Foundation for the Future

2002 LCRA Annual Report

Safety

Customer Service

Environmental Leadership

Employee Focus

Diversity

LCRA Board of Directors*

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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 the staff, to approve projects and large expenditures, and to review progress on major activities and industry issues.

*As of June 30, 2002

Contents

Scheduled boiler inspections and maintenance contribute to the reliable, low-cost operation of the Fayette Power Project, co-owned by LCRA and Austin Energy.

A Message From Management

The past fiscal year brought substantial growth and change to our operations, our business markets and the level of services we offer. Even in the midst of a softening economy LCRA continued to be a solid, dependable and sought-out provider of energy, water and community services.

Our stability is not surprising given that our business is delivering basic services to the people of Texas. Our revenues, excluding fuel revenues, remained steady as we kept up with demands for electricity, transmission lines, water supplies, and water and wastewater utilities. Our parks drew more visitors than ever before.

We gained new customers in many areas of our business, but particularly in transmission services and water and wastewater utilities. Our new transmission affiliate, which assumed ownership of LCRA's transmission assets in FY 2002, experienced unprecedented growth through partnerships with other utilities and new projects to improve the state's transmission system across Texas. A healthy transmission grid is critical to the success of retail electric competition, which became a reality in Texas in January 2002.

The arrival of retail electric competition also affected our largest business – generating and selling electricity to our wholesale electric customers, mostly city-owned utilities and electric cooperatives. While our public utility customers can choose whether to allow competition in their service areas, the pressure to do so will be great unless we can keep their wholesale price of electricity competitive. We have gone to great lengths to keep our rates low by making our power plants as efficient as possible, diversifying our fuel mix, and offering pricing options to match the needs of our customers and their retail consumers. Our customers conducted an independent study of our electric prices this past year and found them to "pass the test of reasonableness."

The water side of our business also had successes in the past year. We signed an interregional water-sharing agreement with the San Antonio Water System that will greatly increase water supplies in our own basin while helping to meet the water supply needs of our neighbor to the south. Revenues from our water and wastewater business were 19 percent higher than the previous year, and these utility assets grew to $205 million – a 22 percent increase over the previous year.

We are entirely self-funded by revenues from our utility operations; LCRA does not collect taxes. Because LCRA is a public enterprise, our "shareholders" are the residents of the rural and suburban communities in our energy and water service areas. We continued to deliver an invaluable – and growing – return on their investment by providing environmental protection services, parks and nature preserves, youth leadership and education programs, matching grants for community development projects, economic development planning assistance, and public safety services. These community services are long-term investments that will benefit our region for years to come.

Over the past year we continued to address the implications for our organization of the growing demands for our services. We did this by honing in on the five values we believe to be the very foundation of our success: customer service, employee focus, safety, environmental leadership, and recognition of the diversity in our employees, suppliers and customers.

Because these values are critical to our operations, they are the basis of this year's annual report. Our financial picture continues to be strong because our organization is built on sound business strategies and fundamental values. This philosophy will ensure our continuing success.

Gale Lincke, Board Chair

Joseph J. Beal, P.E., General Manager

FY 2002 Highlights

LCRA serves a growing customer base and helps many communities enhance their quality of life. The following describes LCRA's significant accomplishments during the fiscal year ending June 30, 2002.

Employees at the Fayette Power Project and other LCRA power plants work 24 hours a day, 365 days a year to generate electricity for more than 1 million people in Central Texas.

Energy

LCRA affiliate began operations. LCRA's transmission affiliate became fully operational in compliance with a state law allowing retail competition in Texas and requiring electric utilities to separate their generation and transmission businesses. LCRA transferred $360 million in regulated transmission assets to the LCRA Transmission Services Corporation. The affiliate's board, made up of LCRA Board members, adopted bylaws and a business plan, approved the sale of bonds, and assumed responsibility for approving transmission projects.

Generation

Wholesale electric prices dropped. LCRA reduced the nonfuel portion of its wholesale electric prices by 6.4 percent in 2002. This was the seventh consecutive reduction in the base energy price, which does not include fuel costs. LCRA's 42 wholesale electric customers, which include cities and electric cooperatives throughout Central Texas, shared about $32 million in savings due to reduced revenue requirements. LCRA continues to take steps to control the costs associated with electric production, including fuel costs. Although those costs went up somewhat during record spikes in natural gas prices the previous year, LCRA successfully kept fuel costs lower than most other Texas utilities and was able to drop the fuel portion of its wholesale electric prices by 16 percent in 2002.

Production costs proved competitive. Four separate studies confirmed that LCRA's costs of generating electricity remain competitive. An external review by the Association of Wholesale Customers concluded that LCRA's electric generation costs "passed the test of reasonableness." Two independent studies of electric utilities in Texas found that all three LCRA power plants – Ferguson, Sim Gideon and Fayette Power Project (FPP) – have the lowest production costs of similar power plants in the region served by the Electric Reliability Council of Texas. Electric Light & Power, a national trade publication, also listed FPP as having the second-lowest total production costs among its peers in the United States.

Employees at LCRA's Sim Gideon Power Plant conduct thorough safety inspections at the facility every quarter.

Workers continued safety record. LCRA's power plant employees did their jobs safely while working smarter to lower production costs. Ferguson Power Plant achieved 14 years, Fayette Power Project completed five years and 2.75 million safe worker-hours, and Sim Gideon Power Plant marked two years without an incident resulting in a missed workday. The Hilbig Gas Storage Facility has not had a lost-time incident since it began operating in 1990 and won a Safety Achievement Award from the Southwest Electric Safety Exchange.

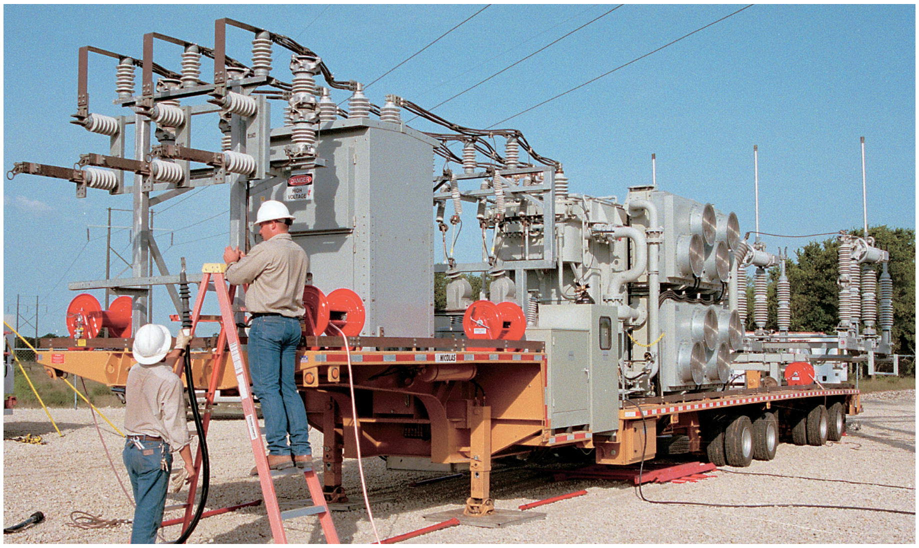
Transmission

Transmission business reached new levels. LCRA and its transmission affiliate experienced significant growth in the transmission business, with capital projects to build or acquire more than 228 miles of new transmission lines, add three new substations, and upgrade 40 substations. Unregulated transmission services to wholesale electric customers, such as rubber glove testing and fleet services, also grew beyond projections. Revenues for these services totaled $18 million, a 69 percent increase over FY 2001.

New partnerships led to expansion. LCRA and its affiliate signed a significant agreement with American Electric Power (AEP) that will support retail competition in Texas by improving transmission capacity in key areas that are critical to reliable power delivery in the state. AEP and the LCRA affiliate have 12 major expansion projects in progress, with three more under discussion. LCRA and its affiliate also entered into their first joint project with Oncor, a subsidiary of TXU Corp., to build a transmission line that will deliver reliable, renewable wind power from West Texas.

Safety kept pace with growth. Transmission Services added 90 new employees, a 16 percent increase, making it the largest business unit in LCRA. Despite the rapid expansion, Transmission Services continued to conduct its business in a safe manner. Data from the Southwest Electric Safety Exchange placed Transmission Services third out of 15 participating transmission companies for FY 2002.

LCRA employees regularly inspect and maintain more than 3,300 miles of transmission lines and equipment in 53 counties across Central Texas.



LCRA employees inspect a new mobile substation that allows uninterrupted service during routine maintenance calls and restores power in emergencies.

Water

LCRA, SAWS signed historic water plan. LCRA signed an interregional water supply agreement with the San Antonio Water System (SAWS) to help provide a dependable, 100-year supply of water for the lower Colorado River basin. State leaders praised the innovative plan as a model for successful interregional cooperation and long-term water supply planning.

LCRA and SAWS have agreed to conduct extensive environmental and engineering studies to ensure that the plan is practical and will not adversely affect the environment. If the study results are positive, SAWS plans to fund water development

Joseph J. Beal, right, LCRA general manager, and Eugene Habiger, San Antonio Water System president, sign an historic regional water supply agreement at the Texas Capitol.

projects in the Colorado basin to increase water supplies for cities, industries, agriculture and other uses. In exchange, SAWS will have the right to use nearly half of the newly developed water for up to 80 years.

Committee worked on water management plan. LCRA worked with a 26-member advisory committee for a year to update its water management plan, which determines how the river system is operated and allocates water supplies among different users during droughts, when water supplies are limited. The plan last was revised in 1997.

LCRA began replacing Starcke Dam floodgates. LCRA continued work on a 10-year project to modernize and improve the six Highland Lakes dams, which were built between 1935 and 1951. Most recently LCRA began a 20-month project to replace the 10 original, 50-year-old floodgates at Starcke Dam with hydraulic gates that are more reliable and easier and safer to operate.

LCRA breaks ground on a reservoir and water treatment plant in Lometa, one of many projects to provide communities with reliable water and wastewater utilities.

Water supply, utility services continued to grow. LCRA entered a 40-year water supply contract with the City of Pflugerville near Austin to help reduce the growing population's reliance on groundwater. LCRA will deliver up to 12,000 acre-feet of surface water to the city annually. LCRA's water and wastewater utility services to Central Texas communities produced revenues of $16.2 million in FY 2002, as water and wastewater assets grew to $205 million.

Regional floodplain coalition made strides. LCRA continued to support the Texas Colorado River Floodplain Coalition, a group of 45 cities and counties with floodplain areas along the lower Colorado River. LCRA staffs the coalition in its efforts to coordinate and improve local floodplain management practices in the basin. The coalition, which nearly doubled its membership the first year, received a $447,000 federal grant to help fund flood studies and supported the passage of state legislation that will help counties and smaller cities regulate floodplain development.

LCRA began work on water quality modeling project. LCRA began work on a first-of-its-kind Colorado River Environmental Models project to better understand water quality data, issues and trends in the Highland Lakes, lower Colorado River and tributaries. The initial phase of the project is focusing on Lake Travis. If that phase is successful, LCRA plans to spend $8.2 million over 10 years to create scientific computer models and databases that can access water quality data, analyze biological and chemical factors, and identify potential water quality concerns.

Lake Travis named clearest lake in Texas. Lake Travis, managed by LCRA, was named by the state's environmental agency as the clearest lake in Texas for the 12th year in a row. The other Highland Lakes, also managed by LCRA, were among the top third for clarity on the list of 102 reservoirs in the state's 2002 water quality report.

Hundreds took part in LCRA water quality event. More than 700 volunteers took part in LCRA's fourth annual basinwide water quality monitoring event, A Day in the Life of the Colorado River. The event provides a one-day snapshot of water quality conditions throughout the basin. The program became a statewide event involving volunteer and professional monitors across Texas in 2000.

Safety records achieved. LCRA celebrated a 10-year stretch without a missed work-day incident in Water and Wastewater Utility Services and the Gulf Coast division of Irrigation Services. Irrigation Services as a whole marked 850,000 hours and Dam and Hydro Operations completed a 12th year and 1.3 million work hours without a missed workday incident.

Every year thousands of students visit LCRA environmental learning centers, including the ecologically sensitive Westcave Preserve in western Travis County.

Community Services

Public safety, security heightened. In the aftermath of Sept. 11, LCRA's Public Safety team quickly responded to the potential threat of terrorist attacks at its power plants, dams and other assets critical to the region. LCRA's Public Safety staff also worked with federal, state, regional and local officials to develop more stringent security standards.

Park projects enhanced public recreation. LCRA built new dormitories, a dining hall and an amphitheater at McKinney Roughs Nature Park near Bastrop, and oversaw construction of a new environmental learning center at Westcave Preserve near Hamilton Pool in Travis County. LCRA opened a new environmental learning center at Canyon of the Eagles Lodge and Nature Park on Lake Buchanan, and enhanced facilities at Muleshoe Recreation Area on Lake Travis and South Shore Park on Lake Bastrop.

2,001 kids canoed the Colorado in 2001. LCRA achieved the ambitious goal of getting 2,001 kids into canoes and rafts for fun, educational trips down the lower Colorado River. McKinney Roughs Nature Park staff offered the river trips to schools, scout troops, summer camps and other youth groups in the region. Grants and scholarships from the Texas Parks and Wildlife Department and the Colorado River Foundation helped fund the program.

