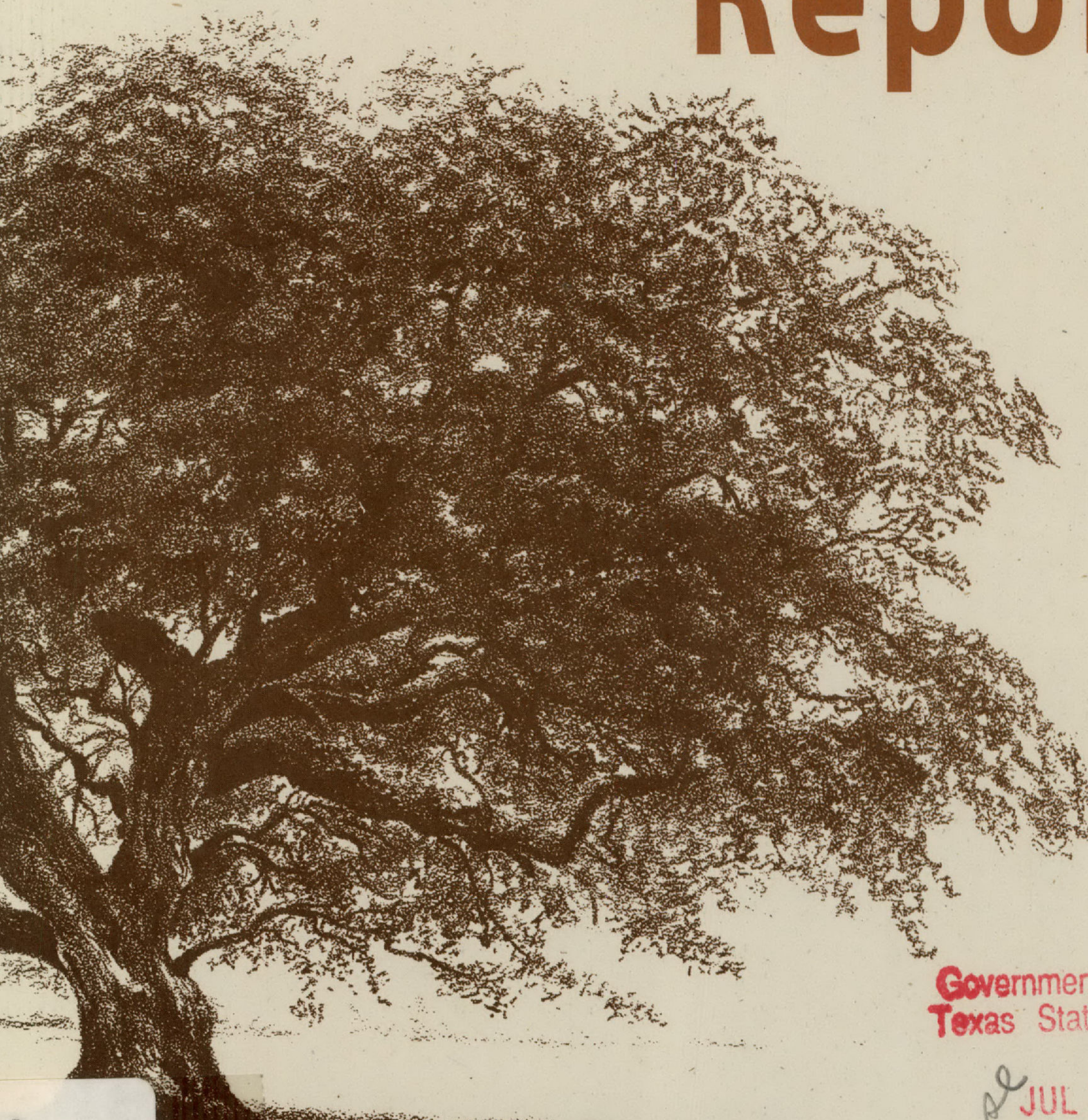
1993 Annual Report



WER COLORADO RIVER AUTHORITY

This annual report is dedicated to the spirit of Texans who have maintained the living heritage of their land while preserving the best of rural Texas communities. One of the landmarks of Central Texas is the live oak (Quercus virginiana), which endures because of this appreciation of Texas heritage.

The live oak, a native tree, has been carefully left to grow for generations on cleared pastures to provide shade for livestock and to hold the soil. The trees line fields for windbreaks. Throughout the service area of the Lower Colorado River Authority, historic live oaks stand in the middle of squares, streets and homesteads, attesting to the dedicated efforts of citizens to save these grand specimens.

The LCRA joins Central Texas citizens in their drive to progress while retaining the best elements of their past.

For the history of live oaks, the editors drew from Famous Trees of Texas, published by the Texas Forest Service, Texas A & M University, in 1984.
Illustrations by Bob O'Brien

LCRA Officers

Mark Rose
General Manager

Raymond F. Barker
Chief Administrative Officer

Philip J. Kolman
General Auditor

Glen Taylor
General Counsel

William P. Freeman
Executive Director,
Office of Fuels Acquisition and Development

Larry Krenek
Executive Director,
Office of Transmission and Energy Operations

Missy Mandell
Executive Director,
Office of Conservation and Environmental Protection

Frank McCamant
Executive Director,
Office of Corporate Planning

John M. Meismer
Chief Financial Officer and
Executive Director,
Office of Corporate Services

Walter J. Reid
Executive Director,
Office of Power Production

William E. West, Jr.
Executive Director,
Office of Natural Resources

Lower Colorado River Authority
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LCRA
THE POWER TO MAKE A DIFFERENCE.

For additional copies or more information, contact:
Karen Farabee
Manager, Corporate Communications
1-800-776-5272

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LCRA Mission Statement

The LCRA mission statement directs our focus to public service that extends from our origins in 1934 to the future:

Our company provides public services that improve the quality of life for Central Texans. We provide reliable electric service at the lowest possible rates. We lead the way to protect and conserve the land and water resources of the Colorado River Basin. We manage floodwaters to safeguard people and property. We are dedicated to the preservation of the environment and natural resources. We are committed to the health, safety and well-being of the public, our customers and our employees.

Angela Flores Beck
Board Chair

Statement from the Board Chair and General Manager

LCRA employees are both dreamers and doers. When problems and challenges occur, they conceive a solution from both traditional and untried approaches and drive a direct line to realization of that concept. This fortunate combination of vision and action is derived from the spirit of the people we serve. In most of the Central Texas counties that receive LCRA services, the population is sparse and the terrain challenging. People handle problems by themselves. They use resources creatively and live tenaciously.

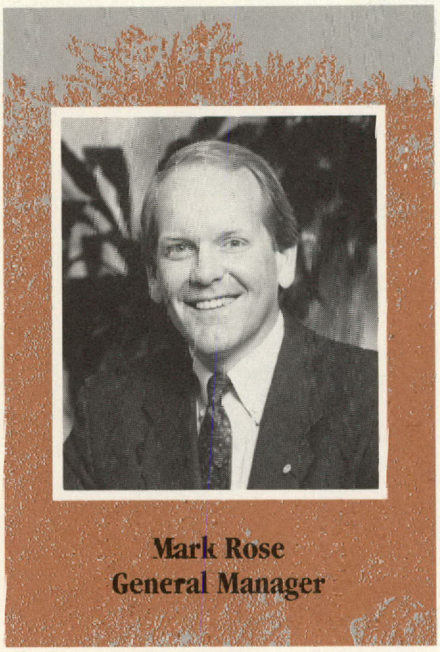
We've chosen a native Central Texas tree, the live oak, to represent the spirit of Central Texas in this annual report. In rich bottom land, the live oak flourishes. In thin soil, it broadens its root system to capture every nutrient and drop of water. Even in solid limestone, it holds resolutely.

Our employees absorb and reflect the values of our customers and the robust nature of Central Texas. This spirit has enabled the LCRA to provide low-cost, reliable power and environmentally sensitive management of the river — even with power and water rates frozen. When we set the goal of freezing base electric rates until the year 2000, employees began concentrating on ways to increase revenues. The guide was not to rule out any valid proposal.

Many of Fiscal Year 1993's successes came from looking at the LCRA's business environment as a world of opportunities. Employees found that they could delay a scheduled outage on a major generation unit and create new revenues from additional power sales to off-system buyers. The LCRA broke its records in these sales, earning $5.92 million. Uncommitted power gave employees the opportunity of adding two short-term wholesale customers, so they did. Current customers weren't forgotten. Employees more than doubled the projected revenues from auxiliary services to existing wholesale customers.

Timely refinancing of debt helped to bring the debt service coverage to 1.41x and will mean ultimate savings of $20 million. Everyone pitched in to save $2.8 million in the operations budget and $4.4 million in capital costs.

The bottom line for these financial improvements is progress, although the net loss figure stated inside this report does not reflect the growth and enrichment of the LCRA that has occurred. Despite outstanding financial performance in 1993 and 1992, the net income figures for both years are negative because we subtracted a total of more than $67 million in losses that occurred in 1989, when a decision was made to abandon the Cummins Creek Lignite Mine, in favor of less



Mark Rose
General Manager

expensive Western coal. The write-offs related to the closing of the mine were to be spread over more than two decades, as debt was repaid. However, our decision to refinance the debt caused us to write off a large portion (about 25 percent) of the losses in 1993 and 1992, resulting in negative net earnings. The decisions to close Cummins Creek and refinance the debt each strengthened the LCRA. The negative net earnings result from these beneficial actions and do not indicate the need for a rate increase or corrective action.

With changing financial strategies, our employees have tapped new sources of funds to meet special needs of people in our service area. The employees have sought partnerships and applied for grants from state and national agencies. LCRA grant-seekers gathered funds for environmental protection programs, more recreation areas along the Colorado River, solid waste management programs and repairs on dams from flood damages.

Sometimes, to serve your customers, you just have to change the rules. In 1993 the LCRA asked the Texas Legislature for approval to test its abilities even more. The LCRA gained the ability to create a subsidiary corporation and the freedom of more flexibility when purchasing natural gas. Another bill gave the LCRA the right to sell surface water within more counties. The LCRA successfully amended a bill to add coal combustion by-products to the list of recyclable products, a move which could bring in additional revenues from Fayette Power Project, LCRA's jointly owned coal-fired plant.

Focusing on staying within flat budgets has had another result. Instead of functioning as a series of individual departments, the LCRA has become one organization with employees crossing department lines to share special skills and to supplement personnel numbers for big projects. It's not surprising that LCRA employees share their talents readily; that practice has been a custom in rural Texas since barn-raising days.

