	(Dollars in Thousands)						
Utility plant in service:							
Depreciable assets	$ 3,856,946	$ -	$ 444,792	$ (207,537)		$ (47,473)	$4,046,728
Non-depreciable assets	70,631		12,775	(6,695)		47,473	124,184
Total utility plant in service	3,927,577	-	457,567	(214,232)	-		4,170,912
Construction work in progress:							
Non-depreciable assets	571,597	483,708	(461,030)	(8,385)			585,890
Oil and gas property:							
Depletable assets	28,158						28,158
Other physical property:							
Depreciable assets	35,351		3,445	(335)		3,722	42,183
Non-depreciable assets	23,460		18	(3)		(3,722)	19,753
Total other physical property	58,811	-	3,463	(338)	-		61,936
Less accumulated depreciation	(1,436,855)		-	89,768	(138,897)		(1,485,984)
Water Rights	94,781						94,781
Capital assets, net	$ 3,244,069	$483,708	$ -	$ (133,187)	$ (138,897)		$3,455,693

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 is as follows:

LCRA TRANSMISSION SERVICES CORPORATION-SEGMENT INFORMATION
BALANCE SHEETS

(Dollars in Thousands)

	June 30, 2011	June 30, 2010
Assets		
Current Assets:		
Total current assets	$ 109,736	$ 93,578
Long-term Assets:		
Restricted cash and cash equivalents	586	8,429
Restricted investments	444	940
Accounts receivable from LCRA - restricted	67,423	67,252
Capital assets:		
Depreciable capital assets, net	1,399,597	1,259,390
Nondepreciable:		
Nondepreciable capital assets	238,398	257,568
Other	15	15
Deferred charges:		
Costs to be recovered from future revenues	61,427	53,728
Unamortized debt expense	20,618	21,627
Deferred charges	82,045	75,355
Total long-term assets	1,788,508	1,668,949
Total Assets	$ 1,898,244	$ 1,762,527
Liabilities		
Current Liabilities:		
Total current liabilities	$ 242,936	$ 73,708
Long-term Liabilities:		
Accounts payable to LCRA from construction fund	13,368	28,043
Accounts payable from restricted assets	167	1,352
Bonds, notes, and loans payable	1,352,531	1,403,434
Deferred credits	320	453
Total long-term liabilities	1,366,386	1,433,282
Total Liabilities	1,609,322	1,506,990
Equity		
Invested in capital assets, net of related debt	195,647	177,269
Unrestricted	93,275	78,268
Total equity	288,922	255,537
Total Liabilities and Equity	$ 1,898,244	$ 1,762,527

LCRA TRANSMISSION SERVICES CORPORATION-SEGMENT INFORMATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

(*Dollars in Thousands*)

	Year Ended June 30, 2011	2010
Operating Revenues		
Transmission	$ 241,756	$ 228,106
Transformation	14,592	13,810
Other	504	475
Total operating revenues	256,852	242,391
Operating Expenses		
Operations	80,027	74,968
Maintenance	7,300	12,795
Depreciation and amortization	46,328	42,751
Total operating expenses	133,655	130,514
Operating income	123,197	111,877
Nonoperating Revenues (Expenses)		
Interest and other income	815	856
Interest and other expenses	(92,842)	(82,418)
Total nonoperating revenues (expenses)	(92,027)	(81,562)
Income before costs to be (prior costs) recovered from revenues, capital contributions, and transfers in	31,170	30,315
Costs to be (Prior Costs) Recovered from Revenues	1,732	(706)
Capital Contributions	451	2,306
Transfers In	32	132
Change in Equity	33,385	32,047
Total Equity, Beginning of Year	255,537	223,490
Total Equity, End of Year	$ 288,922	$ 255,537

LOWER COLORADO RIVER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
Years Ended 2011 and 2010

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

	Year Ended June 30, 2011	2010
Cash Flows From Operating Activities		
Received from customers	$ 251,893	$ 246,699
Payments for goods and services	(86,993)	(88,273)
Net cash provided by operating activities	164,900	158,426
Cash Flows From Noncapital Financing Activities		
Other expenses	(7,147)	(6,916)
Net cash used in noncapital financing activities	(7,147)	(6,916)
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(202,010)	(246,246)
Proceeds from sale of capital assets	473	64
Debt issue costs	1	(1,561)
Contributed capital received for capital costs	451	2,306
Proceeds from bond issues and commercial paper	165,700	346,706
Debt principal payments and commercial paper redemptions	(46,757)	(43,881)
Interest paid	(72,580)	(63,052)
Payments to refund and defease debt	-	(136,600)
Net cash used in capital and related financing activities	(154,722)	(142,264)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	92,891	76,206
Purchase of investment securities	(90,108)	(88,624)
Interest received	996	2,002
Net cash provided by (used in) investing activities	3,779	(10,416)
Net Increase (Decrease) in Cash and Cash Equivalents	6,810	(1,170)
Cash and Cash Equivalents, Beginning of Year	33,697	34,867
Cash and Cash Equivalents, End of Year	$ 40,507	$ 33,697

LCRA TRANSMISSION SERVICES CORPORATION-SEGMENT INFORMATION
STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

	Year Ended June 30, 2011	Year Ended June 30, 2010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 123,197	$ 111,877
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	46,328	42,751
Changes in assets and liabilities:		
Accounts receivable	(4,817)	4,259
Inventories	343	244
Current liabilities	(18)	(754)
Deferred credits and other long-term liabilities	(133)	49
Net cash provided by operating activities	$ 164,900	$ 158,426
Noncash Investing Activities		
Investment market adjustments	$ (515)	$ (1,413)
Noncash Financing for Property, Plant and Equipment		
Purchase of equipment through short-term trade payables	$ -	$ 11,922