Coastal wetlands set aside for a nature park, preserve. LCRA moved forward with the development of its first wetlands preserve, the 1,600-acre Matagorda Bay Nature Park near the mouth of the Colorado River in Matagorda County. Plans for the Matagorda site include an 85-room lodge, an environmental learning center, boardwalk, wildlife viewing areas, and kayak and canoe trails.

Cleanups removed tons of debris from land, water. LCRA sponsored two cleanup events at popular Lake Travis. Nearly 200 volunteers at the 17th Annual Lake Travis Parks Cleanup collected more than

Volunteers join LCRA for its Annual Lake Travis Parks Cleanup, collecting a record 250 bags of trash at nine parks along the lake.

LCRA employees meet with Tom Donnelly, center, Hallettsville city secretary/administrator, to help the community plan for future economic growth.

250 bags of trash and litter from parks and shorelines. The Seventh Annual Lake Travis Underwater Cleanup attracted more than 700 volunteers, including divers from area dive shops and clubs, who removed 6.6 tons of trash from underwater sites and shoreline areas. LCRA also took part in the Texas Adopt-A-Beach Cleanup at Matagorda Beach.

Reforestation program took root. In the first year of Clean 'n' Green, a new reforestation program, LCRA distributed 6,329 trees to communities along the Colorado River, surpassing the original goal of 5,000 trees. Schools, wildlife cooperatives, civic organizations, local beautification committees and other nonprofit groups planted the trees in their communities.

Grants helped communities grow. LCRA and its electric and water customers awarded 78 matching grants totaling $1.5 million for capital improvement projects in more than 60 communities. Since 1995 the grant program has invested more than $10 million in community development projects such as new fire stations, emergency fire and medical equipment, library expansions and playgrounds. In FY 2002 LCRA also awarded $962,500 to six communities for recreation development projects totaling $8 million.

Leadership forums reached 1,200 students. More than 1,200 students from 63 Central Texas high schools learned about leadership and community service at 13 leadership forums sponsored by LCRA and its wholesale electric customers. Public- and private-sector leaders from the region also helped present the workshops.

Swiftwater rescue program recognized. LCRA's swiftwater rescue team received the Higgins and Langley Award from the National Association for Search and Rescue for participation in a statewide swiftwater rescue training program and the team's response to Tropical Storm Allison, which flooded Houston in 2001.

Corporate Services

LCRA's strong financial ratings reinforced. LCRA and its wholly owned transmission affiliate, LCRA Transmission Services Corporation, received solid ratings from Moody's Investors Service, Standard & Poor's and Fitch. LCRA issued bonds to refinance existing debt and to raise capital for water and wastewater utility projects, while the affiliate sold bonds to fund transmission acquisition and construction projects. The strong bond ratings helped LCRA attain lower interest rates.

Communications systems helped communities. LCRA upgraded its regional 900-megahertz radio system, which provides critical communications links between facilities. The radio system also is available on a cost-sharing basis to government and nonprofit entities in LCRA's service

An LCRA representative joins Dripping Springs principal Donna Janssen, left, and superintendent Mary Ward, right, to watch students use free high-speed Internet access provided by a service agreement between LCRA and Zeecon Wireless Internet L.L.C.

area. In FY 2002, LCRA and Zeecon Wireless Internet L.L.C. signed an agreement to provide free high-speed, high-capacity Internet service to Dripping Springs public schools, community library and a senior citizens center. LCRA leased fiber on its fiber-optic network and radio tower space to Zeecon, a broadband Internet services provider in the Dripping Springs area. LCRA also helped communities apply for $10.5 million in Telecommunications Infrastructure Fund (TIF) grants that were awarded in LCRA's service area during the fiscal year.

Supplier diversity program hit record levels. LCRA continued to increase business with small and minority- and woman-owned companies to reflect the demographics of its customers and service area. LCRA's expenditures with these companies grew from $8 million in FY 2001 to $20 million in FY 2002, a record increase of 150 percent and nearly 10 percent of LCRA's total supplier expenditures.

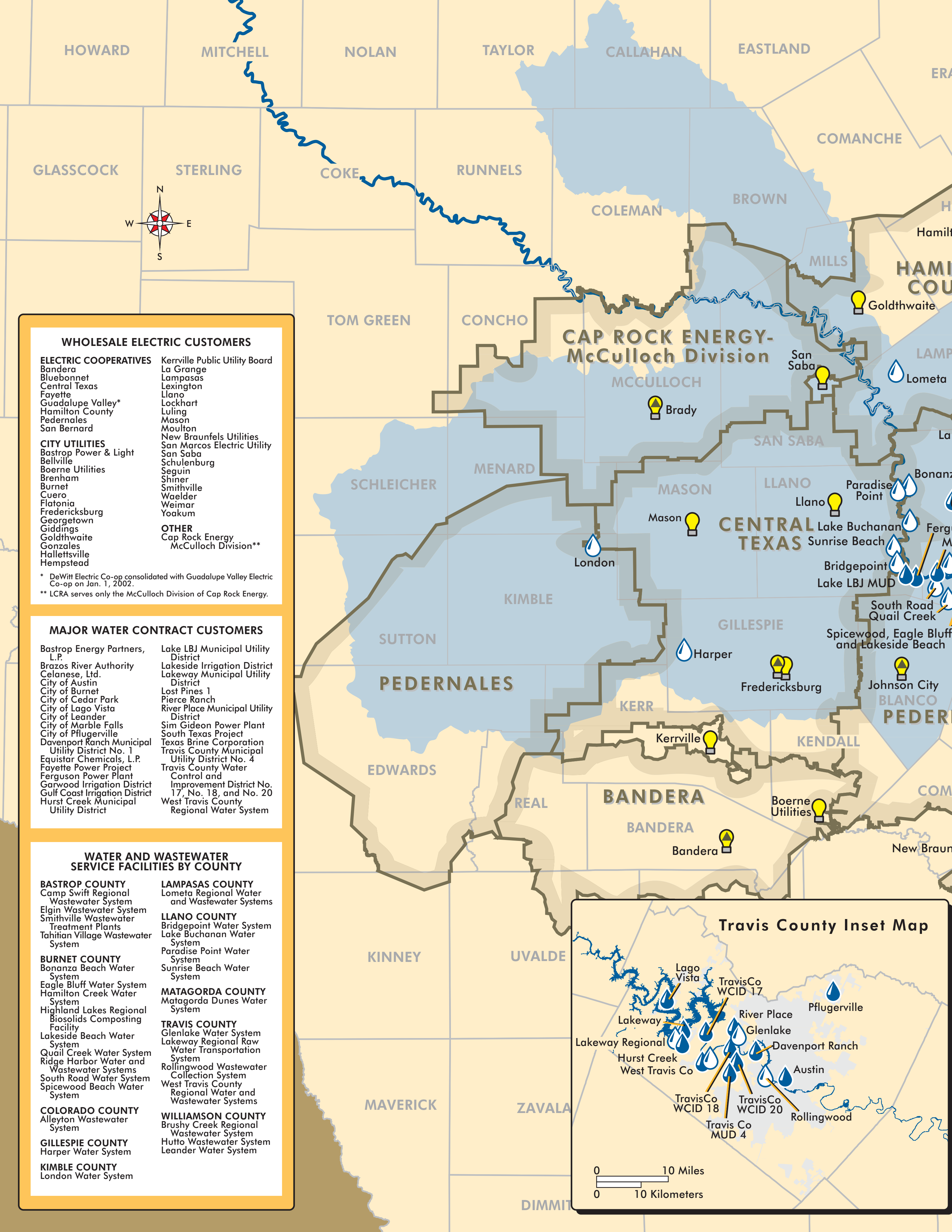
LCRA's commitment to build a stronger, more diverse supplier base brings business to smaller companies such as Guerra Construction, Inc., an Austin firm owned by Art Guerra, left, and his father, Ray Guerra.

Competitive retirement plan adopted. LCRA adopted a more cost-effective retirement plan that provides more flexibility and mobility to employees than a traditional retirement plan. Through the plan, LCRA increased its match on employees' contributions to a 401(k) plan, and employees may take their cash balance account with them if they leave LCRA. All new employees will take part in the new plan, but LCRA allowed existing employees to choose between the old plan and the new plan.

Employee diversity emphasized. LCRA continued to make employee diversity a priority and provided diversity training to 431 managers and supervisors. LCRA also was a sponsor of a city-wide march in Austin on Martin Luther King, Jr. Day and officially adopted the commemorative date as a paid holiday for employees.

Employee safety initiatives showed progress. LCRA continued to emphasize safety in the workplace and formed the Executive Safety Council to further highlight the importance of safety. LCRA had a much better safety record than its counterparts in similar industries, according to data from the National Safety Council. Federal statistics showed an average of 6.3 injury incidents per 100 full-time workers in the electric, gas and sanitary services industries; LCRA's injury incident rate for FY 2002 was 2.03.

Nearly 500 LCRA employees join a crowd of 30,000 for an annual rally and march to the Texas Capitol in recognition of Martin Luther King, Jr., Day.



WHOLESALE ELECTRIC CUSTOMERS

ELECTRIC COOPERATIVES
Bandera
Bluebonnet
Central Texas
Fayette
Guadalupe Valley*
Hamilton County
Pedernales
San Bernard

CITY UTILITIES
Bastrop Power & Light
Bellville
Boerne Utilities
Brenham
Burnet
Cuero
Flatonia
Fredericksburg
Georgetown
Giddings
Goldthwaite
Gonzales
Hallettsville
Hempstead
Kerrville Public Utility Board
La Grange
Lampasas
Lexington
Llano
Lockhart
Luling
Mason
Moulton
New Braunfels Utilities
San Marcos Electric Utility
San Saba
Schulenburg
Seguin
Shiner
Smithville
Waelder
Weimar
Yoakum

OTHER
Cap Rock Energy McCulloch Division**

* DeWitt Electric Co-op consolidated with Guadalupe Valley Electric Co-op on Jan. 1, 2002.
** LCRA serves only the McCulloch Division of Cap Rock Energy.

MAJOR WATER CONTRACT CUSTOMERS

Bastrop Energy Partners, L.P.
Brazos River Authority
Celanese, Ltd.
City of Austin
City of Burnet
City of Cedar Park
City of Lago Vista
City of Leander
City of Marble Falls
City of Pflugerville
Davenport Ranch Municipal Utility District No. 1
Equistar Chemicals, L.P.
Fayette Power Project
Ferguson Power Plant
Garwood Irrigation District
Gulf Coast Irrigation District
Hurst Creek Municipal Utility District
Lake LBJ Municipal Utility District
Lakeside Irrigation District
Lakeway Municipal Utility District
Lost Pines 1
Pierce Ranch
River Place Municipal Utility District
Sim Gideon Power Plant
South Texas Project
Texas Brine Corporation
Travis County Municipal Utility District No. 4
Travis County Water Control and Improvement District No. 17, No. 18, and No. 20
West Travis County Regional Water System

WATER AND WASTEWATER SERVICE FACILITIES BY COUNTY

BASTROP COUNTY
Camp Swift Regional Wastewater System
Elgin Wastewater System
Smithville Wastewater Treatment Plants
Tahitian Village Wastewater System

BURNET COUNTY
Bonanza Beach Water System
Eagle Bluff Water System
Hamilton Creek Water System
Highland Lakes Regional Biosolids Composting Facility
Lakeside Beach Water System
Quail Creek Water System
Ridge Harbor Water and Wastewater Systems
South Road Water System
Spicewood Beach Water System