Fiscal Year 1993 has been another year of testing for us, but it also has produced new growth and a spirit of experimentation. Employees are willing to stretch their reach to improve the quality of life for Central Texas residents. Like the live oak, we easily adapt to change and grow the stronger for it.

Angela Flores Beck
Chair

Mark Rose
General Manager

Highlights of Fiscal Year 1993

Finances

- During Fiscal Year 1993, the LCRA took advantage of favorable market rates and completed several debt defeasances and refundings that will assist the LCRA in providing a quality service at the lowest possible cost and in enhancing its competitiveness in the changing utility industry. The LCRA achieved two refinancings in the fiscal year with a total net present savings of $20 million, bringing net savings from refinancing plans in two years to $50 million. Total weighted average interest rate on the LCRA's debt fell below 6 percent at the end of Fiscal Year 1993. These financial transactions have resulted in negative net earnings for Fiscal Years 1993 and 1992 of $3.09 million and $11.92 million, respectively. These losses are due primarily to the accelerated write-off of costs associated with the Cummins Creek Mine, which was abandoned in 1989 because competing fuel resources became less expensive. The acceleration of these write-offs is a direct result of the LCRA's strategy to pay off debt early. The early payment of debt is a key component of LCRA's financial strategy to maintain stable electric and water rates. Accelerating the payment of these bonds also accelerated the write-off of the Cummins Creek Mine and other costs totaling $30.9 and $36.7 million for Fiscal Years 1993 and 1992, respectively.
- The LCRA completed its second year of base electric rates frozen at 1991 levels until at least the year 2000.
- For the third year in a row, the LCRA has had the lowest fossil fuel costs of any utility reporting to the Public Utility Commission of Texas. These factors keep the LCRA's rates among the lowest in the state.
- The LCRA continued to meet its financial obligations and remain a strong financial organization, as measured by the debt service coverage ratio, the LCRA's key financial indicator, which was 1.41x for Fiscal Year 1993. This ratio was well above our budgeted coverage ratio of 1.27x.
- The LCRA's debt has been rated by Moody's and Standard & Poor's, as of June 30, 1993, as high-quality, investment grade debt.

Power Sales

- The LCRA broke records in off-system power sales, earning $5.92 million as neighboring utilities needed power and found the LCRA's to be the most economical.
- The LCRA entered into two new short-term power supply contracts in Fiscal Year 1993. Deliveries under both contracts begin in early Fiscal Year 1994, with terms through Fiscal Year 1997 and 1998, respectively. The two contracts are expected to provide revenues of approximately $5.3 million in Fiscal Year 1994.

Power Production

- The Fayette Power Project completed a five-year program to improve fuel efficiency that could reduce the LCRA's cost of coal by $2 million annually.
- The first step in overhauling hydrogeneration units at LCRA's six dams was completed at Tom Miller Dam.
- Construction of the Hilbig Gas Storage Project was completed, providing the LCRA with a natural gas storage facility. The LCRA can now purchase gas during periods of excess supplies when prices are low for use in power production when natural gas prices are high.
- Energy conservation programs provided 7,511 kilowatts of summer peak savings in Fiscal Year 1993. an increase of 2,762 kW over the previous year's total, or a 58 percent increase. Cumulative kW savings in the 10 years of the conservation program amount to 78 MW with energy savings for the same period being 41 GWh.

Environmental Programs

- In addition to other rigorous water quality programs, the LCRA initiated solid waste cleanups in counties along the Colorado River. Some 46 cities and counties signed up to participate in the program. Two household hazardous waste collections diverted tons of potentially polluting materials from Texas waterways.
- With passage of an anti-litter and illegal dump cleanup ordinance, the LCRA began a county-by-county program to eradicate illegal trash dumps along the river and lakes.

- The LCRA began a study of Matagorda Bay to determine the impact of fresh water entry from the Colorado River into Matagorda Bay. The study will reveal the fresh water needs of the bay and associated estuaries and may determine the amount of water released from the reservoirs to ensure the biological health of the estuaries.
- The LCRA submitted the initial biennial assessment report to the state on conditions along the Colorado River, including suspected causes of remaining pollution sources.

Water Initiatives

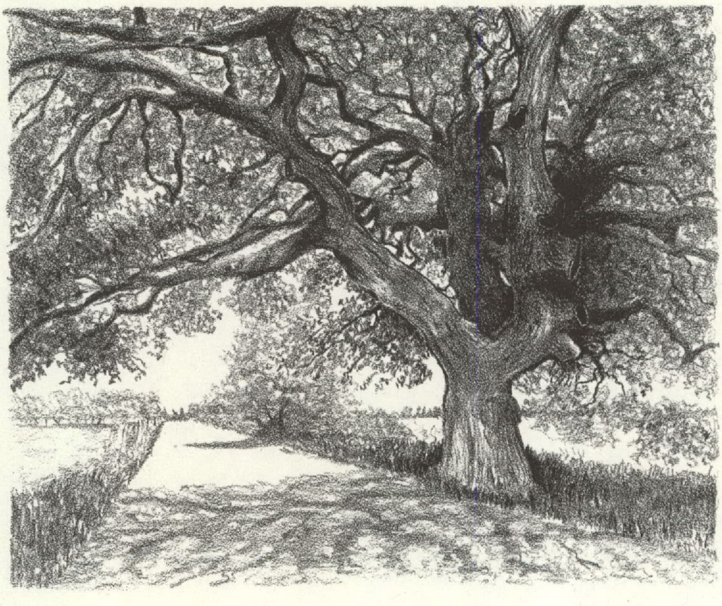
- The LCRA began the first sales of wholesale treated water to the Lake Buchanan Water Supply Corporation. The LCRA provided this service because there was no other municipal or commercial service available.
- The Camp Swift Regional Wastewater Treatment Plant, which went into operation in 1992, has eliminated long-standing pollution problems in Bastrop County.
- The LCRA resolved a 50-year-old dispute that had existed between the LCRA and Pierce Ranch over water rights, signing a contract for the ranch owners to transfer 55,000 acre-feet of their long-held water rights in return for receiving interruptible stored water to support their remaining rights to 55,000 acre-feet of water from the Colorado. The agreement was approved by the Texas Water Commission in March 1993.
- Joining other agencies and government entities in the Trans-Texas Water Program, the LCRA will participate in a study to examine the costs and benefits, including environmental implications, of various alternatives for sharing and distributing the state's waters.

New Administrative Complex

- The new General Office Complex, completed in Fiscal Year 1993, brought nearly all of the administrative personnel into one area. The award-winning landscape creates a diversion path for runoff from parking areas into a series of holding ponds that help to filter pollutants. More than 5,000 tons of fly ash from Fayette Power Project were used in the concrete construction in the Complex.

Marketing the Colorado River Trail

- The LCRA introduced the Colorado River Trail to the nation through the distribution of a documentary to public broadcasting stations and promoted the Trail to the Texas Travel Industry Association. A video narrated by popular movie actor Tommy Lee Jones and publications on the Trail also were distributed broadly.
- To get people back to the river, the LCRA made significant progress in acquiring new access sites in Fayette, Colorado, Wharton and Matagorda counties.



The Matrimonial Oak, near San Saba

Young Native Americans were married under this tree as were later white settlers. The tree is near the state's geographical center.

LCRA Customers

Wholesale Electric Customers

Electric Cooperatives: Bandera Electric Cooperative, Inc. • Bluebonnet Electric Cooperative, Inc. • Central Texas Electric Cooperative, Inc. • DeWitt County Electric Cooperative, Inc. • Fayette Electric Cooperative, Inc. • Guadalupe Valley Electric Cooperative, Inc. • Hamilton County Electric Cooperative, Inc. • Kimble Electric Cooperative, Inc. • McCulloch Electric Cooperative, Inc. • Pedernales Electric Cooperative, Inc. • San Bernard Electric Cooperative, Inc.

Cities: Bastrop • Bellville • Boerne • Brenham • Burnet • Cuero • Flatonia • Fredericksburg • Georgetown • Giddings • Goldthwaite • Gonzales • Hallettsville • Hempstead • Kerrville • La Grange • Lampasas • Lexington • Llano • Lockhart • Luling • Mason • Moulton • New Braunfels • San Marcos • San Saba • Schulenburg • Seguin • Shiner • Smithville • Waelder • Weimar • Yoakum.

Wholesale Water Customers

More than 100 wholesale water customers depend on the lower Colorado River for drinking water. Rice farmers in Matagorda, Colorado, and Wharton counties use water to irrigate up to 64,000 acres each year. The LCRA's six hydro and three steam power plants are major users of water from the Colorado River.

LCRA Board of Directors

Angela Flores Beck, Chair, Fayette County
James A. Martin, Vice Chair, Travis County
Burton B. LeTulle, Secretary, Matagorda County
Richard Arellano, Llano County
Roy Bandy, Caldwell County
Theodora "Teddy" Boehm, Washington County
George Cason, Colorado County
I. O. Coleman, Jr., Wharton County
Pix Doyle Howell, Hays County
Ray S. Knox, Blanco County
Hilda C. Kroll, Blanco County
Cecil B. Long, Bastrop County
Michael J. Lucksinger, Burnet County
Betty Jo Miller, San Saba County
C. Patrick Oles, Jr., Travis County

The Old Evergreen Tree, near Lincoln in Lee County

Located on a much-traveled road in early Texas history, this tree is believed to have been recorded by an explorer-surveyor in 1713.