9. Derivative Instruments

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

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

LCRA's Financial Oversight Group (FOG) established a target unit price range and a risk hedging strategy for the outstanding gas purchases contracts. Derivative contracts are purchased in groups known as families which are associated with individual future gas purchases. At the end of each month, LCRA tests its fuel derivative instruments for effectiveness. If the net cash flow of the future gas purchased and the associated family of derivative instruments falls within the target unit price range established by the FOG, the option contracts are considered effective and the change in fair value of the instruments is deferred on the balance sheets. If deemed to be ineffective, the change in fair value of the instruments is immediately recognized in the Statement of Revenues, Expenses and Changes in Equity as an operating expense and then deferred to the balance sheet through the fuel factor (see Fuel and Power Cost Recovery Factor (Fuel Factor) in Note 1, Significant Accounting Policies. LCRA uses the “Black” financial model to determine the fair value of its option contracts. This model estimates the fair value based on parameters such as the strike price, New York Mercantile Exchange (NYMEX) closing prices, implied volatility and time-to-expiration.

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

The following is a summary of the fair values, changes in fair value and notional amount of derivatives instruments outstanding as of June 30, 2011 and 2010 (gains shown as positive amounts, losses as negative):

Fiscal Year 2011

Type of Transaction	Duration	Classification	Volumes in MMBtu	Fair Value	Change in Fair Value
				(Dollars in Thousands)	
Long Call	July 2008 - October 2012	Hedging Derivatives	5,200,000	$ (3,552)	$ (3,870)
Short Call	July 2008 - October 2012	Hedging Derivatives	5,200,000	2,267	2,361
Short Put	July 2008 - October 2012	Hedging Derivatives	5,200,000	(7,653)	(730)
				$ (8,938)	$ (2,239)
Long Call	July 2008 - October 2012	Investment Derivative	5,400,000	$ (3,148)	$ (3,685)
Short Call	July 2008 - October 2012	Investment Derivative	5,400,000	1,939	2,117
Short Put	July 2008 - October 2012	Investment Derivative	5,400,000	(10,650)	5,782
				$ (11,859)	$ 4,214

Fiscal Year 2010

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

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

At June 30, 2011, the total fair value of outstanding derivative instruments was a net liability of $20.8 million, of which $7.6 million is reported as accounts payable on the balance sheets, a current liability, and $13.2 million is reported as deferred credits on the balance sheets, a long-term liability. Changes in fair value for effective derivatives (deferred outflow and inflow) are reported on the balance sheets as deferred charges, a long-term asset. Changes in fair value for ineffective derivatives (investment derivative) are recognized as fuel operating expenses in the statements of revenues, expenses and changes in equity and then deferred to the balance sheet through the fuel factor.

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

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

Basis Risk: Basis risk is the risk that arises when a hedged item and a derivative that is attempting to hedge that item are based on different indices. LCRA is exposed to basis risk on its fuel hedges because it prices its financial derivative contracts on the NYMEX exchange while operationally, natural gas purchases are based on the Western Area Hub Association (WAHA) or the Houston Ship Channel (HSC) index. This exposes LCRA to the basis risk between NYMEX and WAHA/HSC indices. For June 2011, the NYMEX price was $4.33 per MMBtu, the WAHA price was $4.26 per MMBtu, and the HSC price was $4.28 per MMBtu. For June 2010, the NYMEX price was $4.16 per MMBtu, the WAHA price was $3.95 per MMBtu, and the HSC price was $4.05 per MMBtu.

LOWER COLORADO RIVER AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION (Unaudited)
Years Ended June 30, 2011 and 2010

Schedule of Funding Progress — Retirement Plan

Actuarial Valuation Date	(1) Actuarial Value of Assets[2]	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2)-(1)	(5) Annual Covered Payroll[1]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
April 1, 2009	$293,189,164	$454,306,114	64.5%	$161,116,950	$159,319,626	101.1%
April 1, 2010	328,296,440	479,705,702	68.4	151,409,262	165,612,608	91.4
April 1, 2011[3]	343,116,746	494,019,113	69.5	150,902,367	155,908,350	96.8

[1] Based on projected payroll as of valuation date.
[2] Actuarial value approximates market value.
[3] Actuarial assumptions, both economic and demographic, were changed as a result of an experience study.

Schedule of Contributions — Retirement Plan

Three-Year Annual Pension Cost (APC) Trend Information

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2009	$15,780,879	100%	$ -
June 30, 2010	16,541,229	100	-
June 30, 2011	16,832,855	100	-

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

Schedule of Funding Progress — Other Postemployment Benefits

Actuarial Valuation Date[1]	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll [2]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
July 1, 2007	$ -	$170,075,954	0.00%	$170,075,954	$138,863,719	122.5%
July 1, 2009	-	181,172,802	0.00	181,172,802	139,270,831	130.1
July 1, 2011	-	213,082,028	0.00	213,082,028	144,514,823	147.4

'Actuarial valuations are only required on a biennial basis.
[2] Estimated based upon assumed payroll for fiscal year following the valuation date.

Schedule of Contributions — Other Postemployment Benefits

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$10,797,974	52%	$10,397,645
June 30, 2010	10,940,870	52	15,615,503
June 30, 2011	11,501,173	49	21,444,798

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