ENERGY • WATER • COMMUNITY SERVICES

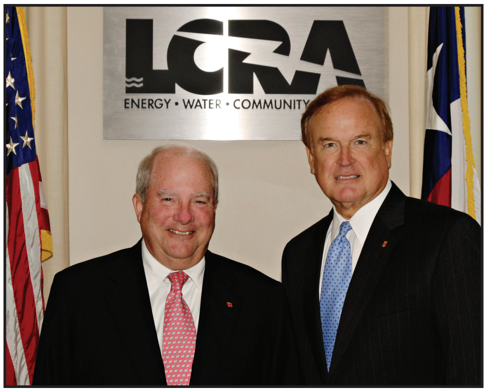
Protecting People, Property and the Environment

Annual Report – Fiscal Year 2007

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

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

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



Message from Our Leadership

The need for energy, water and community services led to the creation of the Lower Colorado River Authority more than 70 years ago, and it drives our organization today. The State of Texas created LCRA in 1934 to provide services that were unavailable to residents of the lower Colorado River basin. Through decades of growth and change, LCRA continues as a stable provider of public services essential to the region's economic health and quality of life.

More than 1.1 million people use clean, reliable LCRA electricity. LCRA's transmission services help keep electricity flowing across the state. Austin and other river communities benefit from a secure, reliable supply of water. Thousands of Texans enjoy Lake Travis and the other Highland Lakes. Schoolchildren learn about Central and South Texas' natural resources at LCRA nature parks and natural science centers. And community and economic development services help keep rural communities economically sound.

In fiscal year 2007, LCRA remained financially strong with relatively flat revenues and expenses compared to FY 2006. Revenues of $1.1 billion were up about 3 percent. Operating expenses of $930 million in FY 2007 were up about 2 percent. LCRA and its affiliates ended the year with debt service coverage of 1.46x.

Net capital assets grew by $120.8 million in FY 2007. Of $240.9 million in capital expenditures, about half, $124.1 million, went to improve the electric power transmission grid. Our state's robust economy indicates that the need for additional transmission capacity will continue.

During FY 2007, a record-breaking flood ended a severe two-year drought. LCRA's expert flood management and the value of the Highland Lakes and dams gained national attention. We studied proposed projects that would extend regional water supplies for 100 years. Water and wastewater utility service capacity was extended to meet growing needs. Work continued on scrubber technology to reduce emissions from our coal-fired power plant, and on a project that will add peaking generation capacity and reduce cost to LCRA's wholesale energy customers. LCRA reinforced its leadership role in the renewable energy industry with a contract to buy biogas. The Matagorda Bay Nature Park opened, drawing crowds of visitors seeking to enjoy and learn about the Gulf Coast's natural resources.

Awards from state and national organizations demonstrate LCRA's commitment to the protection of people, property and the environment. The Texas Commission on Environmental Quality gave LCRA an environmental excellence award for a cooperative grant program between urban and agriculture water users to pay for conservation projects. Texas Parks and Wildlife issued its Lone Star Land Steward award for LCRA's conservation efforts. The National Safe Boating Council and Texas Public Relations Association presented awards to LCRA for an innovative water safety campaign called Nobody's Waterproof.

We are pleased with our financial performance for FY 2007. We are confident that LCRA will continue to operate on a firm financial basis in the years to come and perform a vital role in the growth and prosperity of our service area.

Ray A. Wilkerson, Board Chair

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

LOWER COLORADO RIVER AUTHORITY

FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2007 AND 2006

With Independent Auditors' Report

Report of Management

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

Management has developed and maintains a system of accounting and controls, including an internal audit program, designed to provide reasonable assurance that LCRA's assets are protected from improper use and that accounting records provide a reliable basis for the preparation of financial statements. This system is continually reviewed, improved and modified in response to changing business conditions and operations and to recommendations made by the independent auditors and 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.

Chief Financial Officer	Controller	General Manager

Lower Colorado River Authority
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

Overview of the Financial Statements

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

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

Balance 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, prior costs recovered for revenue, capital contributions and special items.

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

Financial Highlights

Condensed Balance Sheets

	June 30, 2007	June 30, 2006	June 30, 2005
	(Dollars in Thousands)		
Current assets	$ 397,068	$ 389,440	$ 320,935
Capital assets, net	2,585,662	2,464,871	2,276,623
Other long-term assets	562,092	511,225	523,687
Total Assets	$ 3,544,822	$ 3,365,536	$ 3,121,245
Current liabilities	$ 488,797	$ 335,856	$ 442,994
Long-term liabilities	2,288,133	2,305,351	1,980,167
Total Liabilities	2,776,930	2,641,207	2,423,161
Equity - Invested in capital assets, net of related debt	584,942	568,927	533,645
Equity - Restricted other	24,622	29,551	36,467
Equity - Unrestricted	158,328	125,851	127,972
Total Equity	767,892	724,329	698,084
Total Liabilities and Equity	$ 3,544,822	$ 3,365,536	$ 3,121,245

2007 Compared to 2006

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

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

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

2006 Compared to 2005

In FY 2006, current assets increased $68.5 million or 21 percent. LCRA increased cash and cash equivalents by $34.7 million in order to have sufficient cash on hand to cover higher gas and purchased power payments in FY 2006. An increase in net receivables of $30.4 million was a result of higher sales to customers as well as higher rates to capture increased fuel costs.

Net capital assets increased $188.2 million or 8 percent in FY 2006. The increase is due primarily to the acquisition and construction of transmission facilities to meet increasing demand for these services.

Current liabilities decreased $107.1 million or 24 percent and long-term liabilities increased by $325 million or 16 percent in FY 2006 primarily due to the issuance of several revenue bonds to refund tax exempt commercial paper.