10-Year Financial Summary

Fiscal Year ended June 30, *(Thousands of Dollars)*

	1993	1992	1991
Operating revenues	$ 379,138	$ 340,124	$ 353,668
Interest and other income,			
Less amounts not available for debt service	10,604	16,333	19,908
Total	389,742	356,457	373,576
Operating expenses,			
excluding depreciation & amortization	236,800	203,865	201,231
Net Revenues Available for Debt Service	$ 152,942	$ 152,592	$ 172,345
Debt Service Requirement	$ 108,739	$ 117,697	$ 124,049
Debt Service Coverage Ratio	1.41x	1.30x	1.39x
Electric Revenue per KWH Sold (cents):			
Wholesale	3.84	3.83	3.95
Retail	4.25	4.18	4.21
Utility Plant	$ 1,512,570	$ 1,489,912	$ 1,419,409
Accumulated Depreciation	$ 386,193	$ 354,745	$ 319,441
Long-Term Debt	$ 1,368,572	$ 1,342,715	$ 1,331,416
Statistics			
MWH Sales			
Wholesale	7,610,924	7,267,371	7,258,981
Retail-residential	107	184	198
Retail-other	153,219	140,455	133,778
Subtotal	7,764,250	7,408,010	7,392,957
Economy energy and other	1,188,532	803,992	563,783
Total MWH Sales	8,952,782	8,212,002	7,956,740
MWH Generation and Purchased Power			
Hydraulic	295,990	889,733	291,249
Steam:			
Gas	1,975,402	2,050,171	1,606,181
Coal	6,988,187	5,592,986	6,342,834
Purchased power	47,138	2,484	73,907
Total MWH Generation and Purchased Power	9,306,717	8,535,374	8,314,171
Net Peak Demand (MW)	1605(S)	1583(S)	1756(W)
(S-Summer, W-Winter)			
Electric Customers:			
Wholesale	44	44	44
Retail-residential	6	13	13
Other	54	57	54
Total Electric Customers	104	114	111
Number of Employees	1,725	1,717	1,736

	1990	1989	1988	1987	1986	1985	1984
	$ 319,555	$ 284,672	$ 245,737	$ 210,930	$ 243,839	$ 274,443	$ 279,318
	19,780	17,064	15,406	23,934	27,801	21,620	10,540
	339,335	301,736	261,143	234,864	271,640	296,063	289,858
	194,073	202,529	188,630	167,984	195,257	229,696	233,756
	$ 145,262	$ 99,207	$ 72,513	$ 66,880	$ 76,383	$ 66,367	$ 56,102
	$ 106,468	$ 82,447	$ 51,507	$ 52,645	$ 47,994	$ 42,829	$ 38,091
	1.36x	1.20x	1.41x	1.27x	1.59x	1.55x	1.47x
	3.69	3.35	3.07	2.84	3.39	4.07	4.40
	3.95	3.43	3.73	3.68	4.08	4.77	5.18
	$ 1,401,868	$ 1,493,621	$ 1,420,421	$ 1,320,599	$ 1,179,378	$ 884,251	$ 734,956
	$ 281,143	$ 247,848	$ 214,002	$ 200,304	$ 184,929	$ 170,505	$ 154,432
	$ 1,337,923	$ 1,350,152	$ 1,315,140	$ 1,443,564	$ 1,206,883	$ 728,208	$ 684,085
	7,299,357	7,134,324	6,707,783	6,099,374	5,590,143	5,314,239	5,080,024
	176	212	95,897	235,577	269,792	268,232	249,360
	129,926	152,112	260,137	407,924	546,283	512,803	455,459
	7,429,459	7,286,648	7,063,817	6,742,875	6,406,218	6,095,274	5,784,843
	623,864	750,787	451,114	149,150	287,832	200,381	164,263
	8,053,323	8,037,435	7,514,931	6,892,025	6,694,050	6,295,655	5,949,106
	235,840	249,925	322,368	827,731	254,347	228,416	204,084
	1,624,293	1,824,355	2,873,852	3,164,320	3,198,427	2,185,624	1,891,473
	6,426,723	6,179,218	4,462,050	3,093,259	3,535,669	4,110,758	4,076,818
	83,366	75,352	166,735	101,805	66,106	73,029	63,909
	8,370,222	8,328,850	7,825,005	7,187,115	7,054,549	6,597,827	6,236,284
	1930(W)	1684(W)	1494(S)	1500(S)	1418(S)	1451(W)	1326(W)
	44	44	44	42	41	41	41
	13	16	17	13,240	23,056	22,245	20,928
	58	50	48	3,890	5,518	5,153	4,799
	115	110	109	17,172	28,615	27,439	25,768
	1,797	1,834	1,923	1,964	1,829	1,714	1,599

Report of Management

The financial statements and related footnotes included herein are the responsibility of the 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 judgements of management, giving due consideration to materiality. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

The Statements of Operations include a footnote which explains the net losses shown for Fiscal Years 1993 and 1992. Management recognizes that including such a footnote on the Statements of Operations is unusual. However, management feels that it is necessary so that readers of the statements are fully aware of the specific transactions that cause the losses to be shown. Management believes that financially, the LCRA had outstanding years in 1993 and 1992 and that readers, without the benefit of the explanation on the Statements of Operations, may assume unfavorable years simply based on the losses shown. Management would prefer that readers fully understand the decisions that were made and that those decisions would be considered in evaluating LCRA's financial performance.

Management has developed and maintains a system of accounting and controls including an extensive internal audit program designed to provide reasonable assurance that the 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. No material internal control weaknesses have been reported to management.

The Board of Directors, through the activities of its Audit and Finance and Administration Committees consisting solely of outside Directors, has an oversight role with respect to financial reporting. The duties of the Committees include keeping informed of the financial condition of the LCRA and reviewing its financial policies and procedures, its internal accounting controls and the objectivity of its financial reporting. Both the LCRA's independent and internal auditors and the Board of Directors meet with the Audit Committee periodically with and without management present.

The Report of Independent Accountants, included herein, does not limit the responsibility of management for information in the financial statements and elsewhere in the Annual Report.

John Meismer
Executive Director of Corporate Services
and Chief Financial Officer

Michael E. Vollmer
Manager of Corporate Accounting
and Controller

Mark Rose
General Manager

Report of Independent Accountants

To the Board of Directors of the Lower Colorado River Authority

In our opinion, the accompanying balance sheets and the related statements of operations and of cash flows present fairly, in all material respects, the financial position of the Lower Colorado River Authority (LCRA) at June 30, 1993 and 1992, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. 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 of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Austin, Texas
September 13, 1993

Balance Sheets

Assets

	June 30, 1993	June 30, 1992
	(Thousands of Dollars)	
Property, Plant & Equipment		
Utility plant in service:		
Electric	$ 1,355,412	$ 1,320,651
Irrigation	20,173	15,863
	1,375,585	1,336,514
Less accumulated depreciation	(386,193)	(354,745)
	989,392	981,769
Construction work in progress	85,964	88,542
Oil and gas property, net	51,021	64,856
Utility plant, net	1,126,377	1,135,167
Lignite mine and other physical property, net	2,778	3,297
Total Property, Plant & Equipment	1,129,155	1,138,464
Cash & Investments in Restricted Funds (includes cash and cash equivalents of $29,999 and $38,499 for 1993 and 1992, respectively)		
General improvement and construction funds	5,840	2,497
Debt service funds	143,868	126,771
Contingency and other restricted funds	10,470	10,284
Less net amount due revenue fund	(6,359)	(15,027)
Total Cash & Investments in Restricted Funds	153,819	124,525
Current Assets		
Cash & investments in revenue fund (includes cash and cash equivalents of $19,287 and $3,811 for 1993 and 1992, respectively)	19,367	15,248
Accrued interest receivable	1,670	2,358
Net amount due revenue fund from general improvement, construction, and other restricted funds	6,359	15,027
Total Cash & Investments in Revenue Fund	27,396	32,633
Accounts receivable (net of allowance for doubtful accounts of $491 and $451 for 1993 and 1992, respectively)	42,772	36,174
Inventories:		
Fuel	23,770	38,202
Material and supplies	24,105	25,487
Other	12,989	11,478
Total Current Assets	131,032	143,974
Deferred Charges		
Costs to be recovered from future revenues	204,457	226,195
Unamortized losses on refunded debt	192,812	118,794
Advance interest payments	-	47,011
Contract extension settlement with major customers	18,201	18,588
Unamortized debt expense	18,143	17,755
Coal contract settlement	12,814	14,035
Other deferred charges	15,161	13,847
Total Deferred Charges	461,588	456,225
Total Assets	$ 1,875,594	$ 1,863,188

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

Capitalization and Liabilities

	June 30, 1993	June 30, 1992
	(Thousands of Dollars)	
Capitalization		
Contributed capital	$ 12,154	$ 10,510
Capital derived from earnings:		
Balance, beginning of year	395,966	407,046
Net loss for the year	(3,091)	(11,916)
Current depreciation on utility plant acquired or constructed with contributions	362	836
Balance, End of Year	393,237	395,966
Long-term Debt		
Capital reimbursable to U.S. Government	4,093	4,251
Senior and junior lien revenue bonds, including amounts due within one year of $38,300 and $22,635 for 1993 and 1992, respectively	1,224,479	1,137,764
Subordinate debt: commercial paper and adjustable rate revenue bonds	140,000	200,700
Total Long-term Debt	1,368,572	1,342,715
Accrued interest	30,774	27,417
Total Capitalization and Long-term Debt	1,804,737	1,776,608
Liabilities Payable from Restricted Funds (includes amounts due within one year of $1,129 and $1,005 for 1993 and 1992, respectively)	2,911	3,323
Current Liabilities Payable from Revenue Fund	27,589	33,776
Deferred Credits and Other Long-term Liabilities		
Unamortized gain on refunded debt	34,073	46,842
Other deferred credits and long-term liabilities	6,284	2,639
Total Deferred Credits and Other Long-term Liabilities	40,357	49,481
Total Capitalization and Liabilities	$ 1,875,594	$ 1,863,188

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

Statements of Operations

	Year Ended June 30, 1993	Year Ended June 30, 1992
	(Thousands of Dollars)	
Operating Revenues		
Sales of electricity	$ 344,212	$ 315,097
Water and irrigation	11,146	9,378
Natural gas	17,258	10,489
Other	6,522	5,160
Total Operating Revenues	379,138	340,124
Operating Expenses		
Fuel	137,425	113,934
Purchased power	1,288	40
Operation	83,456	71,061
Maintenance	32,764	29,856
Depreciation	40,751	40,321
Total Operating Expenses	295,684	255,212
Operating Income	83,454	84,912
Interest and Other Income	27,339	28,062
Income Before Interest Charges and Other Expense	110,793	112,974
Interest Charges and Other Expense		
Interest expense	85,534	100,492
Gains (Losses) from disposition of Cummins Creek	(822)	1,829
Net Income before Costs to be Recovered from Future Revenues	24,437	14,311
Costs to be Recovered from Future Revenues		
Recurring amortization/deferrals	3,372	10,519
Write-off of deferred charge due to early extinguishment of debt (1)	(30,900)	(36,746)
Net Loss	$ (3,091)	$ (11,916)

(1) The LCRA's Statements of Operations show net losses for Fiscal Years 1993 and 1992 due primarily to the accelerated write-off of costs associated with the Cummins Creek Mine, which was abandoned in 1989 because competing fuel resources became less expensive. The acceleration of these write-offs is a direct result of the LCRA's strategy to pay off debt early. The early payment of debt is a key component of LCRA's financial strategy to maintain stable electric and water rates. In line with this strategy, the LCRA has used available revenue and other funds to pay off debt early. Accelerating the payment of these bonds also accelerated the write-off of the Cummins Creek Mine and other costs totaling $30.9 and $36.7 million for Fiscal Years 1993 and 1992, respectively. (See Note 9 for additional details.)