COLORADO COUNTY
Alleyton Wastewater System

GILLESPIE COUNTY
Harper Water System

KIMBLE COUNTY
London Water System

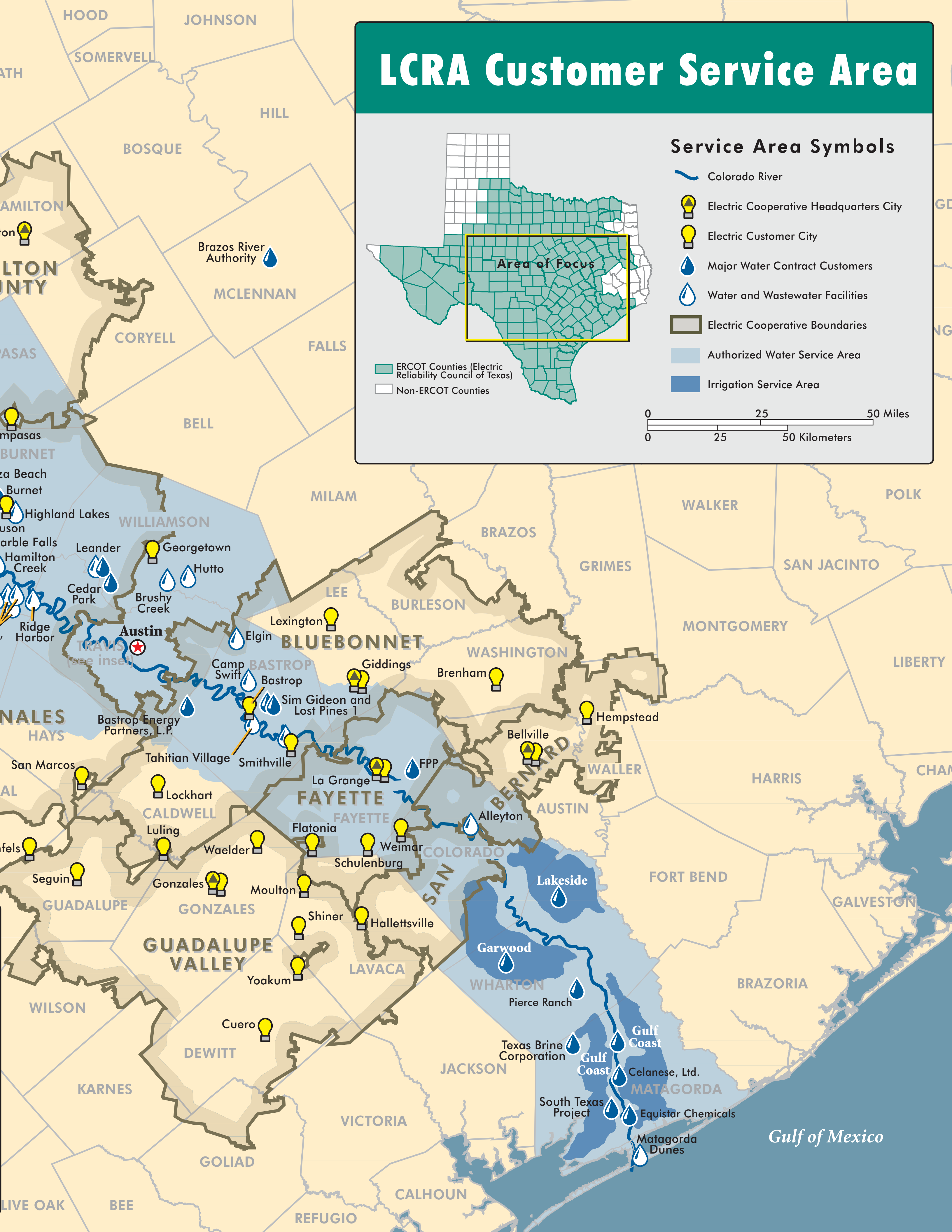
LAMPASAS COUNTY
Lometa Regional Water and Wastewater Systems

LLANO COUNTY
Bridgepoint Water System
Lake Buchanan Water System
Paradise Point Water System
Sunrise Beach Water System

MATAGORDA COUNTY
Matagorda Dunes Water System

TRAVIS COUNTY
Glenlake Water System
Lakeway Regional Raw Water Transportation System
Rollingwood Wastewater Collection System
West Travis County Regional Water and Wastewater Systems

WILLIAMSON COUNTY
Brushy Creek Regional Wastewater System
Hutto Wastewater System
Leander Water System


LCRA Customer Service Area
Service Area Symbols
Colorado River
Electric Cooperative Headquarters City
Electric Customer City
Major Water Contract Customers
Water and Wastewater Facilities
Electric Cooperative Boundaries
Authorized Water Service Area
Irrigation Service Area
0 25 50 Miles
0 25 50 Kilometers
Area of Focus
ERCOT Counties (Electric Reliability Council of Texas)
Non-ERCOT Counties
HOOD
JOHNSON
SOMERVELL
HILL
BOSQUE
HAMILTON
Brazos River Authority
MCLENNAN
CORYELL
FALLS
BELL
Lampasas
BURNET
Burnet
Highland Lakes
WILLIAMSON
MILAM
Marble Falls
Leander
Georgetown
Hamilton Creek
Hutto
Cedar Park
Brushy Creek
Ridge Harbor
Austin
TRAVIS
(see inset)
Elgin
LEE
Lexington
BURLESON
BRAZOS
GRIMES
WALKER
POLK
SAN JACINTO
MONTGOMERY
LIBERTY
BLUEBONNET
WASHINGTON
Camp Swift
BASTROP
Bastrop
Giddings
Brenham
Sim Gideon and Lost Pines 1
Hempstead
Bastrop Energy Partners, L.P.
HAYS
Bellville
WALLER
HARRIS
Tahitian Village
Smithville
San Marcos
FPP
La Grange
BERNARD
FAYETTE
Lockhart
CALDWELL
Alleyton
AUSTIN
Flatonia
Luling
Waelder
Weimar
COLORADO
Schulenburg
Seguin
Gonzales
Moulton
SAN
Lakeside
FORT BEND
GALVESTON
GUADALUPE
GONZALES
Shiner
Hallettsville
GUADALUPE VALLEY
Garwood
LAVACA
Yoakum
WHARTON
Pierce Ranch
BRAZORIA
WILSON
Cuero
Gulf Coast
Texas Brine Corporation
DEWITT
JACKSON
Celanese, Ltd.
MATAGORDA
KARNES
South Texas Project
Equistar Chemicals
VICTORIA
Matagorda Dunes
Gulf of Mexico
GOLIAD
CALHOUN
LIVE OAK
BEE
REFUGIO

Five Values Demonstrate LCRA's Philosophy of Service

LCRA has been working for Central Texas since 1934, providing energy, water and community services to meet basic needs, support economic growth and enrich rural and suburban communities. Over time LCRA employees have created a family-like network of support for one another and a history of volunteerism and public service.

Last year LCRA's executive managers interviewed employees from across the organization to identify the principles that have contributed to LCRA's successes and its close-knit employee culture – as well as those qualities that will enable LCRA to succeed in the future. Five foundation values repeatedly were identified. They are:

- Safety
- Customer Service
- Environmental Leadership
- Employee Focus
- Diversity

"These values are what LCRA is all about. If they are present in our actions and our words every day, then our mission of providing public services and protecting the region's natural resources will come naturally," said Joseph J. Beal, P.E., LCRA's general manager.

The following stories demonstrate why these five values are important to LCRA and how they made a difference for LCRA's employees, customers and communities in fiscal year 2002.

Safety

Like all utility companies, LCRA can be a dangerous place to work. That's why safety must always come first. Just ask John "Bubba" Riehs, senior safety specialist at LCRA's Sim Gideon Power Plant in Bastrop County.

"Safety always has been my niche, the field that I enjoy and that interests me most," said Riehs, who became a volunteer firefighter in his 20s and has been involved in safety one way or another since he came to work for LCRA in 1978. Riehs also conducts first aid and safety training for schools, fire departments and other public service agencies in his community.

John "Bubba" Riehs heightens awareness of safety among the 44 employees at LCRA's Sim Gideon Power Plant near Bastrop.

Employees volunteer their time to answer anxious calls from the public to an LCRA emergency hotline when flooding occurs on the Highland Lakes and lower Colorado River.

When Riehs became the safety specialist at the plant two years ago, he sought ways to boost employee interest in safety. He set up a new task force approach that pulls together ad hoc teams to investigate near-miss incidents and conduct quarterly safety inspections throughout the plant. Nearly all of the plant's 44 employees have attended special training that enables them to serve on the task force. Riehs' initiative earned him LCRA's FY 2002 General Manager's Individual Safety Award.

"When employees are focused on their jobs every day, they don't always see the potential hazards. My job is to serve as another pair of eyes and view the work environment from a fresh perspective," Riehs said. "Employees who serve on a task force have a specific purpose and an opportunity to practice safety. They learn from that experience."

Riehs' emphasis on safety is encouraged for all employees at LCRA. In the past year LCRA has required all employees, including those who work in a seemingly "safe" office environment, to attend safety training regularly. The general manager formed an Executive Safety Council to heighten awareness of safety at the topmost levels of the organization. Management also encouraged employees to report near-miss incidents, which can help identify potential workplace hazards. Reports of near-miss incidents have risen, enabling safety teams to eliminate or reduce workplace hazards that previously had gone unreported.

The increased emphasis on safety is paying off. LCRA's labor force grew 12 percent and labor hours went up 13 percent in FY 2002. Yet the number of work-related injuries and illnesses per 100 employees fell to 2.03 in FY 2002, compared to 2.34 the previous year. LCRA's safety record also ranks better than most utility companies in the Southwest Electrical Safety Exchange.

Customer Service

Thousands of people live along the banks of the Highland Lakes and the lower Colorado River. Most of the time, the lakes and river are beautiful and serene. But a flood can transform the calm waters into raging, destructive torrents that carry away anything and anyone in their path.

In November 2001 heavy rains in the Texas Hill Country sent water rushing into the Highland Lakes and the lower Colorado River. With the lakes and river on the rise, floodgates opening and more rain on the way, LCRA's flood information hotline sprang into action.

Over the next several days employee volunteers worked the toll-free hotline from early morning to late night, answering hundreds of phone calls from worried residents, local businesses and vacation home owners as far away as Midland and Dallas. Most of the calls were from people seeking updates on rainfall and lake and river levels. Emergency calls from boaters in trouble were dispatched to the LCRA Rangers, who were stationed nearby and ready to respond.

"Floods can happen very quickly in this region, catching people off-guard and causing feelings of panic and helplessness," said Sara Morgenroth, LCRA manager of public affairs and hotline coordinator. "We're able to provide real-time, factual information that helps people decide if they need to take action to protect themselves and their property."

As manager of the river and lakes, LCRA operates its dams according to federal rules to minimize flood damage. But many homes and businesses were built on land that is prone to flooding. These residents know the potential danger and closely follow warnings from the National Weather Service. However, real-time data was sketchy until LCRA built a basinwide network of electronic rainfall

Luling Junior High School students prepare for a four-hour, hands-on educational experience rafting down the Colorado River.

monitors and flood gauges in recent years. The network helps hydrologists predict the severity of a flood sooner and allows LCRA to deliver more accurate information to the public faster.

The flood hotline is just one example of how LCRA anticipates and responds to the needs of its customers. That's not an easy task because LCRA offers so many services, such as wholesale electricity to cities and cooperatives with more than a million consumers, water and wastewater utilities in dozens of rural communities, and parks and environmental learning centers that host thousands of schoolchildren every year. About 4,000 phone calls are made to LCRA from customers every day.

In the past year LCRA measured its customer service through a "mystery shopper" survey, created a customer service support group to improve customer service, and formed an internal customer service council to focus on customer service issues.

"It is our goal companywide to provide exceptional customer service to our business customers and to the public, every day. Not only is it the right thing to do, but our continued success depends on it," said Paul Brower, LCRA deputy general manager of External Affairs and leader of LCRA's customer service initiative.

Environmental Leadership

LCRA set an ambitious goal last year: getting 2,001 kids on the Colorado River in 2001. It would take hard work, funding and staff commitment, but the program was an innovative way to meet LCRA's mission of environmental stewardship and education.

Every year LCRA hosts thousands of kids from classrooms, youth groups and summer camps at its environmental learning centers, where they explore the outdoors and learn about land and water conservation, native plants and animals, and earlier inhabitants of the land. The memorable adventure of a raft trip would bring them even closer to nature and in touch with the river.

"When people can experience the joy and beauty of the river first-hand, they tend to take a personal interest in protecting it," said Brian Trusty, LCRA supervisor of environmental programs and facilities. "It's especially important for kids to have that contact, because they are the future stewards of the river."

LCRA's McKinney Roughs Nature Park was the ideal place to launch the program. The 1,100-acre nature preserve borders two miles of the Colorado River between Austin and Bastrop, providing the perfect launch site for a three-hour, five-mile river trip. The nonprofit Colorado River Foundation raised money to buy rafts and canoes and pay for river trips for disadvantaged kids in the region.

On Oct. 2, 2001, McKinney Roughs staff launched rafts holding 50 eighth graders from Luling. After 10 months and hundreds of raft and canoe trips, LCRA had achieved its dream of putting 2,001 kids on the river.

"The kids loved it. Most of them had never been on the river before," said Cindy Matthews, the Luling Junior High science teacher who accompanied the students. "Not only did they get to have a four-hour water fight, but they talked about appreciating our surroundings and the future of our environment. We also learned about local wildlife before we took the trip, and the kids were on the lookout for animals and birds."

Education is just one way LCRA demonstrates environmental leadership. LCRA's Board has adopted a policy affirming commitment to environmental excellence and leadership. The policy directs staff to execute its responsibilities and perform its activities in a way that will allow future generations to benefit from and enjoy a clean environment.

Recent examples: • LCRA is lowering emissions from its fossil-fuel power plants, going well beyond state and federal requirements to make the plants among the cleanest in the nation. • At the request of communities, LCRA is upgrading dozens of water and wastewater treatment plants to improve drinking water quality and clean up plant discharges into the river. • LCRA scientists test water quality monthly throughout the basin, and LCRA is developing a new water quality modeling system to predict trends and support water resource protection efforts. • LCRA practices and promotes reforestation, native landscaping, water conservation, recycling, land conservation and green building techniques.

Employee Focus

Amy Minzner, LCRA senior economic development specialist, speaks Spanish fluently and has master's degrees in Latin American studies and community and regional planning, as well as bachelor's degrees in Spanish and sociology. Yet Minzner has found that she and many other Spanish speakers at LCRA have limited confidence in their ability to communicate in Spanish in a professional business setting.

Minzner also happens to be a member of Leadership LCRA 2002, a group of 33 frontline employees and supervisors who were nominated by their peers or selected by their senior management team for displaying integrity and natural leadership. The intensive, one-year training program develops future leaders for LCRA and creates lasting connections among employees across the company.

The 2002 Leadership LCRA class was encouraged to identify and take ownership of projects that would benefit LCRA. Minzner and three fellow Leadership LCRA members are developing a proposal to boost awareness of LCRA and its services among Spanish-speaking consumers in LCRA's service area. Their ideas range from formally identifying LCRA's Spanish-speaking employees to developing a media strategy for communicating via Spanish language materials.

"We found that 24 percent of our service area population, or half a million people, are Hispanic, and 19 percent speak Spanish at home," Minzner said. "It is important that our employees become culturally competent, not just culturally sensitive, and when appropriate, learn to communicate with our constituents in the language they prefer."

Minzner said Leadership LCRA helped her learn about relationships, develop interpersonal skills, and work in a team setting. That's what LCRA's employee focus initiative is all about – helping employees develop skills and attain knowledge and training that will enable them to develop personally and professionally. It's also about welcoming the next generation of employees while preserving the caring, supportive, family-like culture that is found throughout LCRA.

LCRA's leadership program encourages employees such as Amy Minzner (from left), Beverly Mendez and Ana BerryAnn to take ownership of ideas and projects that will enhance customer service or the workplace.

LCRA already is recognized as a desirable place to work, having received 10,275 job applications for the 399 job openings posted in FY 2002. Every two years management conducts an internal survey developed by the Gallup Organization to gauge employee satisfaction and identify areas for improvement. In the past year LCRA conducted focus groups with employees and managers to help identify the characteristics of its unique employee culture. Recognizing that many long-time employees are nearing retirement age, LCRA also updated its benefits and retirement packages to meet the needs of a younger, more mobile work force.

Diversity

Capitol Elevator Company is a small elevator installation, repair and maintenance firm headquartered in Austin. The woman-owned Hispanic business opened in 1998 and today has nine employees and annual gross revenues of $1.6 million.

About two years ago, the company was one of several contacted by LCRA's purchasing department with an invitation to bid on a project at its Sim Gideon Power Plant. Karla Herrera, president of Capitol Elevator, was surprised and pleased by LCRA's efforts to seek proposals from small and minority- and woman-owned companies such as hers.

Herrera's company won the contract and has successfully bid for other LCRA jobs since. The company currently is modernizing elevators at LCRA power plants near Marble Falls and Bastrop, bringing its total business with LCRA to nearly $400,000.

"What LCRA is doing to help small companies like ours is wonderful. LCRA's business has been a big benefit to us, and I enjoy working with the staff," Herrera said.

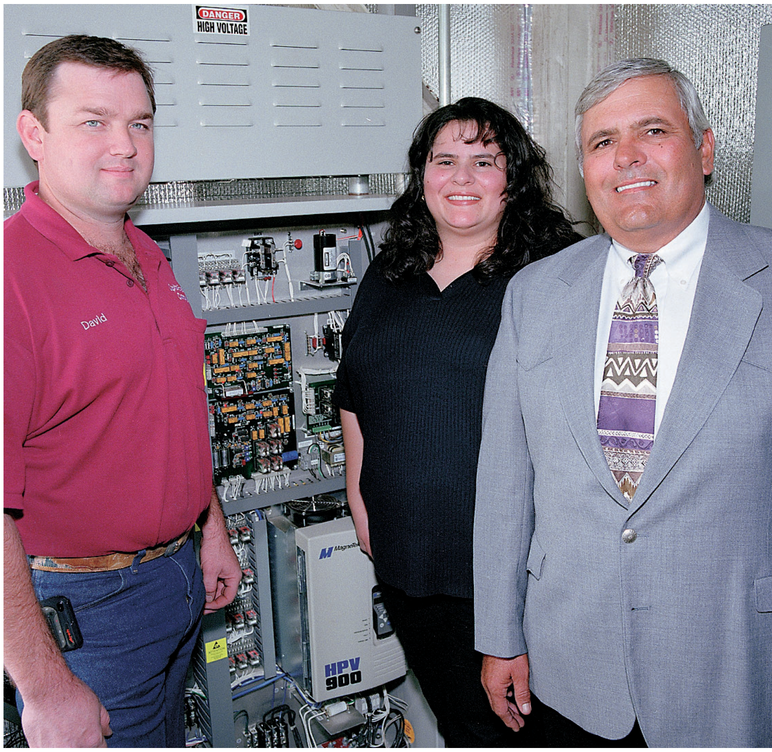
At LCRA, diversity is about more than counting work force statistics on gender and ethnicity. It's about mirroring the mosaic of cultures, customers and communities that make up LCRA's 58-county service area. It's also about attracting and retaining employees who represent the diversity of LCRA's region.

LCRA managers and employees meet regularly with business groups and chambers of commerce from rural and urban communities throughout the region to attract a variety of suppliers. This approach has strengthened LCRA's supplier base, supported local businesses and returned dollars to the region. LCRA's expenditures with minority- and woman-owned firms increased 150 percent from $8 million in FY 2001 to $20 million in FY 2002 – nearly 10 percent of LCRA's total supplier expenditures.

LCRA also recognizes and celebrates holidays and commemorative events that represent diversity. For example, in 2002 LCRA was a major sponsor of the Martin Luther King Jr. March in Austin, and LCRA's general manager led thousands in the commemorative march to the Texas Capitol. LCRA honored its military veterans with a special Veterans Recognition Day luncheon in November 2001.

Employees enter floats in holiday parades and volunteer to help at small-town celebrations. LCRA Employees' United Charities supports fund-raising events in the service area to benefit a variety of nonprofit charities such as food banks, AIDS support groups, family crisis centers and disadvantaged youth organizations. LCRA scholarships to high school students are spread throughout the service area and are awarded on the basis of financial need, community service and citizenship.

LCRA's Employee Services has increased recruitment efforts by reaching out to student professional organizations and minority and rural colleges, rather than focusing solely on large urban universities. LCRA also supports diversity in the workplace and conducts exit interviews with departing employees to identify ways to improve the work environment.



Capital Elevator Company's Operations Manager David McAdams, President Karla Herrera, and Vice President Charles Herrera inspect an elevator control panel at LCRA's Sim Gideon Power Plant.

Five-Year Financial Summary and Audited Financial Statements

Five-Year Financial Summary

Comparative Financial Information

(Dollars in Thousands)

Operating Revenues

Electric[1]

Other

Water, wastewater and irrigation

Total operating revenues

Interest and Other Income

Available for Debt Service

Total

Operating Expenses as Adjusted[1][3]

Net revenues available for debt service

Debt Service Requirement

Debt service coverage ratio

Utility Plant

Accumulated Depreciation

Long-term Debt

Equity Ratio

Statistics

MWH Sales

Wholesale

Retail

Total MWH Sales

MWH Generation and Purchased Power

Hydraulic

Fossil

Purchased power

Total MWH Generation and Purchased Power

Net Peak Demand (MW) (Summer/Winter)

Electric Customers:

Wholesale

Other

Total Electric Customers

Number of Employees

Fiscal Year Ended June 30,				
2002	2001[2]	2000	1999	1998
$ 511,655	$ 635,231	$ 483,131	$ 409,502	$ 441,038
16,695	17,765	12,981	10,237	7,227
35,068	29,601	26,460	21,388	15,865
563,418	682,597	522,572	441,127	464,130
6,839	10,770	13,048	13,126	14,566
570,257	693,367	535,620	454,253	478,696
400,660	498,041	341,000	268,764	300,213
$ 169,597	$ 195,326	$ 194,620	$ 185,489	$ 178,483
$ 91,615	$ 79,707	$ 82,774	$ 122,185	$ 119,767
1.85x	2.45x	2.35x	1.52x	1.49x
$ 2,346,050	$ 2,141,434	$ 2,041,473	$ 1,895,390	$ 1,791,534
$ 834,490	$ 775,909	$ 695,984	$ 649,106	$ 594,979
$ 1,407,020	$ 925,747	$ 1,086,706	$ 1,233,257	$ 1,146,460
25%	28%	30%	29%	29%
12,971,239	12,606,527	11,598,517	11,048,508	10,625,684
7,871	57,784	65,230	69,772	85,124
12,979,110	12,664,311	11,663,747	11,118,280	10,710,808
233,318	342,748	167,487	256,390	366,173
11,530,871	11,118,742	10,966,833	10,684,499	9,675,278
1,392,680	1,709,241	1,057,220	631,360	1,167,375
13,156,869	13,170,731	12,191,540	11,572,249	11,208,826
2838(S)	2692(S)	2454(S)	2335(S)	2254(S)
42	43	43	44	44
-	2	3	18	27
42	45	46	62	71
2,112	1,910	1,724	1,723	1,655

(1) Excludes GenTex Power Corporation's revenues and expenses (see Note 2 of Notes to the Financial Statements). Net revenues of nonobligated affiliates, such as GenTex Power Corporation, are not available for debt service.

(2) Reflects restatements for the effects of the adoption of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments" (see Note 2 of the Notes to the Financial Statements).

(3) Operating expenses have been adjusted to include other interest and exclude depreciation, depletion, amortization, and other noncash miscellaneous expenses.

Report of Management

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

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

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

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

John M. Meismer
Deputy General Manager
Chief Financial Officer

James D. Travis
Controller

Joseph J. Beal, P.E.
General Manager

(Dollars in Thousands)	2002	2001
Condensed Balance Sheets		
Current assets	$ 274,939	$ 223,900
Capital assets	1,535,393	1,386,812
Other long-term assets	632,504	359,332
Total Assets	$ 2,442,836	$ 1,970,044
Current liabilities	$ 286,277	$ 370,992
Long-term liabilities	1,548,584	1,041,255
Total Liabilities	1,834,861	1,412,247
Equity - Invested in capital assets, net of related debt	492,058	474,861
Equity - Restricted for capital assets	5,833	3,088
Equity - Unrestricted	110,084	79,848
Total Equity	607,975	557,797
Total Liabilities and Equity	$ 2,442,836	$ 1,970,044
Condensed Statement of Revenues, Expenses and Changes in Equity		
Operating revenues	$ 556,141	$ 688,398
Operating expenses	466,065	675,896
Operating income	90,076	12,502
Interest and other income	16,938	10,837
Interest and other expenses	(79,031)	(79,045)
Costs to be recovered from revenues	19,982	39,123
Capital contributions	2,213	1,020
Change in equity	50,178	(15,563)
Equity, Beginning of Year	557,797	573,360
Equity, End of Year	$ 607,975	$ 557,797

Financial Highlights

Capital assets increased by $148 million or 11 percent for fiscal year (FY) 2002. The majority of the increase is due to the acquisition and construction of transmission and water and wastewater facilities to meet increasing demand for these services.

Other long-term assets for FY 2002 increased by $273 million or 76 percent due to an increase in construction funds. The construction funds will be used primarily to fund future transmission expansion. The $507 million or 49 percent increase in long-term liabilities reflects the issuance of debt to fund this expansion.

Operating revenues for FY 2002 decreased by $132 million or 19 percent due primarily to lower revenues related to fuel and purchased power costs, which are a pass-through to wholesale electric customers. Fuel revenues decreased by $137 million, due mainly to a decrease in the cost of fuel. Excluding fuel revenues, operating revenues increased by $5 million due to an increase in water and wastewater operations.

Operating expenses for FY 2002 decreased by $210 million or 31 percent due primarily to lower fuel and purchased power expenses and a $107 million charge for plant commitment recorded in FY 2001.

Since GenTex Power Corporation, a wholly owned corporation of LCRA, funded its share of the cost of Lost Pines 1 facility with an economic development grant provided by LCRA, there is no debt service to recover. The expected cash flows from the facility are intended to recover only the operating costs. The plant was effectively committed to serve LCRA's wholesale customers and was written down to the contractual value.

Interest and other income increased by $6 million or 56 percent due primarily to a $6.5 million payment received in a contract settlement in FY 2002. The payment was recorded as nonoperating revenue.

Costs to be recovered from revenues for FY 2002 decreased by $19 million or 49 percent due primarily to higher principal payments compared to the previous year.

Overview of the Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, "Basic Financial Statements — Management's Discussion and Analysis — for State and Local Governments." The objective of this statement is to enhance the understandability and usefulness of the external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. LCRA implemented GASB 34, as amended by GASB 37, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Government: Omnibus," in FY 2002. FY 2001 information has been restated to comply with the provisions of the statement.

In June 2001, the GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures." This statement modifies, establishes and rescinds certain financial statement disclosure requirements. LCRA implemented GASB 38 in FY 2002.

In accordance with GASB 34, LCRA is considered a special-purpose government engaged only in business-type activities. GASB 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 Sheet

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

Statement 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, and capital contributions.

Notes to the Financial Statements

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

Competition

Senate Bill 7 (SB 7) provided for retail electric competition to open January 1, 2002. Retail customers of investor-owned utilities, and retail customers of municipality-owned utilities and electric cooperatives that elect to participate in retail competition, now can choose their electric provider. The market for retail competition opened without apparent disruption. LCRA's strategy is to help wholesale electric customers succeed regardless of how they position themselves. As part of this strategy, LCRA will work aggressively to reduce generation costs as well as to support wholesale electric customers in their opt-in decisions. In this same market, LCRA will seek out new customers and expand services in order to increase revenue growth and lower power costs to its wholesale electric customers.

Regulatory Matters

LCRA Transmission Services Corporation

In order to promote electric competition, SB 7 requires all transmission system owners to make their transmission system available for its use by others at prices and terms comparable to each respective owner's use of its system for its own wholesale transactions. Pursuant to the requirements of SB 7, in January 2002, LCRA transferred its existing electric transmission and transformation facilities to LCRA Transmission Services Corporation (the Corporation), a component unit of LCRA for accounting purposes. The Corporation will own and operate all of the regulated electric transmission and transformation assets. In accordance with accounting and financial reporting requirements, the assets, liabilities and transactions of the Corporation are included in the financial statements of LCRA.