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

Statements of Cash Flows

	Year Ended June 30,	
	1993	1992
	(Thousands of Dollars)	
Cash Flows from Operating Activities:		
Operating income	$ 83,454	$ 84,912
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	66,195	58,046
Amortization of bond related expenses	1,015	911
Changes in assets and liabilities:		
Accounts receivable, net	(6,598)	4,063
Inventories - fuel, materials and supplies	15,814	(4,541)
Other current assets	(1,511)	(1,996)
Liabilities payable from revenue fund/ restricted funds	(6,599)	7,585
Additions to other deferred charges	(2,116)	(5,652)
Deferred credits and other long-term liabilities	3,860	(578)
Net Cash Provided by Operating Activities	153,514	142,750
Cash Flows Used in Noncapital Financing Activities - Interest Paid	(131)	(991)
Cash Flows from Capital and Related Financing Activities:		
Expenditures and contributions for property, plant and equipment	(50,648)	(88,133)
Proceeds from long-term debt	1,285,765	1,118,081
Principal payments of long-term debt	(726,938)	(698,983)
Interest paid	(76,022)	(108,973)
Advance payment of interest	-	(50,714)
Payments to defease debt	(572,234)	(430,454)
Net Cash Used for Capital and Related Financing Activities	(140,077)	(259,176)
Cash Flows from Investing Activities:		
Sale and maturity of investment securities	186,772	264,307
Purchase of investment securities	(204,096)	(179,554)
Interest received	10,994	18,682
Net Cash Provided by (Used for) Investing Activities	(6,330)	103,435
Net Increase (Decrease) in Cash and Cash Equivalents	6,976	(13,982)
Cash and Cash Equivalents, Beginning of Year	42,310	56,292
Cash and Cash Equivalents, End of Year	$ 49,286	$ 42,310

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 Legislature of the State of Texas in 1934. It is an agency of the State of Texas without taxing power. The statutory boundaries of the LCRA encompass a ten-county district consisting of the Counties of San Saba, Burnet, Llano, Blanco, Travis, Bastrop, Fayette, Colorado, Wharton, and Matagorda. The LCRA is responsible for regulating the flow of water within its reservoirs for hydroelectric generation, irrigation and other useful purposes. The LCRA aids in the prevention of flood damage, conserves and protects the forests within the Colorado River watershed, and constructs and operates electric generating plants. The LCRA also has a comprehensive water quality program along the Colorado River within its ten-county statutory district and owns 19 parks and related recreational facilities adjacent to the Highland Lakes or the Colorado River. Twelve of such parks are leased to, and operated by, other entities.

The LCRA has a total of 2,244 MW net generating capacity. The LCRA operates six dams with hydroelectric net generating capacity of 239 MW (Buchanan, Inks, Alvin J. Wirtz, Max Starcke, Mansfield, and Tom Miller). Five of these dams are owned by the LCRA, and the sixth (Tom Miller) is leased from the City of Austin (Austin). The LCRA owns two irrigation systems consisting of over 640 miles of canal and two low head dams that cover three of its 10 counties including Colorado, Wharton, and Matagorda.

The LCRA also operates four gas-fired units with 1,050 MW of net generation (three units at the Sim Gideon plant and one unit at the Thomas C. Ferguson plant). In addition, the LCRA has full ownership of one coal-fired generating unit with a 405 net MW capacity and a 50 percent ownership interest with Austin in two coal-fired units with a combined net capacity of 1,100 MW.

The coal-fired units are located at a site known as the Fayette Power Project (FPP) and operate pursuant to a participation agreement with Austin which designates LCRA as project manager. The LCRA's investment is financed with LCRA funds, and its pro-rata share of operations is recorded as if wholly owned.

At June 30, 1993, the LCRA had power supply contracts with 44 wholesale customers. One expires in June 1999 and 43 expire in June 2016. Sales of electricity to two wholesale customers represent approximately 22 percent and 10 percent of LCRA's total electric revenues for the year ended June 1993. Approximately 92 percent of the LCRA's operating revenues are derived from its electric utility business.

2. Significant Accounting Policies

Basis of Accounting: The accompanying financial statements of the LCRA, a governmental entity which uses proprietary fund accounting (accrual basis), have been prepared in conformity with generally accepted accounting principles. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recorded when incurred. The LCRA follows rules promulgated by the Governmental Accounting Standards Board (GASB) and, where applicable, the Financial Accounting Standards Board (FASB). The LCRA's accounts are maintained substantially in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts.

Revenue and Restricted Funds: The LCRA's Bond Resolutions require separate funds to be established for designated purposes. The Revenue Fund consists of electric and water system revenues and other miscellaneous revenues used for operating and Board of Directors' (Board) designated purposes. The Restricted Funds are the debt service, debt service reserve, construction, contingency, Powell Bend Mine Reclamation, deferred compensation, and general improvement funds.

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 and related projects under construction. These assets are recorded at cost which includes materials, labor, overhead, and interest during construction. The costs of repairs and minor replacements are charged to operating expense as appropriate. 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.

Inventories: Coal is recorded at cost using the last-in, first-out inventory basis. Stored natural gas, fuel oil and materials and supplies are stated at average cost.

Fair Value of Financial Instruments: The carrying amount of all financial instruments is a reasonable estimate of their fair value.

Revenues: Revenues from the sale of electricity, including amounts collected through the fixed fuel factor, are recorded as billed. Under rules established by the Public Utility Commission of Texas (PUC), the LCRA also records over- or under-recoveries of fuel costs. These costs are periodically reconciled, and the fixed fuel factor may be adjusted periodically. Over-recoveries may result in refunds to customers and correspondingly, under-recoveries may result in additional assessments to customers.

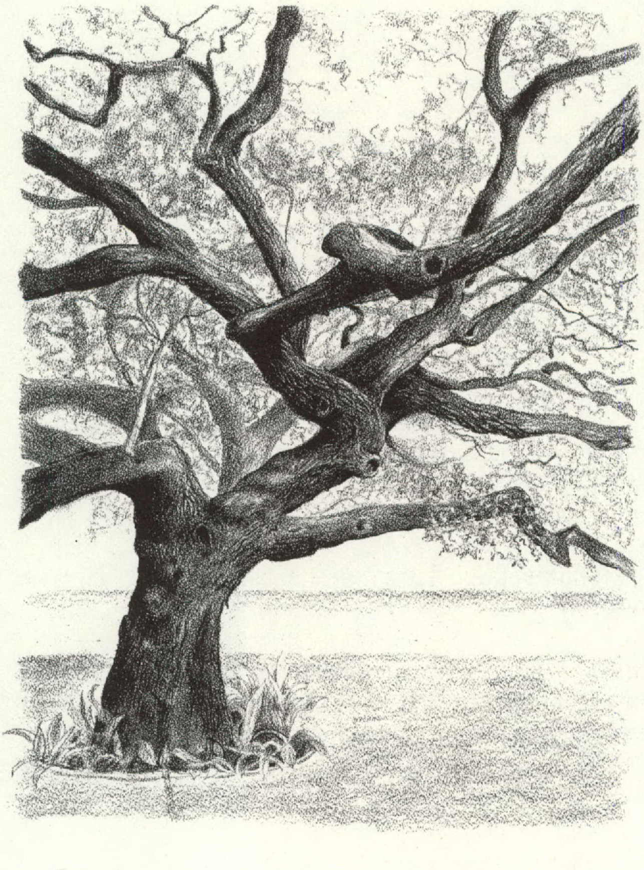
Rates and Regulations: The PUC has exclusive original jurisdiction over wholesale electric rates and other services comprising approximately 84 percent of the LCRA's operating revenues. The LCRA's electric rates are based on LCRA's cost of operations, debt service and debt service coverage requirements. The LCRA's bond counsel is of the opinion that a Texas court applying Texas law would ultimately conclude that the LCRA has the authority to establish and collect such fees and charges as will produce revenues sufficient to pay reasonable and necessary operating expenses, including the payment of the principal and interest of all outstanding bonds, and to fulfill the terms of any agreements made with the owners of the outstanding bonds. Furthermore, bond counsel is of the opinion that the power and authority granted to the PUC cannot be exercised in a manner that prejudices the rights and remedies of owners of the outstanding bonds.

In April 1991, the PUC issued a final order approving the stipulated rate agreement the LCRA signed with its customers. These rates were retroactive to October 1990 and are expected to be in effect until the year 1999.

Water rates are approved by the LCRA's Board. A water rate increase was implemented in March 1992, representing the fourth increase of a four-year rate plan to increase water rates to recover the full cost of service. Customers may appeal the LCRA's water rates to the Texas Water Commission.

Lignite Exploration, Evaluation and Mine Development Costs: The LCRA had lignite mining operations (the Powell Bend Mine) in Bastrop County, Texas. All costs associated with exploration, evaluation, and development were capitalized as incurred and amortized on the units-of-production method based on the estimated tons to be recovered. At June 30, 1993 and 1992, lignite mine amortization totaled $2,088,000 and $3,214,000, respectively.

During Fiscal Year 1992, the LCRA decided not to expand the Powell Bend Mine Project past the original contract date. Production of Powell



The Runaway Scrape Oak, near Gonzales

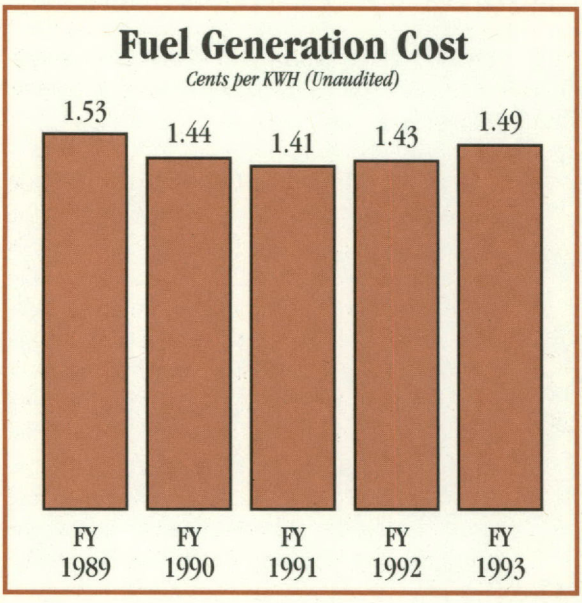
In 1836 General Sam Houston camped under this tree as he prepared to engage General Santa Anna in the decisive Battle of San Jacinto, which gave Texans freedom from Mexican rule.