Transmission Cost of Service Rate Case

On January 1, 2002, when the Corporation began operations, the Corporation assumed LCRA's transmission cost of service (TCOS) and transformation rates that were approved by the Public Utility Commission of Texas (PUC) on March 7, 2001. On May 31, 2002, the Corporation filed a rate case with the PUC seeking a new TCOS rate and transformation tariff, which is currently under review by PUC staff. Under the terms of a stipulated agreement with the PUC and all intervenors, the Corporation began to charge increased interim rates as of May 31, 2002, filing date. The charges based on the interim rates are recorded as revenue and resulted in increased revenues of $.5 million for the period ending June 30, 2002. Due to the interim nature of these rates, the increased revenues are subject to refund and the rates may be increased or decreased dependent upon the final order in the rate case, which will be effective May 31, 2002.

Capital Expansion and Improvement Program

LCRA's capital improvement program for FY 2003 to FY 2007 is $1.5 billion, with $1.3 billion or 85 percent to be debt funded. The majority of capital expenditures are for expansion of transmission and water and wastewater services as well as additional corporate infrastructure and facilities. The Corporation is significantly increasing its transmission system investment due to the need for additional electric transmission capability statewide. LCRA will continue its water and wastewater services capital expansion due to the region's growing population.

The capital budget is expected to be applied as follows:

(1) $276 million for dam improvements and modernization, and acquisition and construction of water and wastewater utilities and facilities.

(2) $1.0 billion for transmission projects, including $623 million for transmission projects in South and West Texas under a joint development agreement with a private entity.

(3) $247 million for improvements to generation, park and corporate facilities.

The cost of the capital program will be provided from internally generated funds of LCRA, long-term bonds (including LCRA bonds and LCRA Contract Revenue Bonds issued on behalf of the Corporation), and commercial paper notes.

Capital Activity

Capital asset activity for the year ended June 30, 2002, was as follows:

(Dollars in Thousands)	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Ending Balance
Utility plant in service:					
Depreciable assets	$ 1,845,302	$	$ 66,958	$ (1,716)	$ 1,910,544
Nondepreciable assets	23,916		17		23,933
Total Utility Plant in Service	1,869,218		66,975	(1,716)	1,934,477
Construction work in progress:					
Nondepreciable assets	244,058	208,878	(69,521)		383,415
Oil and gas property:					
Depreciable assets	28,158				28,158
Other physical property:					
Depreciable assets	10,392		838		11,230
Nondepreciable assets	10,895		1,708		12,603
Total other physical property	21,287		2,546		23,833
Less accumulated depreciation	(775,909)	(60,297)		1,716	(834,490)
Capital assets, net	$ 1,386,812	$ 148,581	$	$	$ 1,535,393

Debt Activity

On December 6, 2001, LCRA, on behalf of the Corporation, issued $358.9 million of Transmission Contract Refunding and Improvement Revenue Bonds, Taxable Series 2001, and also issued, for its own purposes, $163.6 million of tax-exempt Revenue Bonds, Series 2001A. The proceeds from the $358.9 million Revenue Bond issue were used to refund $36.6 million of taxable commercial paper and provide $291 million for capital project funding for the Corporation. The proceeds from the $163.6 million LCRA 2001A issue were used to refund taxable commercial paper of $62.6 million and tax-exempt commercial paper of $74 million, and provide $29 million for capital project funding.

During FY 2002, LCRA issued $34.1 million of taxable commercial paper to fund various capital projects. In addition, LCRA issued $17 million tax-exempt commercial paper for water and wastewater services-related projects.

In May 2002, LCRA made the following scheduled principal payments:

- $7.2 million, Revenue Bonds, Series 2001A
- $.015 million, 2001 Refunding Revenue Bonds
- $15.6 million, 1999 Refunding Revenue Bonds

Independent Auditors' Report

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Dallas, TX 75201

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Deloitte & Touche

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, 2002, and 2001 and the statements of revenues, expenses and changes in equity, and of cash flows for the years then ended. These financial statements are the responsibility of the 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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LCRA as of June 30, 2002, and 2001 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, in fiscal year 2002, the LCRA adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

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

Deloitte & Touche LLP

September 18, 2002

Deloitte
Touche
Tohmatsu

Balance Sheets

(Dollars in Thousands)

Assets	June 30, 2002	June 30, 2001
Current Assets		
Cash and cash equivalents	$ 41,001	$ 25,974
Investments	71,800	22,033
Receivables, net	85,057	82,061
Accrued interest receivable	1,072	999
Inventories	66,470	68,135
Other	9,539	24,698
Total current assets	274,939	223,900
Long-term Assets		
Restricted cash and cash equivalents	38,649	8,426
Restricted investments	235,818	15,893
Unrestricted investments	46,643	48,193
Capital assets:		
Utility plant in service	1,934,477	1,869,218
Construction work in progress	383,415	244,058
Oil and gas property	28,158	28,158
Other physical property	23,833	21,287
Less accumulated depreciation	(834,490)	(775,909)
Capital assets, net	1,535,393	1,386,812
Water rights, net	86,381	88,725
Other	3,170	2,722
Deferred charges:		
Costs to be recovered from future revenues	165,555	146,130
Unamortized debt expense	22,756	13,253
Contract extension settlement with major customers	11,230	12,005
Other	22,302	23,985
Deferred charges, net	221,843	195,373
Total long-term assets	2,167,897	1,746,144
Total Assets	$ 2,442,836	$ 1,970,044
Liabilities		
Current Liabilities		
Accounts payable	$ 103,797	$ 89,744
Compensated absences	5,703	4,651
Bonds, notes, and loans payable	176,777	276,597
Total current liabilities	286,277	370,992
Long-term Liabilities		
Accounts payable from restricted assets	31,534	2,550
Bonds, notes, and loans payable	1,407,020	925,747
Deferred credits	110,030	112,958
Total long-term liabilities	1,548,584	1,041,255
Total liabilities	1,834,861	1,412,247
Equity		
Invested in capital assets, net of related debt	492,058	474,861
Restricted for capital projects	5,833	3,088
Unrestricted	110,084	79,848
Total equity	607,975	557,797
Total Liabilities and Equity	$ 2,442,836	$ 1,970,044

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

Statements of Revenues, Expenses, and Changes in Equity

(Dollars in Thousands)	Year Ended June 30, 2002	Year Ended June 30, 2001
Operating Revenues		
Electric	$ 504,378	$ 641,032
Water, wastewater and irrigation	35,098	29,601
Other	16,665	17,765
Total operating revenues	556,141	688,398
Operating Expenses		
Fuel	177,748	263,143
Purchased power	35,525	93,551
Operations	156,950	124,103
Maintenance	30,819	25,654
Depreciation, depletion and amortization	63,728	62,306
Plant commitment	1,295	107,139
Total operating expenses	466,065	675,896
Operating income	90,076	12,502
Nonoperating Revenues (Expenses)		
Interest and other income	16,938	10,837
Interest and other expenses	(79,031)	(79,045)
Nonoperating revenues (expenses)	(62,093)	(68,208)
Income (loss) before costs to be recovered from revenues and capital contributions	27,983	(55,706)
Costs To Be Recovered from Revenues	19,982	39,123
Capital Contributions	2,213	1,020
Change in Equity	50,178	(15,563)
Total Equity, Beginning of Year	557,797	573,360
Total Equity, End of Year	$ 607,975	$ 557,797

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

Statements of Cash Flows

(Dollars in Thousands)	Year Ended June 30, 2002	2001
Cash Flows From Operating Activities		
Cash received from customers	$ 573,823	$ 686,969
Cash payments for goods and services	(275,722)	(443,354)
Cash payments to employees	(115,937)	(98,261)
Other revenues and expenses, net	1,193	1,826
Net cash provided by operating activities	183,357	147,180
Cash Flows From Noncapital Financing Activities		
Grant proceeds received	1,047	978
Other income (expenses)	4,876	(321)
Net cash provided by noncapital financing activities	5,923	657
Cash Flows From Capital and Related Financing Activities		
Expenditures for property, plant and equipment	(179,050)	(180,107)
Purchase of water rights	-	(125)
Contributed capital received for capital expenditures	1,860	1,020
Proceeds from refundings and new long-term debt issues	574,881	278,075
Principal payments of long-term debt	(22,830)	(610)
Interest paid	(78,675)	(79,097)
Payments to defease and refund debt and related issue costs	(181,002)	(161,698)
Net cash provided by (used in) capital and related financing activities	115,184	(142,542)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	434,498	159,775
Purchase of investment securities	(702,208)	(147,768)
Interest received	8,944	6,961
Infrastructure financial assistance activity	(448)	96
Net cash provided by (used in) investing activities	(259,214)	19,064
Net Increase in Cash and Cash Equivalents	45,250	24,359
Cash and Cash Equivalents, Beginning of Year	34,400	10,041
Cash and Cash Equivalents, End of Year	$ 79,650	$ 34,400

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

Statements of Cash Flows

(Dollars in Thousands)	Year Ended June 30, 2002	Year Ended June 30, 2001
Cash Flows From Operating Activities		
Operating income	$ 90,076	$ 12,502
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	63,728	62,306
Plant commitment	1,295	107,139
Changes in assets and liabilities:		
Accounts receivable	(2,734)	(4,289)
Inventories	2,562	(15,328)
Other current assets	15,159	(9,921)
Current liabilities	16,159	4,877
Other deferred charges	(795)	(1,310)
Deferred credits and other long-term liabilities	(2,093)	(8,796)
Net cash provided by operating activities	$ 183,357	$ 147,180
Noncash Investing Activities		
Note receivable exchanged for inventory	$ -	$ 52
Investment market adjustments	$ 868	$ 437
Noncash Financing for Property, Plant and Equipment Expenditures		
Purchase of equipment through short-term trade payables	$ 21,297	$ 8,192
Capitalized Interest	$ 3,055	$ -

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

Notes to Financial Statements

1. General

The Lower Colorado River Authority (LCRA) is a conservation and reclamation district created by the Texas Legislature in 1934. It receives no state tax money and cannot levy taxes. It operates on revenues from the sale of wholesale electricity, water and other services. The LCRA Board of Directors (Board) is appointed by the governor of the state, with Senate confirmation, to serve six-year terms. The financial condition of LCRA is not controlled by or dependent on the state or any other political subdivision of the state. 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.

LCRA's basic statutory boundaries include a 10-county district comprising the counties of San Saba, Burnet, Llano, Blanco, Travis, Bastrop, Fayette, Colorado, Wharton and Matagorda. LCRA's service area includes all or part of 58 Central Texas counties in which LCRA provides electric utility services, flood control, water and wastewater services, economic development programs, and other public services. LCRA is responsible for regulating the flow of water within its reservoirs for hydroelectric generation, irrigation and other useful purposes. LCRA aids in the prevention of flood damage, conserves and protects the forests within the Colorado River watershed, and operates and maintains electric generating plants and 3,716 miles of transmission lines. LCRA also has a comprehensive water quality program along the Colorado River within its 10-county statutory district and owns 40 parks, recreational areas and wildlife preserves adjacent to the Highland Lakes or the Colorado River. Seventeen of these parks are leased to or operated by other entities.

LCRA is authorized to establish nonprofit corporations that can build and acquire power plants to provide long-term generation service to any wholesale customer in Texas, and own and operate electric transmission facilities to provide wholesale transmission services for the electric grid operated by the Electric Reliability Council of Texas (ERCOT).

LCRA has 2,614 megawatts (MW) of net generating capacity and wholesale requirements contracts with its customers through June 2016. Hydroelectric net generating capacity of 281 MW is provided by five dams LCRA owns and one it leases. LCRA operates four gas-fired generation units with 1,040 MW of net generation and through its affiliate, GenTex Power Corporation (GenTex) has a 50 percent ownership interest with Calpine Corporation in Lost Pines 1, which has a combined net capacity of 536 MW. In addition, LCRA has full ownership of one coal-fired generating unit with a 445 net MW capacity and a 50 percent ownership interest with the City of Austin (Austin) in two coal-fired units with a combined net capacity of 1,160 MW.

Sales of electricity to LCRA's two largest electric customers represented approximately 34 percent of total electric revenues for fiscal year (FY) 2002 and 36 percent for FY 2001. Electric revenues represented approximately 91 and 93 percent of LCRA's operating revenues for FY 2002 and 2001, respectively.

In 1999, the Texas Legislature passed Senate Bill 7 (SB 7), which gives LCRA the ability to own, build and manage transmission infrastructure statewide with the approval of the Public Utility Commission of Texas. The LCRA Board of Directors authorized the creation of LCRA Transmission Services Corporation (the Corporation), a nonprofit corporation of LCRA, benefiting and accomplishing public purposes of LCRA. The Corporation is governed by a Board of Directors, which is composed in its entirety of the LCRA Board of Directors. This Corporation was created under provisions of the Subchapter B of Chapter 152, Texas Water Code and the Texas Non-Profit Corporation Act. Effective January 1, 2002, the Corporation began operations subsequent to the transfer of LCRA's transmission and transformation assets to the Corporation pursuant to the terms of an Electric Transmission Facilities Contract (the Initial Contractual Commitment) dated October 1, 2001.

LCRA has ownership and operating arrangements for various water and wastewater systems. Some water and wastewater facilities are owned by LCRA and operated by another river authority in connection with an alliance agreement to address immediate and long-term water and wastewater needs in Williamson County and other areas. In addition, LCRA owns three irrigation systems consisting of 815 miles of mainline canals and three low-head dams. The irrigation systems are located in Colorado, Wharton and Matagorda counties.

2. Significant Accounting Policies

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

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

Newly Adopted Standards for FY 2002: In FY 2002, the LCRA implemented GASB Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments" and GASB Statement No. 38, "Certain Financial Statements Note Disclosures." The prior year's financial statements have been restated to reflect the effects of these adoptions. The adoption of GASB 34, as amended by GASB 37, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus," requires LCRA to make several changes to the presentation of its basic financial statements and requires the presentation of LCRA's Management Discussion and Analysis (MD&A). Specifically, the Balance Sheets reflect fund equity as restricted and unrestricted and the Statements of Cash Flows conforms to the direct method. In addition, grants restricted for capital acquisition or construction are reflected on the Statement of Revenues, Expenses and Changes in Equity as Capital Contributions and displayed after nonoperating revenues and expenses. They are recognized as they are earned. The MD&A will introduce the basic financial statements and provide an analytical overview of LCRA's financial activities. The basic financial statements consist of the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, the Statements of Cash Flows, and notes to the financial statements. GASB Statement No. 38 requires additional disclosures related to debt service requirements.

Issued But Not Yet Effective Pronouncements:
Statement of Financial Accounting Standards No. 143 (SFAS 143): This statement, "Accounting for Asset Retirement Obligations," applies to retirement obligations that result from the acquisitions, construction, development or normal operations of long-lived assets. Effective for fiscal years beginning after June 15, 2002, the fair value of asset retirement obligations must be recognized as a liability in the period in which it is incurred, if a reasonable estimate of fair value can be made. The implementation of SFAS 143 will not have a material impact on LCRA's financial position or results of operations.

Statement of Financial Accounting Standards No. 144 (SFAS 144): This statement, "Accounting for the Impairment or Disposal of Long-Lived Assets," addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS 144 states the required accounting for disposing of long-lived assets whether previously held and used or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions. This Statement is effective for fiscal years beginning after December 15, 2001. The implementation of SFAS 144 will not have a material impact on LCRA's financial position or results of operations.

Statement of Financial Accounting Standards No. 146 (SFAS 146): This statement, "Accounting for Costs Associated with Exit or Disposal Activities," will require a liability for a cost associated with an exit or disposal activity to be recognized and measured initially at fair value in the period in which the liability is incurred. The most common costs associated with exit or disposal activity are one-time employee termination benefits, contract termination costs, and costs associated with the consolidation or closing of facilities and the relocation of employees. This statement is effective for exit or disposal activities initiated after December 31, 2002. The implementation of SFAS 146 will not have a material impact on LCRA's financial position or results of operations.

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 has an undivided 50 percent interest in a 536-MW gas-fired combined-cycle generating unit at the Lost Pines Power Park. Although it is a separate legal entity, GenTex is reported as part of LCRA because its sole purpose is to provide assistance to LCRA's 42 long-term wholesale customers in meeting their demands and operating in a competitive market.

In the period between June 2001 and June 2002, 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 full interest at a price of $975 per customer. According to FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," an asset should be written down to fair value if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of the asset. Since the 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 was effectively committed to serve LCRA's wholesale customers and was written down to the contractual value in accordance with FASB 121. As a result, a $107.1 million plant commitment was reported as a charge in the Statements of Revenues, Expenses and Changes in Equity in FY 2001. An additional commitment of $1.3 million was recorded in FY 2002.

LCRA Transmission Services Corporation: The Corporation is a nonprofit corporation created by LCRA that began operations on January 1, 2002, by engaging in the electric transmission and transformation business activities previously performed by LCRA. Although it is a separate legal entity, the Corporation is reported as part of LCRA because it is governed by a Board of Directors that is composed in its entirety of the LCRA Board of Directors.

Fayette Power Project: LCRA's coal-fired generating units are located at the Fayette Power Project (FPP) and operate pursuant to a participation agreement with Austin. The 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. LCRA's equity in FPP was $33.1 million and $31.0 million as of June 30, 2002 and 2001, respectively. 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.

Revenue and Restricted Funds: In September 1999, the LCRA Board adopted a new Master Resolution governing LCRA's issuance of debt. Separate funds are no longer required to be established for designated purposes. The Revenue Fund consists of all system revenues used for operations and management-designated purposes. Restricted Funds consist of construction funds derived from debt issues and system revenues which have been designated for specific purposes by the Board.

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, telecommunication 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 accumulated depreciation. Gains and losses upon disposition are recorded in the period incurred.

Water Rights: Water rights are stated at cost, net of amortization. Accumulated amortization was $7.4 million and $5.0 million as of June 30, 2002 and 2001, respectively.

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

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

Refunding and Defeasance of Debt: For debt refundings, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as a deduction from or an addition to the debt liability. For debt defeasances, the difference between the carrying amount of the debt and the amount of funds needed to retire the debt is recognized immediately in the Statements of Revenues, Expenses and Changes in Equity as a special item.

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

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

LCRA's wholesale electric rates and services were deregulated in 1995 by the Texas Legislature. In order to promote wholesale electric competition, such legislation directed the PUC to adopt rules requiring all transmission system owners to make their transmission systems available for use by others at prices and terms comparable to each respective owner's use of its system for its own wholesale transactions. The PUC implemented its initial transmission open access rules in January 1997. Senate Bill 7 (SB 7) provided for retail electric open competition to begin in January 2002, continued electric transmission open access, and fundamentally redefined and restructured the Texas electric industry.

SB 7 directly and indirectly impacts LCRA and its wholesale electric customers. Under SB 7, LCRA has structurally unbundled its electric generation business and assets from its electric transmission business and assets by transferring the electric transmission business and assets to the Corporation. SB 7 also allows retail customers of investor-owned utilities, as well as the retail customers of those municipally owned utilities and electric cooperatives that elect to participate in retail competition, to choose their electric supplier.

Transmission rates within the ERCOT system are determined pursuant to a universal 100 percent "postage stamp" rate which 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 costs of service (TCOS) rate proceedings required to be filed by all transmission service providers (TSPs), including the Corporation. 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. The load shares and rates are determined by the PUC through its TCOS regulatory process. Additionally, pursuant to a tariff approved by the PUC, the Corporation collects revenues for transformation services, providing transformers that "step down" voltage from levels appropriate for transmission to lower levels for distribution. A monthly charge for each transformation delivery point is also authorized under the transformation tariff.

On January 1, 2002, when the Corporation began operations, the Corporation assumed LCRA's TCOS and transformation rates that were approved by the PUC on March 7, 2001. On May 31, 2002, the Corporation filed a rate case with the PUC seeking a new TCOS rate and transformation tariff, which is currently under review by PUC staff. Under the terms of a stipulated agreement with the PUC and all intervenors, the Corporation began to charge increased interim rates as of May 31, 2002, filing date. The charges based on the interim rates are recorded as revenue and resulted in increased revenues of $.5 million for the period ending June 30, 2002. Due to the interim nature of these rates, the increased revenues are subject to refund and the rates may be increased or decreased dependent upon the final order in the rate case which will be effective May 31, 2002.

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

Regulatory Assets and Liabilities: LCRA applies the accounting requirements of FASB Statement of Financial Accounting Standards No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation." Accordingly, certain costs may be capitalized as a regulatory asset that would otherwise be charged to expense. A regulatory asset is recorded when it is probable that future revenue in an amount at least equal to the capitalized costs will result from inclusion of those costs in future rates. In addition, rate actions of the regulator may impose a liability on LCRA. A regulatory liability occurs when a regulator requires refunds to customers or provides current rates intended to recover costs that are expected to be incurred in the future. Any regulatory asset is amortized over the life of LCRA's outstanding long-term debt, while a regulatory liability is recognized and charged to income when the associated costs are incurred. LCRA's regulatory assets amounted to $186 million and $169 million at June 30, 2002 and 2001, respectively. Regulatory liabilities amounted to $3.4 million and $4.2 million at June 30, 2002 and 2001, respectively. The regulatory assets, which are included under deferred charges, consist of depreciation of debt-funded assets and costs related to outstanding debt. Debt-funded costs are deferred pending future recovery through the inclusion of the related debt service in rates. Regulatory liabilities are included in deferred credits and other long-term liabilities.

LCRA has reviewed and will continue to monitor the relevance of SFAS 71 in light of SB 7 and future changes in the Texas electric industry. As of June 30, 2002, and for the foreseeable future, management believes that SFAS 71 will continue to apply, and no material losses from the write-off of regulatory assets are anticipated.

Gas Price Management: LCRA enters into futures contracts, swaps and options for energy price risk management purposes. Derivative instruments are recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction. LCRA is using mark to market accounting for its derivatives and gains and losses related to the financial contracts are recognized in current earnings.

Fixed Fuel Factor: Revenues from the sale of electricity, including amounts collected through the fixed-fuel factor, are recorded when delivered. LCRA records over- or under-recoveries of fuel costs as a deferred asset or liability. These costs are periodically reconciled through adjustment of the fixed-fuel factor. Over-recoveries may result in refunds to customers and, correspondingly, under-recoveries may result in additional assessments to customers.

Natural Gas Development and Production: LCRA has adopted the full-cost method of accounting for natural gas development and production. Under this method, all costs directly associated with acquisition and development of oil and gas properties are capitalized and depleted to expense over the life of proved reserves on a units-of-production method. For the years ended June 30, 2002 and 2001, depletion expense totaled approximately $703,080 and $800,000, respectively.

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

Impairment: LCRA evaluates the carrying value of its property, plant and equipment, and other long-lived assets by comparing the anticipated undiscounted future net cash flows associated with those assets to the related book value. For oil and gas properties, the remaining book value is compared to the total future estimated remaining reserves. In the case of assets to be disposed of, the fair value less costs to sell is compared to the related net book value.

Depreciation and Amortization: LCRA depreciates its utility 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 average depreciable utility plant, was approximately 3 percent for both FY 2002 and 2001. Depreciation expense for FY 2002 and 2001 was approximately $58 million and $56 million, respectively.

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

Hydraulic Production Plant	55 - 100 years
Steam Production Plant	35 - 40 years
Transmission Plant	35 - 65 years
General Plant	4 - 45 years
Irrigation Plant	15 - 100 years
Sewage and Water Treatment Plant	10 - 50 years
Telecommunication Facilities	10 - 25 years

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

Statements of Cash Flows: All highly liquid investments (including investments in restricted funds) with an original maturity of three months or less are considered cash equivalents. Hedge transactions are classified in the same category as the item being hedged.

3. Financial Instruments

Deposits: Texas law and Board policy require that LCRA deposits be placed in financial institutions located in Texas. Such deposits must be collateralized with securities or surety bonds to the extent not insured by the Federal Deposit Insurance Corporation (FDIC). Securities that may be accepted as collateral are those authorized by the Public Funds Collateral Act. Accordingly, these are limited to obligations of the United States and its agencies and instrumentalities, obligations issued by public agencies with at least a rating of "A" by a nationally recognized rating agency, and any other security in which a public entity may invest under the Public Funds Investment Act.

At June 30, 2002 and 2001, LCRA deposits in excess of the amount insured by the FDIC were collateralized entirely by direct obligations of the United States and its agencies and instrumentalities. This collateral, amounting to approximately $7.5 million and $5.0 million for June 30, 2002, and June 30, 2001, respectively, was held at the Federal Reserve Bank in the name of LCRA in an account separate and apart from the pledging banks.

Investments: LCRA's investment activities are governed by state statute (the Public Funds Investment Act), LCRA Board policy, internal operating procedures, and applicable bond resolutions. These governing instruments further restrict certain funds from participating in all investment types. At June 30, 2002 and 2001, LCRA investments consisted of securities of the United States and its agencies and instrumentalities, commercial paper, repurchase agreements, and a money market fund.

At June 30, 2002 and 2001, LCRA's investments, including cash equivalents, are insured or registered or are held by LCRA or by LCRA's agent in LCRA's name.

External Investments Pool: LCRA's investments included a money market fund with TexPool at June 30, 2002. The State Comptroller of Public Accounts oversees TexPool and the pool seeks to maintain a $1.00 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 a participant can have.

Estimation of Fair Values: The carrying amount of all financial instruments is market value. Investment securities are valued at quoted market prices.

Type of Investment	June 30, 2002	June 30, 2001
(Dollars in Thousands)		
Investments		
U.S. Government Securities	$ 354,261	$ 86,119
Cash Equivalents		
U.S. Government Securities	9,878	13,458
Repurchase Agreements		10,000
Commercial Paper	2,956	12,400
Money Market Fund	71,403	
Totals	$ 438,498	$ 121,977

The carrying amount of receivables and certain other liabilities approximates market value due to the short maturity of these instruments. The estimated market value of long-term debt, based on current market yields, was $1.7 billion and $1.2 billion at June 30, 2002 and 2001, respectively.