Bend lignite ceased in March 1993, when lignite reserves were depleted. At June 30, 1993, a $1.58 million reserve fund, which management believes is adequate, had been accumulated to pay for reclaiming the mine site.

Natural Gas Development and Production: The 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 are capitalized and amortized to expense over the life of proved reserves on a units-of-production method. As of June 30, 1993 and 1992, amortization totaled $14,401,000 and $8,504,000, respectively. In accordance with approved rate-making treatment, current operating revenues and expenses are deferred through the initial years of the program and will be amortized in future periods.

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, the LCRA reimbursed the customers for their costs incurred in planning generating facilities. Beginning in Fiscal Year 1993, these costs are being amortized over the period affected by the contract extension.

Abandonment of Cummins Creek Mine: In November 1989, the LCRA Board of Directors approved the termination of the Cummins Creek Mine project because competing fuel resources were less expensive. As a result of this transaction, assets were written off and losses of $200.6 million were recorded and deferred until such time as the related debt was retired. The recovery of these costs through future revenues was provided in the Final Order issued by the PUC in April 1991. As such, the costs were deferred as costs to be recovered from future revenues and are being amortized as related debt payments are made. As of June 30, 1993, the majority of the mining equipment has been sold.



Coal Contract Settlement: On January 18, 1988, the LCRA settled a coal supply contract lawsuit with Decker Coal Company. The agreement called for a net payment by the LCRA to settle all matters and litigation relating to the coal supply contract. These costs are amortized on a straight line basis until the year 2003, which was the last year the LCRA would have taken coal under the contract.

Depreciation and Amortization: The LCRA depreciates its assets on the straight-line basis over the estimated useful lives of the various classes of plant. Annual depreciation expenses, expressed as a percentage of average depreciable utility plant, were approximately 3 percent for both 1993 and 1992.

Gains and losses on debt refundings are amortized using the bonds-outstanding method over the remaining terms of the related bond issues. Amortization of debt discount and expense are computed on the interest and straight line methods, respectively, over the life of the related bond issues. Advanced interest payments are amortized on the straight-line basis over the periods for which the interest would have been paid for the related bond series. Other deferred charges are amortized on a straight line basis ranging from 20 to 30 years.

Statement of Cash Flows: For purposes of the statement of cash flows, cash equivalents are all highly liquid investments (including investments in restricted assets) with a maturity of three months or less.

Costs to be Recovered from Future Revenues: The LCRA complies with the Statement of Financial Accounting Standards No. 71 (SFAS No. 71), "Accounting for the Effects of Certain Types of Regulation," whereby certain expenses included in net income by an unregulated enterprise are recovered through inclusion of debt service in rates established by the PUC. The LCRA defers expenses expected to be recovered through rates charged in subsequent years. Likewise, certain revenues are deferred until such time as they will be matched with expenses in the rate-making process. This allows the LCRA to better reflect the economic effects of regulation in its financial statements. Costs and revenues deferred in the 12 months ended June 30, 1993 and 1992, are as follows:

		1993		1992
		(Thousands of Dollars)		
Costs				
Depreciation and Amortization:				
Depreciation of debt-funded plant	$	29,336	$	29,362
Amortization of debt discount and expense		7,254		5,122
Amortization of gain on refunding		(6,796)		(3,622)
Amortization of loss on refunding		80		867
Other amortization		6,191		10,098
(Gains) losses from disposition of the Cummins Creek Mine		783		(2,081)
Total Costs		36,848		39,746
Revenues				
Revenues collected for debt service		33,476		29,227
Revenues used in Taxable Refunding (See Notes 4 and 9)				22,000
Revenues used to defease a portion of the 1992 Taxable Notes (See Notes 4 and 9)		30,900		
Reduction in deferred charge due to the defeasance of debt with Cummins Creek Mine equipment proceeds (See Notes 4 and 9)				14,746
Total Revenues		64,376		65,973
Costs to be recovered from future revenues	$	(27,528)	$	(26,227)

Reclassifications: Certain reclassifications have been made in the 1992 financial statements to conform to the classifications used in the 1993 financial statements.

3. Deposits and Investments

Deposits: Texas law and board policy require that LCRA deposits be placed in banks located in the State of 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, obligations issued by public agencies with at least a rating of "A" by a nationally recognized rating agency, and any other security which a public entity may invest in under the Public Funds Investment Act.

At June 30, 1993, LCRA deposits over the amount insured by the FDIC were collateralized entirely by direct obligations of the United States and its agencies. This collateral was held at the Federal Reserve Bank in the name of the LCRA in an account separate and apart from the pledging banks'. In this regard, excess collateral of over $5 million was pledged to cover LCRA deposits at June 30, 1993.

Investments: The LCRA's investment activities are governed by state statute (the Public Funds Investment Act), LCRA Board policy, internal operating procedures and applicable bond resolutions. At June 30, 1993, LCRA investments consisted of securities of the United States and its agencies, commercial paper, and repurchase agreements. These governing instruments further restrict certain funds from participating in all of the investment types listed above.

At June 30, 1993 and 1992, LCRA's investments, including cash equivalents, were classified as category 1 under GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements." This category denotes investments that are insured or registered, or are held by the LCRA or by the LCRA's agent in the LCRA's name. LCRA's investments at June 30 are summarized below:

Type of Investment	June 30, 1993 Amortized Cost	June 30, 1993 Market Value	June 30, 1992 Amortized Cost	June 30, 1992 Market Value
		(Thousands of Dollars)		
U.S. Government Securities	$ 142,004	$ 144,442	$ 116,364	$ 119,015
Certificates of Deposit	0	0	7	7
Repurchase Agreements	19,748	19,748	20,239	20,239
Commercial Paper	19,538	19,538	21,837	21,837
Total	$ 181,290	$ 183,728	$ 158,447	$ 161,098

4. Long-term Liabilities

Long-term Debt:

The principal and maturity amounts of long-term debt outstanding at June 30, 1993 and 1992 include Tax-Exempt Priority Revenue Bonds, Parity Obligations consisting of Tax-Exempt Junior Lien Revenue Bonds and Taxable Junior Lien Revenue Notes and subordinate lien debt, as follows:

Description	Maturity Date January 1, From	Maturity Date January 1, To	Interest Rates From	Interest Rates To	June 30, 1993	June 30, 1992
					(Thousands of Dollars)	
Priority Revenue Bonds:						
Series 1991 Refunding Revenue Bonds	1996	2015	6.00 %	7.10 %	$ 136,460	$ 174,200
Series 1988 Refunding Revenue Bonds	2000	2016	7.25	7.75	-	92,535
Series 1987 Refunding Revenue Bonds	1999	2014	5.00	7.00	240,400	473,590
Series 1986 Revenue Bonds	2002	2016	6.50	7.75	-	34,880
Series 1985 Refunding Revenue Bonds	2012	2013	7.00	7.00	-	35,650
Series 1985 Revenue Bonds	2015	2015	7.00	7.00	-	22,000
Parity Obligations:						
Series 1993 Refunding Revenue Bonds, Fifth Supplemental Series	1997	2016	4.10	5.50	298,870	-
Series 1992 Refunding Revenue Bonds, Fourth Supplemental Series	1997	2017	4.50	6.30	302,165	-
Taxable Junior Lien Refunding Revenue Notes, Second Supplemental Series	1994	1999	5.80	7.85	175,800	227,340
Series 1992 Refunding Revenue Bonds	2000	2017	6.00	6.55	199,605	199,605
					1,353,300	1,259,800
Less: Unamortized discount					(128,821)	(122,036)
Sub-total					1,224,479	1,137,764
Subordinate Lien Debt:						
Adjustable Rate Revenue Bonds	1993	2017	Variable		-	65,700
Commercial Paper	-	-	Variable		140,000	135,000
Sub-total					140,000	200,700
Total					$ 1,364,479	$ 1,338,464

The LCRA's debt has been rated by Moody's and Standard & Poor's, as of June 1993 as follows:

Priority Bonds:	A1 and A+ (uninsured)
Parity Obligations:	A1 and A (uninsured), Aaa and AAA (insured)
Commercial Paper:	P-1 and A-1

Debt service requirements are as follows:

Fiscal Year Ending June 30,	**Principal***	**Interest****	**Total**
	(Thousands of Dollars)		
1994	$ 38,300	$ 63,626	$ 101,926
1995	39,700	68,947	108,647
1996	38,145	66,446	104,591
1997	39,680	67,701	107,381
1998	12,535	68,740	81,275
1999-2017	1,298,310	814,108	2,112,418
Total	$ 1,466,670	$ 1,149,568	$ 2,616,238

* Excludes principal amount of Commercial Paper.

** Excludes variable-rate interest on Commercial Paper. Interest on Capital Appreciation Bonds is scheduled as principal in the year of maturity.

Refunding Bonds: In September 1992, the LCRA received proceeds of $280,106,000 from the sale of Series 1992 Refunding Revenue Bonds, Fourth Supplemental Series. These proceeds, combined with debt service and debt service reserve funds, were used to defease the following:

Senior Revenue and Refunding Revenue Bonds	$ 211,310,000
Adjustable Rate Revenue Bonds	65,700,000
Commerical Paper	35,000,000
Total Principal Defeased	$ 312,010,000

These defeased bonds have maturities ranging from 1993 to 2017. The defeasance resulted in a $48,628,000 loss which represents the difference between the net carrying value of the defeased bonds and the reacquisition price. The loss has been deferred and will be amortized over the life of the refunding issue. The economic effect of the refunding was an $8,163,000 cash savings calculated on a present value basis.

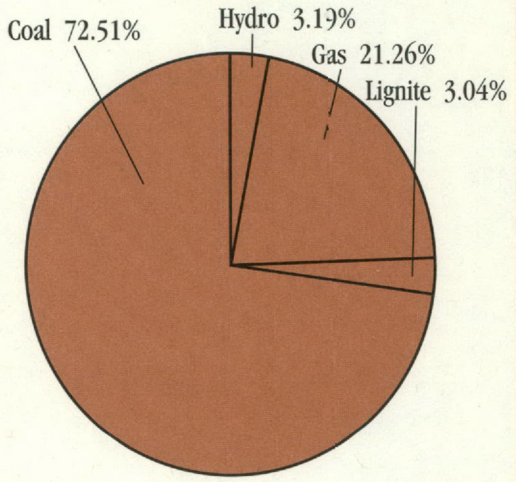
In June 1993, the LCRA received proceeds of $291,288,000 from the sale of Series 1993 Refunding Revenue Bonds, Fifth Supplemental Series. These proceeds, combined with debt service and debt service reserve funds, were used to defease $289,000,000 in Senior and Junior Lien Revenue Bonds. The defeased bonds have maturities ranging from 2002 to 2017. The defeasance resulted in a $75,095,000 loss which represents the difference between the net carrying value of the defeased bonds and the reacquisition price. The loss has been deferred and will be amortized over the life of the refunding issue. The economic effect of the refunding was a $12,299,000 cash savings calculated on a present value basis.