Hedging Instruments: LCRA's gas activities subject LCRA's earnings to variability based on fluctuations in the market price of natural gas as measured by changes in the delivered price of natural gas at various points in the system's natural gas grid. In an effort to maintain a competitive fuel and energy cost advantage to other ERCOT utilities and/or to meet approved fuel factor price targets, LCRA routinely enters into natural gas swaps, futures contracts and options for other than trading purposes. This use of these types of transactions for the purposes stated is generally referred to as energy risk management, with the results matching the financial impact of these transactions with the cash impact resulting from consummation of the physical transaction being accomplished. These contracts are commitments to either purchase or sell designated quantities of a commodity at a specified price and at a specified date. These contracts may be settled in cash or through delivery of the specified commodity; however, in general, LCRA settles futures contracts in cash. LCRA holds highly liquid contracts with terms ranging up to 18 months. Initial margin requirements, which are flat fees per contract, and daily margin calls are met in cash or short-term liquid government securities. The financial impact of these futures contracts, the effects of which were substantially offset by the cash fuel purchase costs, was to increase earnings by approximately $4.0 million during FY 2002 and a decrease of $14.1 million during FY 2001.

All derivative instruments are recorded on the balance sheet at their fair value, which generally reflects the estimated amounts that LCRA would receive or pay to terminate the contracts. Changes in the fair value of the derivatives are recorded in current earnings. LCRA has not designated any of the derivatives as hedging instruments.

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

4. Long-Term Debt

Changes during FY 2002 and balances at June 30, 2002, of long-term debt, including current portions are as follows (in thousands):

Series	May 15, From	To	Balance June 30, 2001	Increases	(Decreases)	Balance June 30, 2002	Amount Due in FY 2003
TSCorp Contract Revenue Bonds							
Taxable Series 2001 (6.19%-6.25%)	2017	2032	$	$ 358,875	$	$ 358,875	$
2001A (4.00%-5.375%)	2003	2032		163,600	(7,215)	156,385	2,100
2001 (5.00%-8.00%)	2003	2031	97,650		(15)	97,635	25
1999A (5.50%-5.875%)	2014	2020	347,540			347,540	
1999B (5.875%-6.00%)	2007	2014	348,520			348,520	
1999C (6.72%-7.02%)	2003	2006	159,580		(12,540)	147,040	35,510
1999D (6.875%-6.875%) (4)	2003	2003	16,185			16,185	
1999E (4.50%-5.75%)	2003	2011	27,060		(1,400)	25,660	1,250
1999F (5.50%-5.75%)	2008	2012	97,930			97,930	
1999G (3.40%-4.85%) (1) (3)	2002	2016	45,320		(1,045)	44,275	1,215
1999H (2.65%-3.65%) (2) (3)	2003	2011	9,145		(580)	8,565	790
1999I (2.90%-4.15%) (2)	2003	2020	3,810		(35)	3,775	55
TWDB Note Payable (6.05%-6.10%)	2020	2034	10,500			10,500	
Add: Unamortized Net Premium			11,215	2,838	(1,873)	12,180	
Subtotal			1,174,455	525,313	(24,703)	1,675,065	
Unamortized Net Losses on Refunded Debt			(235,811)		2,943	(232,868)	
Taxable Commercial Paper (Variable Rate)			195,100	34,100	(99,200)	130,000	
Tax-Exempt Commercial Paper (Variable Rate)			68,600	17,000	(74,000)	11,600	
Total			$ 1,202,344	$ 576,413	$ (194,960)	$ 1,583,797	$ 40,945

(1) Maturity Date is July 1
(2) Maturity Date is January 1
(3) Represents yield rate of Capital Appreciation Bonds
(4) Maturity Date is November 15

LCRA's debt as of June 30, 2002, has been rated by Fitch, Moody's, and Standard & Poor's, respectively as follows:

Fitch, Moody's and Standard & Poor's

Refunding Revenue Bonds: AA-, A1, and A (Uninsured)

Commercial Paper: F-I+, P-I and A-I

Transmission Services Contract Refunding and Improvement Revenue Bonds:
A, A3, A (Uninsured)

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

Fiscal Year Ending June 30	Principal	Interest	Total
2003	$ 40,945	$ 96,024	$ 136,969
2004	62,125	92,872	154,997
2005	49,110	89,431	138,541
2006	40,025	86,287	126,312
2007	56,965	83,798	140,763
2008-2012	358,335	364,390	722,725
2013-2017	410,740	253,867	664,607
2018-2022	245,835	160,760	406,595
2023-2027	208,040	93,749	301,789
2028-2032	188,775	35,475	224,250
2033-2044	1,990	184	2,174
	1,662,885	1,356,837	3,019,722
Unamortized Net Premium	12,180	-	12,180
Total	$ 1,675,065	$ 1,356,837	$ 3,031,902

New and Refunding Bonds: On December 6, 2001, LCRA, on behalf of the Transmission Services Corporation, issued $358.9 million of Transmission Contract Refunding and Improvement Revenue Bonds Taxable Series 2001. The proceeds from the bond issue were used to refund $36.6 million of taxable commercial paper and provide $291 million for capital project funding.

On December 6, 2001, the LCRA issued $163.6 million of tax-exempt Revenue Bonds, Series 2001A. The proceeds from the bond issue were used to refund existing taxable commercial paper of $62.6 million, and tax-exempt commercial paper of $74 million, and provide $29 million for capital project funding.

During FY 2002, LCRA issued $34.1 million of taxable commercial paper to fund various capital projects. In addition, LCRA issued $17 million tax-exempt commercial paper for water and wastewater services related projects.

On January 17, 2001, LCRA issued $97.7 million of tax-exempt Revenue Bonds, Series 2001. On October 19, 2000, LCRA issued $80.3 million of tax-exempt commercial paper. The proceeds from these issues were used to refund the existing taxable commercial paper of $79.5 million, and tax-exempt commercial paper of $81.7 million, and provide $15.0 million for capital project funding. The refunding from the issue of Series 2001 Revenue Bonds resulted in the recognition of an accounting gain of approximately $200,000. The gain was amortized in FY 2001.

The principal associated with bonds that have been previously refunded by LCRA, but remain outstanding at June 30, 2002 and 2001, totals $624 million and $873 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 as 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, 2002 and 2001.

Parity Obligations: The Transmission Contract Refunding and Improvement Revenue Bonds Taxable Series 2001 maturing on May 15, 2022, and May 15, 2032, may be redeemable, in whole or in part, at the option of LCRA, at any time or from time to time, on at least 30 days, but not more than 60 days, prior notice to owners of the bonds. Bonds of each maturity may be redeemed at a price equal to the greater of: (a) 100 percent of the principal amount of such bonds of each maturity to be redeemed; or (b) the sum of the present values of the remaining scheduled payments of such bonds of each maturity to be redeemed, discounted to the date of redemption, on a semi annual basis, assuming a 360-day year consisting of 12 30-day months, at the Treasury Rate plus 25 basis points plus, in either case, accrued interest to the date of redemption. If less than all of the bonds of a maturity are to be redeemed, such bonds to be redeemed shall be selected pro rata among any applicable mandatory sinking fund installments and the final maturity of such bonds (rounded to $5,000 multiples) as LCRA shall deem fair and appropriate.

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

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

The Series 1999A Bonds, Series 1999B Bonds, Series 1999E Bonds and Series 1999F Bonds maturing on or after May 15, 2010, are callable at the option of LCRA for a period of one year beginning on May 15, 2009, at the price of 101 percent plus accrued interest. These bonds are also callable at LCRA's option on May 15, 2010, or on any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereof at the price of 100 percent plus accrued interest. The Series 1999G Bonds maturing on or after July 1, 2007, are callable at the option of LCRA on July 1, 2006, or various dates thereafter, in whole or in part, in various principal amounts at various redemption prices.

The Series 1999H Bonds maturing on or after January 1, 2010, are callable at the option of LCRA on July 1, 2009 or various dates thereafter, in whole or in part, in various principal amounts at various redemption prices.

The Series 1999I Bonds maturing on or after January 1, 2010, are callable at the option of LCRA on July 1, 2009 or any date thereafter, in whole or in part, in principal amounts of $5,000 or integral multiples thereafter at the price of 100 percent plus accrued interest.

The bonds outstanding as of June 30, 2002 and 2001 (other than the Transmission Contract Refunding and Improvement Revenue Bonds Taxable Series 2001), 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 the LCRA. The Transmission Contract Refunding and Improvement Revenue Bonds, Taxable Series 2001 are payable solely from the net revenues of the Corporation and are not payable from or secured by LCRA's Pledged Revenues.

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

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 the LCRA amounts of up to $125 million for the tax-exempt series. Of the $125 million, $75 million of this agreement expires on October 16, 2002, and the remaining $50 million expires on June 30, 2003. LCRA has an additional revolving credit agreement where the bank is obligated to lend LCRA aggregate amounts of up to $150 million for the taxable series through November 4, 2002. 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, 2002.

Conduit Debt: At June 30, 2002, there are two series of Pollution Control Revenue Bonds outstanding with an aggregate principal amount payable of $50 million. The bonds mature in April 2027 and 2030, $25 million each year. The bonds were issued to finance the costs of acquiring, constructing and improving certain solid waste and sewage disposal facilities of a private-sector entity. LCRA executed an installment sale agreement with the entity whereby the proceeds of the bonds were used to finance a portion of the project. In turn, the entity agreed to make payments sufficient to pay, when due, the principal and interest on the bonds. The bonds do not constitute a debt or pledge of LCRA, and accordingly, have not been reported in the accompanying financial statements.

Mandatory Redemption: The following term bonds will be subject to mandatory redemption prior to maturity on May 15 in each of the following years and in the following amounts at the redemption price equal to the principal amount thereof plus accrued interest to the redemption date, with the particular bonds or portions thereof to be redeemed, to be selected and designated by LCRA (provided that a portion of a bond may be redeemed only in integral multiples of $5,000):

Transmission Series 2001 Taxable
Term Bond Maturing May 15, 2022

Redemption Date	Amount
May 15, 2017	$ 2,805,000
May 15, 2018	12,400,000
May 15, 2021	21,800,000
May 15, 2022	23,160,000

Series 2001A
Term Bond Maturing May 15, 2026

Redemption Date	Amount
May 15, 2022	$ 7,380,000
May 15, 2023	6,315,000
May 15, 2024	6,635,000
May 15, 2025	6,975,000
May 15, 2026	7,320,000

Transmission Series 2001 Taxable
Term Bond Maturing May 15, 2032

Redemption Date	Amount
May 15, 2023	$ 24,755,000
May 15, 2024	26,295,000
May 15, 2025	27,940,000
May 15, 2026	29,685,000
May 15, 2027	31,535,000
May 15, 2028	33,510,000
May 15, 2029	31,100,000
May 15, 2030	28,200,000
May 15, 2031	30,485,000
May 15, 2032	35,205,000

Series 2001A
Term Bond Maturing May 15, 2032

Redemption Date	Amount
May 15, 2029	$ 4,500,000
May 15, 2030	4,500,000
May 15, 2031	4,500,000
May 15, 2032	4,505,000

Series 1999A
Term Bond Maturing May 15, 2021

Redemption Date	Amount
May 15, 2020	$ 47,535,000
May 15, 2021	27,430,000

Series 2001
Term Bond Maturing May 15, 2026

Redemption Date	Amount
May 15, 2024	$ 10,885,000
May 15, 2025	11,210,000
May 15, 2026	3,330,000

Series 2001
Term Bond Maturing May 15, 2031

Redemption Date	Amount
May 15, 2027	$ 1,810,000
May 15, 2028	1,900,000
May 15, 2029	2,000,000
May 15, 2030	2,100,000
May 15, 2031	2,210,000

5. Retirement and 401(k) Plans, Deferred Compensation, and Post-Employment Benefits

Retirement Plan: The Lower Colorado River Authority Retirement Plan (Plan) is a single-employer defined benefit pension plan and is administered by the LCRA Retirement Plan Board of Trustees. The Plan issues stand-alone financial statements that are available from the Board of Trustees.

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

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

Under Option 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 Option 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 normal retirement date is a single lump sum payment equal to the participant's accrued balance or monthly payments as provided by the Plan.

LCRA makes contributions to the Plan that are actuarially determined as of each of the Plan's valuation date. The required employer contributions for FY 2002 were 8.32 percent of total employee payroll. The current recommended employer contributions for FY 2003 are 8.39 percent of total employee payroll. The costs of administering the Plan are paid by the Plan and are considered in the determination of the required employer contribution rate.

Changes in plan provisions that impacted funding were an ad hoc cost of living adjustment to retirees, an increase in maximum benefits and compensation limitations due to new legislation, and revised assumptions for withdrawal and retirement due to cash balance benefits. In addition, the recommended contribution amount was based on a 15-year amortization of the unfunded actuarial accrued liability. The prior year's contribution amount was based on a 30-year amortization of the unfunded actuarial accrued liability.

Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Assets[1]	(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)
April 1, 2000	$190,420,632	$205,094,988	92.8	$ 14,674,356	$ 79,294,163	18.5
April 1, 2001	213,678,014	232,271,046	92.0	18,593,032	91,709,001	20.3
April 1, 2002	216,437,489	279,453,512	77.5	63,016,023	107,945,731	58.4

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

Three-Year Annual Pension Cost (APC) Trend Information

Fiscal Year Ending	APC	Percentage of APC Contributed	Net Pension Obligation (NPO)[1]
June 30, 2000	$ 7,727,144	100%	$ -
June 30, 2001	8,557,439	100	-
June 30, 2002	9,331,879	100	-

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

401(k) Plan: The 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. As a result of the amendments and restatements of the Plan during FY 2002, the Plan has submitted an application for a determination concerning the qualification of the Plan to the Internal Revenue Service. The previous Plan had received a favorable determination letter from the Internal Revenue Service and was exempt from federal income taxes, under the appropriate section of the Internal Revenue Code. LCRA anticipates that the restated Plan also will qualify for tax-exempt status.