In June 1993, the LCRA also created an Escrow from revenue fund monies. The funds were used to defease approximately $31 million of Serial Bonds from the Taxable Junior Lien Refunding Revenue Notes, Second Supplemental Series. The defeasance resulted in a $3 million gain which is included in interest and other income for the year ended June 30, 1993 (See Note 9).

Principal associated with bonds that were refunded by LCRA, but remain outstanding at June 30, 1993, totals $1,746,485,000. Proceeds from the refunding bond issues were escrowed to purchase U.S. Government obligations which will mature at such time and yield interest at such amounts so that sufficient monies are available for payment of principal and interest on the refunded bonds when due. None of these refunded bonds are included in the LCRA's outstanding long-term debt at June 30, 1993.

Sources of Generation – FY1993

(Unaudited)



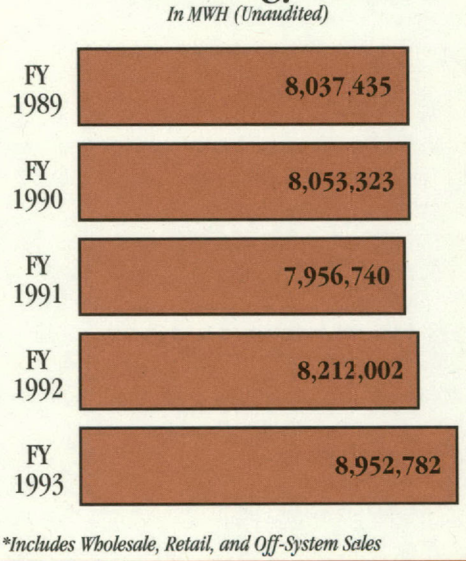
Priority Bonds and Parity Obligations: Under terms of the Bond Resolutions, the Bonds are limited obligations of the LCRA payable solely from and equally secured by an irrevocable lien on and pledge of the net revenues of the LCRA system. The Resolutions provide that the Current Interest Bonds maturing on and after January 1, 1997 to 2017, are subject to optional redemption prior to their scheduled maturity date beginning in 1996 through 2002 at prices from 100 percent to 102 percent, plus accrued interest to the redemption date.

The net revenues referred to in the preceding paragraph are defined in the Bond Resolutions to include system revenues plus interest income (excluding interest income on Construction Fund investments and any proceeds derived from the sale of capital assets) less operating and maintenance expenses excluding depreciation and certain amortizations.

The Bond Resolutions contain certain restrictions and covenants including the LCRA's agreement to establish and maintain rates and other charges to produce revenues sufficient to pay operating and maintenance expenses, to produce net revenues sufficient to pay the amounts required to be deposited in any special reserve funds, to produce net revenues equal to at least the sum of (a) 1.20 times the priority bonds' annual debt service requirements and (b) 1.10 times the annual debt service requirements for the then outstanding parity obligations, and to pay any and every other indebtedness, liability or obligation, however incurred and whether arising from contract or otherwise, including those arising out of a monetary judgment or order entered against the LCRA by a court of competent jurisdiction that have become final and nonappealable.

Total Energy Sales*

In MWH (Unaudited)



**Includes Wholesale, Retail, and Off-System Sales*

Commercial Paper: LCRA is authorized to issue up to $200,000,000 in short-term obligations to provide system improvements, acquisition of full reserves and facilities, refunding of outstanding debt, funding of conservation and load management programs and payment of 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.

Under the Resolution authorizing issuance of the notes, the LCRA pledges to the payment of the notes (i) the proceeds from the sale of bonds and other short-term obligations (as provided in the Resolution), (ii) commercial paper proceeds until expended, and (iii) the Net Revenues of the system. This pledge of Net Revenues is subordinate to the pledge thereof securing the payment of Priority Bonds and Parity Obligations.

Pursuant to the commercial paper resolutions described above, the LCRA has agreed to maintain a credit facility with a bank which, at all times, would provide available borrowings sufficient to pay the principal of the notes. The LCRA has entered into revolving credit agreements with a bank which is obligated to lend the LCRA aggregate amounts of up to $100 million for Series B and up to $50 million for Series C, through July 1, 1996, and October 15, 1995, respectively. Failure by the LCRA to meet certain restrictive covenants could result in the withdrawal of the banks' commitment for the unused lines of credit. There were no borrowings under either agreement through June 30, 1993.

Interest Rate Swap Agreement: In May 1992, the Board authorized the issuance of the Third Supplemental Series Bonds (Bonds) with an aggregate principal amount not to exceed $117 million. The anticipated principal amount of these Bonds is approximately $113 million. The LCRA is obligated to sell the Bonds between May 1, 1996, and July 1, 1996. The Bonds, when issued, will be used to retire the Series B commercial paper notes and will bear interest at a variable rate, to be paid on a semi-annual basis, commencing on the January 1 or July 1 following the date of delivery of the Bonds.

In connection with the issuance of these Bonds, on July 1, 1992, the LCRA executed with a third party an Interest Rate Swap Agreement (the Swap Agreement), for purposes of reducing the LCRA's exposure to the variable interest rates of the Bonds. Pursuant to the terms of the Swap Agreement, the LCRA agrees to pay interest on the $113,370,000 of variable rate bonds at a fixed rate of 6.76% per annum, with such obligation commencing on the date of delivery of the Bonds. The third party has agreed to pay the LCRA the variable interest rate amounts due on the Bonds. The LCRA will also pay the third party for liquidity support on the Bonds. The LCRA will pay 15 basis points, until the bonds are issued, then 25 basis points on the notional amount. Under certain circumstances, the Swap Agreement may be terminated by either party and may require payment of a settlement amount to the entitled party. Both the Bonds and the LCRA's obligation under the Swap Agreement will constitute Parity Obligations. At June 30, 1993, the LCRA had no obligations due under the terms of the Swap Agreement with the third party.

Adjustable Rate Revenue Bonds: At June 30, 1992, the LCRA had $65,700,000 of Adjustable Rate Revenue Bonds outstanding, as well as an agreement with a bank to provide a $71,370,000 irrevocable letter of credit as security for the Bonds. On October 1, 1992, the LCRA redeemed all the bonds with the proceeds of the LCRA Series 1992 Refunding Revenue Bonds, Fourth Supplemental Series. The letter of credit expired upon retirement of the bonds.

Reimbursement of Capital to U.S. Government

Under a 1948 contract with the U. S. Bureau of Reclamation, the LCRA agreed to reimburse the United States Government $5,510,000 for construction of Mansfield Dam, one of LCRA's electric generating facilities. The loan is being repaid in equal annual installments of $158,000 without interest. Payments are made on June 1 through the year 2019.

The Church Oak, New Braunfels

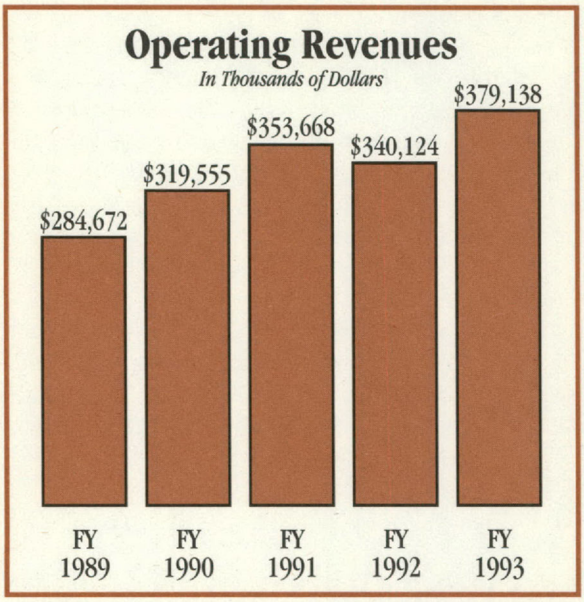
Beside St. Peter and Paul Catholic Church, this oak was the site of a Mass offered in 1849.

5. Employee Benefits

Retirement Plan

Plan Description: The LCRA contributes to the Lower Colorado River Authority Retirement Plan (Plan) which is an agent multiple-employer defined benefit pension plan. The Retirement Benefits Committee (composed of LCRA employees and members of the Board) functions as an investment and administrative agent for the LCRA with respect to the Plan.

For the plan years ended March 31, 1993 and 1992, the LCRA's total payroll for all employees was $64,426,000 and $63,623,000, respectively. The LCRA's total covered payroll for eligible employees per the actuarial valuation was an annualized amount for the years ended April 1, 1993 and 1992 of $64,508,000 and $61,674,000, respectively.



All employees with at least six months of service prior to April 1 who are working at least 1,000 hours per year are covered by the Plan. Employees are not required to contribute to the Plan, although the Plan retains employee contributions and associated liabilities from years prior to April 1, 1984, when the Plan did require employee contributions.

Under the provisions of the Plan, retirement benefits become fully vested after five complete years of service. The retirement benefit for each year of service is 1.75 percent of the highest five-year average monthly cash compensation plus 0.4 percent of that portion of the highest five year average monthly cash compensation in excess of the Social Security covered compensation. Employees may retire with full accrued benefits at age 65 with five years of participation, or when the total of age and service equals 92. The monthly benefit at retirement is payable in a 10-year certain and life thereafter form of annuity, although other actuarially equivalent methods of payment may be elected with the approval of the Retirement Benefits Committee.

Related Party Investments: The Plan held no securities of the LCRA or other related parties during the plan year or as of the close of the fiscal year.

Funding Status and Progress: Presented below is the total pension benefit obligation of the Plan. The amount of the total pension benefit obligation is based on a standardized measurement established by GASB Number 5, "Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers," that with some exceptions, must be used by this type of plan. The standardized measurement is the actuarial present value of credited projected benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effects of projected salary increases. A standardized measure of the pension benefit obligation was adopted by the GASB to enable financial statement users to (a) assess a plan's funding status on a going-concern basis, (b) assess progress made in accumulating sufficient assets to pay benefits when due, and (c) make comparisons among plans of this type.