Employees are eligible to participate in the Plan following the completion of three months of service. Eligible employees who elect to participate in the Plan may contribute a minimum of 1 percent and a maximum of 50 percent of their annual compensation, not to exceed $11,000 in 2002. Employees age 50 or over may contribution an additional $1,000 in 2002. Prior to January 1, 2002, the LCRA provided matching contributions equal to 25 percent of the first 4 percent of compensation that the employee had elected to contribute to the plan. After January 1, 2002, for employees under Option A of the Pension Plan, LCRA's matching contribution features remain the same. Under Option B of the Pension Plan, LCRA provides matching contributions equal to 100 percent of the first 4 percent of compensation and 50 percent of the next 2 percent of compensation that the employee has elected to contribute to the plan. Contributions made by both the employer and employee are vested immediately. Amendments to the Plan are made only with the authority of the LCRA Board.

Contributions by the LCRA and the employees for the years ended June 30, 2002 and 2001, are presented below (in thousands):

	2002	2001
Employer contributions	$ 955	$ 636
Employee contributions	5,561	4,643

Post-Employment Benefits: LCRA provides post-employment health care benefits to retirees and to terminated employees in accordance with federal and state statutes. LCRA contributes approximately 80 percent of the retirees' health plan premiums, but makes no contributions for terminated employees. These contributions are recognized currently as premiums are paid and totaled approximately $3.1 million and $2.5 million for FY 2002 and 2001, respectively. At June 30, 2002, there were 484 retirees and 27 terminated employees eligible for such benefits.

6. Gas Production and Development Activities

LCRA provides a portion of expected annual gas requirements through the ownership of gas reserves. LCRA operates a producing field, Rocky Creek, in Fayette County, Texas, with an average 52 percent ownership interest in 12 producing gas wells. Based on an analysis as of July 1, 2002, by an independent engineering firm, the estimated proved remaining reserves associated with the Rocky Creek program were 5,389 barrels of oil and 3.629 billion cubic feet of gas, net to LCRA's interest. Production for FY 2002 and 2001 for the Rocky Creek program was approximately 1,875 and 1,973 barrels of oil and .536 and .477 billion cubic feet of gas, respectively. As of June 30, 2002, LCRA had incurred capital costs of approximately $25.8 million for the Rocky Creek program.

7. Commitments and Contingencies

Construction: LCRA's construction budget, including that of the Corporation, provides for capital improvement projects with cash requirements through FY 2007 of approximately $1.5 billion, including $345 million in FY 2003.

Customer Transmission Leases: LCRA, until January 1, 2002 and the Corporation thereafter, leases and operates certain transmission facilities and equipment owned by 12 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 the Corporation or the lessors upon five years written notice. Lease expenses for FY 2002 and 2001 totaled $11.9 million and $11.7 million, respectively.

Coal and Rail Contracts: For FY 2002, approximately 31 percent of the fuel requirements for the Fayette Power Project units 1 and 2 (FPP units 1 and 2) were supplied under two multiyear contracts with mines in Wyoming's Powder River Basin. One contract, which expired midyear, was for a fixed quantity of coal with the price subject to quarterly change based on changes in a market basket of indexes. Under the second contract, which began midyear and has a fixed price for each year, LCRA has discretion (within some range) over the total volume of coal purchased. A third multiyear, fixed price contract will commence halfway through FY 2003. The volume of coal supplied under the third contract is dependent upon railroad performance. Combined, the two remaining multiyear contracts will provide more than 50 percent of the annual fuel requirements for FPP 1 and 2. During FY 2002 and 2001, LCRA's purchases totaled $4.6 million and $6.0 million, respectively, under the multiyear contracts.

For FY 2002, more than 61 percent of the fuel requirements for Fayette Power Project Unit 3 (FPP 3) were supplied under two multiyear contracts with mines in Wyoming's Powder River Basin. One contract has a fixed price per year. The other contract has a portion of the price fixed and a portion of the price subject to semi annual adjustment based on changes in a market basket of published indexes. The volume of coal purchased under both contracts is subject to LCRA's discretion, within some range. Both contracts will expire in the middle of FY 2003. These two contracts will be replaced with a single, multiyear, fixed price contract that will provide more than 50 percent of FPP 3's annual fuel needs. LCRA's purchases under these contracts totaled $5.6 million and $4.2 million for FY 2002 and 2001, respectively.

LCRA and Austin Energy have entered into a multiyear transportation agreement with two railroad carriers to ship Powder River Basin coal to all three units at FPP. LCRA's share of the costs incurred under these agreements was approximately $51.1 million and $55 million in FY 2002 and FY 2001, respectively.

Natural Gas: LCRA has a long-term contract to provide a portion of the natural gas requirements to its gas-fired generation units through June 2005. LCRA is committed to buy a maximum of 18,250,000 mmBtu annually. LCRA's purchases under this contract totaled $48.4 million for FY 2002 and $94.8 million for FY 2001, based on price indices.

Purchased Power: LCRA has one energy contract with a power marketer to provide 150 MW of firm electric energy for the period June 1, 2002, through September 30, 2002. A capacity contract with a different power marketer is to provide between 25 MW to 50 MW of firm base-load energy, cyclic energy and peaking energy for the period May 1, 2002, through August 31, 2002. The total minimum commitment from these two contracts is $12.6 million.

Wind Power: LCRA is committed to purchase 35 MW of wind power capacity from Texas' first commercial wind power plant, the Texas Wind Power Project. LCRA in turn sells 10 MW of this capacity to Austin Energy. During FY 2002, LCRA purchased 30 MW of wind power capacity from the Delaware Mountain Wind Farm, which is an increase of 22.5 MW from FY 2001. In FY 2002, LCRA added 51 MW of wind power capacity from the Indian Mesa Wind Farm that went commercial in July 2001. Total wind power capacity is 116 MW, of which 106 MW is for LCRA and its customers. LCRA expects to pay approximately $10.5 million in FY 2003 for purchases from all wind power plants, increasing to approximately $12 million in FY 2014.

Insurance Self-Funding: In addition to the purchase of commercial insurance, LCRA has established a self-insurance program to finance risk of loss. LCRA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. LCRA self-funds each worker's compensation claim up to $250,000, and each general liability claim up to a maximum of $2 million dependent on the insurance policy deductible. Self-funding of property damage varies from $1 million to $2.5 million depending on the insurance deductible. Any claims or damages above self-funded amounts are covered by commercial general excess liability insurance. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. Based on an insurance risk analysis, LCRA carries no commercial insurance on transmission lines.

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

Changes in the accrued liability amount for FY 2001 and 2002 were as follows:

	Balance Beginning of Year	Changes in Estimates	Payments	Balance End of Year
FY 2001	$5,378,000	$225,000	$998,000	$4,605,000
FY 2002	4,605,000	209,000	892,000	3,922,000

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

8. Capital Assets and Depreciation

Capital asset activity for the year ended June 30, 2002, was as follows:

(Dollars in Thousands)	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Ending Balance
Utility plant in service:					
Depreciable assets	$ 1,845,302	$	$ 66,958	$ (1,716)	$ 1,910,544
Nondepreciable assets	23,916		17		23,933
Total Utility Plant in Service	1,869,218		66,975	(1,716)	1,934,477
Construction work in progress:					
Nondepreciable assets	244,058	208,878	(69,521)		383,415
Oil and gas property:					
Depreciable assets	28,158				28,158
Other physical property:					
Depreciable assets	10,392		838		11,230
Nondepreciable assets	10,895		1,708		12,603
Total other physical property	21,287		2,546		23,833
Less accumulated depreciation	(775,909)	(60,297)		1,716	(834,490)
Capital assets, net	$ 1,386,812	$ 148,581	$	$	$ 1,535,393

9. Segment

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 an other 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. The LCRA Transmission Services Corporation qualifies as a segment.

LCRA Transmission Service Corporation was created by LCRA to comply with the requirements of SB 7. LCRA transferred all of the assets of its regulated electric transmission and transformation businesses to LCRA Transmission Service Corporation effective January 1, 2002.

Segment information for January 1, 2002 (Date of Inception) to June 30, 2002:

LCRA Transmission Services Corporation
Balance Sheets

(Dollars in Thousands)

Assets	**June 30, 2002**
Current Assets	$ 36,069
Long-term Assets	
Restricted cash and cash equivalents	24,736
Restricted investments	203,087
Accounts receivable from LCRA - restricted	21,958
Capital assets:	
Utility plant in service	463,002
Construction work in progress	117,862
Less accumulated depreciation	(135,892)
Capital assets, net	444,972
Deferred charges	24,382
Total long-term assets	719,135
Total Assets	$ 755,204
Liabilities	
Current Liabilities	$ 32,702
Long-term Liabilities	
Accounts payable to LCRA from Construction Fund	13,225
Accounts payable from restricted assets	25,150
Bonds, notes, and loans payable	610,817
Total long-term liabilities	649,192
Total liabilities	681,894
Equity	
Invested in capital assets, net of related debt	52,817
Unrestricted	20,493
Total equity	73,310
Total Liabilities and Equity	$ 755,204

LCRA Transmission Services Corporation
Statements of Revenues, Expenses, and Changes in Equity

(Dollars in Thousands)

	Period Ended June 30, 2002
Operating Revenues	
Transmission	$ 35,274
Transformation	7,803
Other	76
Total operating revenues	43,153
Operating Expenses	
Operations	23,930
Maintenance	2,848
Depreciation and amortization	5,469
Total operating expenses	32,247
Operating income	10,906
Non-Operating Revenues (Expenses)	
Interest income	2,979
Interest on debt	(12,631)
Total non-operating revenues (expenses)	(9,652)
Income before prior costs recovered from revenues and transfers in	1,254
Prior Costs Recovered from Revenues	(2,206)
Loss before transfers in	(952)
Transfers In	74,262
Change in Equity	73,310
Total Equity, Beginning of Period	-
Total Equity, End of Period	$ 73,310

LCRA Transmission Services Corporation
Statement of Cash Flows

(Dollars in Thousands)

		Period Ended June 30, 2002
Cash Flows From Operating Activities		
Cash received from customers	$	35,090
Cash payments for goods and services		(33,798)
Net cash provided by operating activities		1,292
Cash Flows Provided by Noncapital Financing Activities		
Working capital transfer from LCRA		14,562
Cash Flows From Capital and Related Financing Activities		
Expenditures for property, plant and equipment		(78,551)
Issue costs purchased		(8,385)
Proceeds from long-term debt issues		358,875
Principal payments of long-term debt		(13,162)
Interest paid		(1,742)
Accounts receivable from LCRA		(21,958)
Net cash provided by capital and related financing activities		235,077
Cash Flows From Investing Activities		
Sale and maturity of investment securities		257,036
Purchase of investment securities		(458,409)
Interest received		1,131
Net cash used in investing activities		(200,242)
Net Increase in Cash and Cash Equivalents		50,689
Cash and Cash Equivalents, Beginning of Year		-
Cash and Cash Equivalents, End of Year	$	50,689
Cash Flows From Operating Activities		
Operating income	$	10,906
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization		5,469
Changes in assets and liabilities:		
Accounts receivable - trade		(7,407)
Other current assets		33
Current liabilities		(7,709)
Net cash provided by operating activities	$	1,292
Noncash Investing Activities		
Investment market adjustments	$	1,382
Noncash Financing for Property, Plant and Equipment Expenditures		
Transfer of net property, plant & equipment and other assets related to the contractual commitment with LCRA	$	444,769
Capitalized interest	$	2,741
Purchase of equipment through short-term trade payable	$	35,634

LCRA Mission Statement

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

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

LCRA Executive Management*

Joseph J. Beal, P.E., General Manager

Donna K. Brasher, Deputy General Manager, Community Services
Employee Focus Leader

Paul Brower, Deputy General Manager, External Affairs
Customer Service Leader

Bill Freeman, Deputy General Manager, Energy Services
Safety Leader

Jesus Garza, Deputy General Manager, Water Services
Environmental Leader

John M. Meismer, Deputy General Manager and Chief Financial Officer
Diversity Leader

Heather Bailey, Executive Manager – Business Management and Asset Development, Transmission Services

Brenda Coleman-Beattie, Chief of Staff – Energy Services

Robert Cullick, Executive Manager, Customer Service and Communications

Karen Farabee, Executive Manager, Human Resources

Randy J. Goss, Executive Manager, Water and Wastewater Utility Services

Christopher Kennedy, Executive Manager, Corporate Services and Chief Information Officer

Philip J. Kolman, General Auditor

Missy Mandell, Executive Manager, Federal Affairs

Thomas G. Mason, General Counsel

Frank C. McCamant, Executive Manager, Business Development

Ross Phillips, Executive Manager – Operations, Transmission Services

Dudley C. Piland, Jr., Executive Manager, Wholesale Power Services

Paul D. Thornhill, P.E., Executive Manager, River Services

Suzanne Zarling, Executive Manager, Community Services

*As of June 30, 2002

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