Significant actuarial assumptions used to determine the standardized measure of the pension benefit obligation are summarized below:

The rate of return on the investment of present and future assets is equal to 8 percent per year compounded annually.

Future pension payments were based on age-rated salary increases ranging from 8 percent at age 20 to 5 percent at age 60 compounded annually attributable to inflation, merit, promotion, and longevity.

Future pension payments reflect no post-retirement benefit increases.

The standardized measure of the overfunded pension benefit obligation as of March 31, 1993 and 1992, is as follows:

Pension Benefit Obligation:	1993	1992
	(Thousands of Dollars)	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 9,052	$ 8,434
Current employees:		
Accumulated employee contributions including allocated investment income	5,466	5,355
Employer-financed vested	41,902	32,851
Employer-financed non-vested	31,975	31,002
Total Pension Benefit Obligation	88,395	77,642
Net Assets Available for Benefits, at Market	94,312	79,856
Overfunded Pension Benefit Obligation	$ (5,917)	$ (2,214)

Changes in the actuarial assumptions occurred during the 1993 Plan year to reflect more accurately historical trends and expected retirement patterns. Such changes had an immaterial effect on the pension benefit obligation and current year contributions.

Contributions Required and Contributions Made: Periodic employer contributions to the Plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded using a rolling 30-year amortization period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method.

Total employer contributions to the Plan for the 1993 and 1992 plan years amounted to $6,504,000 and $6,426,000, respectively. The contributions represent funding for normal cost of $4,406,000 and $4,848,000 and the amortization of the unfunded actuarial accrued liability of $2,098,000 and $1,578,000 for the 1993 and 1992 plan years, respectively. The balance of the unfunded accrued liability as of April 1, 1993 was $27,229,000. The contributed amounts were based on an actuarial valuation as of April 1, 1992 and 1991, respectively.

Significant actuarial assumptions used to compute pension contribution requirements are the same as those used to determine the standardized measure of the pension benefit obligation.

Trend Information: Historical trend data for the plan year ended March 31, is presented below:

	1993	1992	1991
Net assets available for benefits as a percentage of the pension benefit obligation applicable to the LCRA's employees	106.70%	102.85%	96.90%
Overfunded (unfunded) pension benefit obligation as a percentage of the LCRA's annual covered payroll	9.17%	3.59%	(3.30%)
The LCRA's contributions as a percentage of the LCRA's annual covered payroll	9.88%	10.10%	10.19%

The required supplemental information relating to the Plan's historical trend data is available in a separately issued report. This information enables financial statement users to assess the progress made in accumulating sufficient assets to pay pension benefits as they become due.

401(k) Plan

The Lower Colorado River Authority 401(k) Plan (Plan) was established April 1, 1984, and qualifies for tax-exempt status under Section 401(k) of the Internal Revenue Code. The Plan is a defined contribution pension plan in which the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions.

Employees are eligible to participate in the Plan quarterly following the completion of three months of service. Eligible employees who elect to participate in the Plan must contribute a minimum of 1 percent and a maximum of 19 percent of their compensation, not to exceed $8,994 in pre-tax contributions per calendar year. The LCRA provides matching contributions equal to one-fourth of participant contributions up to the first 4 percent of wages contributed. Contributions made by both the employee and employer vest immediately.

Contributions by the LCRA and the employees for the years ended June 30, 1993 and 1992, are presented below.

	1993	1992
	(Thousands of Dollars)	
Employer contributions	$ 436	$ 392
Employee contributions	$ 2,570	$ 2,107

The plan held no securities of the LCRA or other related parties during the year or as of the close of the fiscal year.

Deferred Compensation

The LCRA also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all of the LCRA employees, permits deferral of a portion of their salary to future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiaries) solely the property and rights of the LCRA subject only to the claims of the LCRA's creditors. The LCRA believes it is unlikely that it will use the plan assets to satisfy claims of general creditors. Moreover, participant's rights under the plan are equal to those of general creditors of the LCRA in amounts equal to the fair market value of the deferred account for each participant.

The plan is administered by an independent trustee. The market value of the plan assets was $1,017,000 and $999,000 at June 30, 1993 and 1992, respectively. These amounts have been included on the balance sheet in contingency and other restricted funds and accounts payable from restricted funds.

6. Post-employment Health Care Benefits

In addition to the pension benefits described in Note 5, the LCRA provides post-employment health care benefits, in accordance with federal and state statutes, to retirees and terminated employees. The LCRA contributes a portion of the retirees' health plan premiums, excluding dental coverage, and makes no contributions for terminated employees. Such post-employment health care benefits are recognized currently as claims are paid. During Fiscal Years 1993 and 1992, expenditures of $436,000 and $380,000, net of participant contributions, were recognized for post-retirement health care benefits, respectively.

Based on an actuarial study performed as of June 30, 1992, the LCRA estimated it had a potential accumulated liability for post-employment medical benefits (transition costs) ranging from $21 to $49 million. Since the GASB has not issued its guidelines for recognizing such costs, no liability has been recorded.

7. Commitments

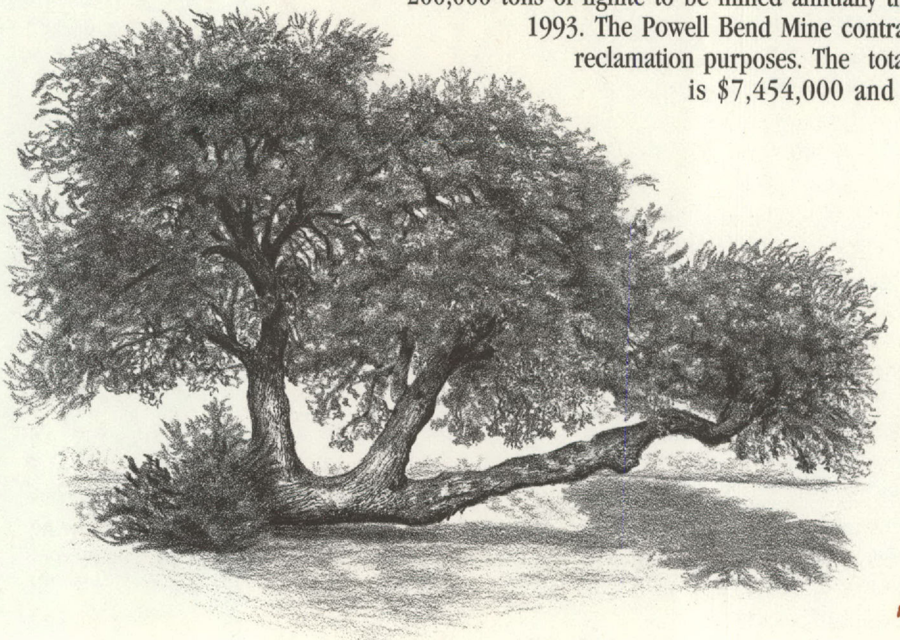
Construction: The LCRA's construction budget provides for capital improvement projects with cash requirements through Fiscal Year 1998 of approximately $230,644,000. This amount includes $55,644,C00 in Fiscal Year 1994.

Customer Transmission Leases: In Fiscal Year 1991, the LCRA entered into operating lease agreements with 21 of its wholesale customers and with the University of Texas-Balcones Research Center. The agreements require the LCRA to lease and operate certain transmission facilities and equipment owned by these customers. The leases were executed to resolve cost allocation and rate design issues. In the past, the LCRA provided power at different voltages to different customers. The leases are the basis for the 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 leased facilities are based on the original cost of the facilities, adjusted for depreciation. The lease payments are to be updated annually to reflect additions, retirements and depreciation. The terms of the leases are perpetual, but may be terminated by the LCRA or the lessors upon five years written notice. The LCRA's expenses under the lease agreements for Fiscal Years 1993 and 1992 totaled $11.2 and $9.8 million, respectively.

FPP Units I & II Coal: The LCRA and Austin have one long-term coal contract to supply coal for FPP Units I and II. This contract extends through the year 2001. It provides for firm purchases through 1995 of approximately 1,625,000 tons annually along with 75 percent of any additional requirements. These purchases will be priced using a combination of fixed contract and prevailing market rates. The LCRA anticipates that approximately 95 percent of the fuel requirements for FPP Units I and II will be provided by this contract through December 31, 1995. Beginning in 1996, the contract provides for fixed purchases of approximately 1,250,000 tons at prevailing market rates. During Fiscal Years 1993 and 1992, the LCRA's purchases under this contract totaled $15,335,000 and $14,504,000, respectively. The LCRA uses flexible spot coal bidding to meet the remaining annual coal requirements. For the periods ended June 30, 1993 and 1992, flexible spot coal purchases amounted to $257,000 and $204,000, respectively.

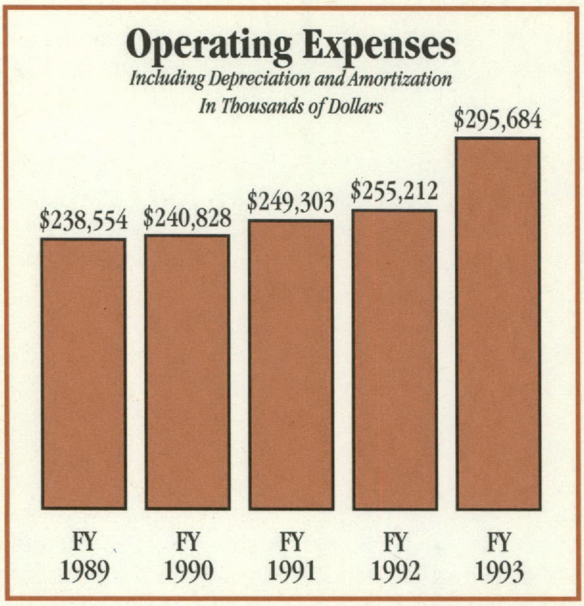
Lignite: The LCRA has a contract with the Pittsburg & Midway Coal Mining Company to mine lignite at the Powell Bend Mine in Bastrop County, Texas. The contract calls for an estimated 200,000 tons of lignite to be mined annually through the first quarter of 1993. The Powell Bend Mine contract runs through 1995 for reclamation purposes. The total estimated contract price is $7,454,000 and is subject to escalation.



The Indian Marker Tree, Burnet

This twisted tree is a memorial to the Comanches who camped along Hamilton Creek in Burnet during their fall migration to the Gulf of Mexico. They tied saplings down to serve as markers of good campsites.

This amount includes approximately $1.6 million in reclamation costs which are to be paid from a reserve established for that purpose. In March 1992, the Board voted to close the Powell Bend Mine in the spring of 1993 rather than seek regulatory approvals for the expansion of the mine. The final lignite shipment from Powell Bend Mine occurred in March 1993.



FPP Unit III Coal: On February 1, 1990, the LCRA entered into a five-year coal contract with Cordero Mining Company in Wyoming for the Fayette Power Project (FPP) Unit III fuel supply. Cordero supplies the greater of FPP Unit III's requirements less Powell Bend Mine deliveries which, per the contract, approximate one million tons per year. The initial price was four dollars per ton, adjusted semi-annually by certain indices. The LCRA has the exclusive option to extend the contract an additional five years by written notice given no later than December 31, 1993. The LCRA's purchases under this contract totaled $7,011,000 and $6,119,000 for Fiscal Years 1993 and 1992, respectively. Upon closure of the Powell Bend Mine in March 1993, all FPP Unit III fuel has been provided under the Cordero contract.

Rail Transportation: The LCRA and Austin have entered into a multi-year rail transportation agreement with the Union Pacific Railroad Company and Western Railroad Properties, Incorporated, to ship Western coal to all three units at the Fayette Power Project. Pursuant to these agreements, the LCRA incurred costs of $52,698,000 and $50,092,000 in Fiscal Years 1993 and 1992, respectively.

Natural Gas: The LCRA has firm contracts with Anthem Energy Company, Tenngasco Marketing Company, and Rivercity Gas Company to provide natural gas for the Sim Gideon and T.C. Ferguson power plants. The contracts that supply Ferguson went into effect September 1, 1992, and expire on August 31, 1993, for Anthem, and August 31, 1995 for Tenngasco and Rivercity. The Gideon contracts went into effect on January 1, 1993, and expire at the same time as the Ferguson contracts. Each company supplies 10 to 25 percent of monthly plant requirements. The contract prices are based on Inside FERC's Houston Ship Channel Large Packages Index. The remaining plant requirements are obtained from interruptible spot contracts based on a competitive bidding process and from the LCRA's own natural gas production. All contract prices, except Anthem, include the cost of transportation to the LCRA's power plants. The Sim Gideon power plant incurred $16,650,000 and $13,560,000 in expenses associated with firm and spot fuel contracts during Fiscal Years 1993 and 1992, respectively. The T.C. Ferguson power plant incurred expenses of $17,044,000 and $14,262,000 in Fiscal Years 1993 and 1992, respectively, in association with its firm and spot fuel contracts.

In February 1991, the LCRA and Aquila Southwest Marketing Corporation (formerly Clajon Gas Company) entered into an agreement to purchase and construct additional pipeline and metering facilities to the Sim Gideon plant. The LCRA will pay Aquila approximately $3.7 million over the life of the agreement. By December 31, 1993, LCRA will have reimbursed Aquila for all construction costs and will own 50 percent of the capacity in all facilities for the life of the facilities. The LCRA is obligated to pay 50 percent of the annual operating and maintenance costs of the pipeline for transportation rights based on its ownership interest in the pipeline's capacity.

Gas Production and Development: The LCRA provides a portion of expected annual gas requirements through the ownership of gas reserves. The LCRA participates with Energy Development Corporation (EDC) in various producing properties in Texas and Louisiana under an operating agreement. The LCRA has an average of 30 percent interest in 24 producing wells located offshore in Louisiana and onshore in Texas. The LCRA also operates two producing fields in Texas. The LCRA has an average 60 percent ownership interest in 10 gas wells in the Rocky Creek field in Fayette County, Texas. The LCRA has an average 98 percent interest in 11 wells in the Toro Grande field in Jackson County, Texas.

Based on an analysis as of July 1, 1993 by an independent engineering firm, the proved remaining reserves associated with the EDC, Rocky Creek and Toro Grande programs were 208,000 barrels of oil and 31,833,000 thousand cubic feet of gas, net to the LCRA's interest. Production for the year ended June 30, 1993 for the EDC, Rocky Creek, and Toro Grande programs was approximately 47,000 barrels of oil and 7,987,000 thousand cubic feet of gas. The LCRA had incurred capital costs for the EDC, Rocky Creek, and Toro Grande programs of $102,399,000 and $98,682,000 at June 30, 1993 and 1992, respectively.

Natural Gas Storage: The LCRA is currently developing the Hilbig unit, a natural gas storage project in a nearly depleted oil field in Bastrop County. Conversion of the field from a producing oil field to a gas storage field requires the drilling of injection and recovery wells and the construction of surface production facilities. As of June 30, 1993, 3,257,000 thousand cubic feet of gas is stored in the Hilbig unit as gas inventory. The LCRA expects to invest a total of $38,750,000 to make the storage field operational by December 1, 1993. Capital costs incurred through June 30, 1993 and 1992 amounted to $35,401,000 and $25,236,000, respectively.

8. Related Party Transactions

Fayette Power Project (FPP) reimburses the LCRA for payroll costs, including the cost of fringe benefits and other expenses of LCRA employees performing FPP construction, operation and maintenance work. In addition, FPP reimburses LCRA for the allocated costs of administrative services provided to FPP. During the years ended June 30, 1993 and 1992, the LCRA charged the FPP Operating Account $35,754,000 and $36,969,000, respectively, of which $11,129,000 and $10,969,000, respectively, were for allocated costs of administrative services, and the balance for other reimbursable costs incurred.

During Fiscal Year 1993, the LCRA sold certain transmission facilities and easements to Austin. The sale resulted in a $7.3 million gain, which is reflected in "Interest and Other Income" on the Statements of Operations. As part of the transaction, a $5.7 million deferred credit was recorded, representing a contribution from Austin for the construction of an alternate transmission line.

9. Write-off of Deferred Charge due to Early Extinguishment of Debt

Consistent with its financial strategy to reduce debt and the related interest charges, LCRA has used available funds to defease debt during fiscal 1993 and 1992. These transactions have reduced debt service, but have resulted in the write-off of related deferred costs, which were included in Costs to be Recovered from Future Revenues totaling $30.9 and $36.7 million for 1993 and 1992, respectively. The deferred costs consist of depreciation, costs and losses (primarily from the abandonment in 1989 of the Cummins Creek Mine) that had been debt funded. Debt-funded costs are deferred pending future recovery via the inclusion of the related debt service in base rates. When debt is paid down early with revenue funds or other monies and the related future debt service requirements are eliminated, a proportional amount of the deferred charge is expensed to the Statements of Operations.

In June 1993, the LCRA escrowed $34.8 million of Revenue Fund monies to defease $30.9 million of 1992 Taxable Notes. This defeasance resulted in a $3 million gain, which is included in interest and other income for Fiscal Year 1993. As a result of this defeasance, $30.9 million of Costs to be Recovered from Future Revenues was written off.

In March 1992, the LCRA escrowed approximately $31 million in Cummins Creek Mine equipment sales proceeds, plus $1.3 million in interest earned on those proceeds. The escrow defeased approximately $40 million in debt previously issued for the development of the mine. The defeasance resulted in a $6.2 million gain which is included in interest and other income. As a result of the defeasance, $14.7 million of Costs to be Recovered from Future Revenues was written off.

In April 1992, the LCRA used proceeds from the sale of the Taxable Junior Lien Refunding Revenue Notes, and $22 million of available Revenue Fund monies to defease $251 million of its Series 1983 Junior Lien Refunding Revenue Bonds. The Revenue Fund portion of this defeasance resulted in a $4.3 million gain, which is included in interest and other income. As a result, $22 million of Costs to be Recovered from Future Revenues was written off.

10. Litigation and Contingencies

Litigation

San Marcos Lawsuit: The City of San Marcos (City) sued the LCRA for damages arising from the 1986 Purchase Agreement relating to the City's purchase of the electric distribution system from the LCRA. Pursuant to the Purchase Agreement and related agreements, the LCRA agreed to sell power to San Marcos at a specified voltage rate. The PUC eliminated the separate rates for service at that voltage rate and instead established a single rate for service at "transmission" voltage.

The City alleged that the PUC's action resulted in higher rates and charges to the City, constituting a failure of consideration under the Purchase Agreement and related agreements. The LCRA and the City agreed to a settlement in which the LCRA paid the City $2.5 million in June 1992.

Guadalupe Valley Electric Cooperative Lawsuit: Guadalupe Valley Electric Cooperative (GVEC) has initiated litigation which seeks to invoke the uniform rate clause of its Wholesale Power Agreement as it relates to the cost of power sold to GVEC. In 1989, the LCRA paid Kerrville $3.9 million in settlement of a dispute substantially similar to the claims paid in the San Marcos lawsuit. GVEC contends that the LCRA's payment to Kerrville in 1989 and any damages awarded to San Marcos constitute rate rebates which change the effective rate for electricity paid by San Marcos and Kerrville. GVEC contends that it is entitled to the same effective rate paid by San Marcos and Kerrville. The LCRA believes this suit is without merit. The LCRA estimates that the potential claim against the LCRA resulting from such litigation would not materially affect the LCRA's obligations under its bond resolutions or the LCRA's financial statements. Uniform rate clauses are contained in all of the LCRA's Wholesale Power Agreements.

Other: Additionally, there are other pending lawsuits in which the LCRA is involved. The LCRA estimates that the potential claims against the LCRA not covered by insurance resulting from such litigation would not materially affect the LCRA's financial statements.

Contingencies

Flood Damages: The LCRA experienced record-breaking water levels in the flood-control lake, Lake Travis, during late December 1991 and early January 1992 due to unusually heavy rainfall. The water levels and flows damaged LCRA property along the entire river system. The cost to repair or replace damaged LCRA property has been estimated at $3.4 million. The LCRA assisted in obtaining a presidential disaster declaration, in addition to the public disaster declared by the Governor of Texas, in order to qualify itself and area landowners for federal disaster relief for damage caused by the flooding. As of June 1993, the LCRA has received approximately $176,000 in federal disaster relief funds from the Federal Emergency Management Agency (FEMA).

Environmental Matters: Operations of the LCRA are subject to environmental regulation by Federal, State and local authorities. Environmental regulations are changing at a rapid pace. The effect of future regulation upon existing and proposed facilities and operations cannot presently be determined. The LCRA has identified certain compliance issues and has accrued an estimated liability of $925,000 to cover clean up costs. Management believes that this accrual is sufficient to provide for any currently known exposure related to environmental matters.

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