Condensed Statements of Revenues, Expenses and Changes in Equity

	Year Ended June 30,			2007 vs 2006 Favorable/ (Unfavorable)	2006 vs 2005 Favorable/ (Unfavorable)
	2007	2006	2005		
	(Dollars in Thousands)				
Operating revenues	$ 1,079,381	$ 1,045,407	$ 803,425	3%	30%
Operating expenses	(930,527)	(909,262)	(681,271)	(2%)	(33%)
Operating income	148,854	136,145	122,154	9%	11%
Interest and other income	32,509	14,878	14,360	119%	4%
Interest and other expenses	(142,750)	(120,917)	(120,217)	(18%)	(1%)
(Prior costs) costs to be recovered from revenues	(5,134)	(13,715)	17,923	63%	(177%)
Income before capital contributions and special item	33,479	16,391	34,220	104%	(52%)
Capital contributions	11,477	11,304	7,212	2%	57%
Special item - Loss on early defeasance of debt	(1,393)	(1,450)	-	4%	n/a
Change in equity	43,563	26,245	41,432	66%	(37%)
Equity, Beginning of Year	724,329	698,084	656,652	4%	6%
Equity, End of Year	$ 767,892	$ 724,329	$ 698,084	6%	4%

2007 compared to 2006

Operating income remained stable from FY06 to FY07 due to a slight decrease in rates offset by higher demand. Interest and other income increased $17.6 million or 119 percent from FY 2006. This increase was primarily due to additional interest income recorded for the securities lending program begun in July 2006. Also in FY 2007, interest and other expenses increased $21.8 million or 18 percent compared to FY 2006. This increase was primarily due to interest expense recorded related to the securities lending program in FY 2007. For additional detail on the securities lending program, which was cancelled in May 2007, please see Note 2.

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

2006 Compared to 2005

Operating revenues for FY 2006 increased $242 million or 30 percent due to higher electric revenues from an increase in sales and higher fuel costs. LCRA was able to meet increased customer energy demand which resulted in higher sales. In addition, higher fuel revenues resulted from passing on increases in the cost of fuel to customers.

Operating expenses for FY 2006 increased $228 million or 33 percent primarily because of higher fuel and purchased power costs. Additionally, greater sales translated to an increase in fuel and purchase power costs.

(Prior costs) costs to be recovered from revenues decreased $31.6 million in FY 2006 as more costs were recovered through rates each year compared to the previous year.

In FY 2006, $1.5 million was recorded as a special item due to a loss on an early defeasance of debt. No such activity occurred in FY 2005.

Capital Expansion and Improvement Program

LCRA's capital improvement program for FY 2008 through FY 2012 is $1.6 billion, with $1.1 billion or 69 percent to be debt funded. The majority of forecasted capital expenditures is for expansion of transmission services, water and wastewater services and generation facilities as well as additional corporate infrastructure and facilities. LCRA TSC continues to increase its transmission system investment due to the need for additional electric transmission capability statewide. 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) $639 million for transmission projects.
(2) $643 million for generation and system improvements.
(3) $195 million for dam improvements and modernization, and acquisition and construction of water and wastewater utilities and facilities.
(4) $123 million for parks and corporate facilities.

LCRA's forecasted capital program includes funds for the implementation of self-build peaking technology for 2010 and the installation of SO_2 scrubbers for two coal-fired generating units jointly owned by LCRA and the City of Austin. The scrubbers must be installed by October 2012, under the provisions of a flexible air quality permit received from the Texas Commission on Environmental Quality in 2002.

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

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

Capital Asset Activity

- $241 million was expended for construction activities in FY 2007. The majority of these expenses were for construction of transmission facilities to meet increasing demand for these services.

- $120.4 million of depreciation expense and asset retirements were recorded in FY 2007 on plant in service.

- For additional detail, see Capital Asset Activity table in Note 6 of the Notes to the Financial Statements.

Debt Activity

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

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

- On January 18, 2007, LCRA defeased approximately $5.1 million from LCRA Series 2001A and 2003 bonds.

- On April 26, 2007, LCRA on behalf of LCRA TSC defeased approximately $19 million from various LCRA TSC Contract Refunding Revenue Bonds.

- In FY 2007, LCRA made scheduled principal payments in the amount of $73.5 million, and interest payments in the amount of $129.8 million

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

Deloitte.

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the Lower Colorado River Authority ("LCRA") as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of LCRA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LCRA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of LCRA as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by 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

October 15, 2007

LOWER COLORADO RIVER AUTHORITY
BALANCE SHEETS
(Dollars in Thousands)

	June 30, 2007	June 30, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 116,852	$ 83,574
Investments	48,069	63,972
Receivables, net	128,039	140,758
Accrued interest receivable	690	661
Inventories	101,374	97,626
Other	2,044	2,849
Total current assets	397,068	389,440
Long-term Assets:		
Restricted cash and cash equivalents	24,866	14,245
Restricted investments	58,499	56,901
Unrestricted investments	87,058	47,946
Capital assets:		
Utility plant in service	3,538,063	3,331,293
Construction work in progress	200,272	209,008
Oil and gas property	28,158	28,158
Other physical property	51,995	47,348
Less accumulated depreciation	(1,232,826)	(1,150,936)
Capital assets, net	2,585,662	2,464,871
Water rights, net	87,397	87,397
Other	11,348	9,672
Deferred charges:		
Costs to be recovered from future revenues	216,695	224,844
Unamortized debt expense	31,251	31,253
Contract extension settlement with major customers	7,358	8,132
Other	37,620	30,835
Deferred charges, net	292,924	295,064
Total long-term assets	3,147,754	2,976,096
Total Assets	$ 3,544,822	$ 3,365,536

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

LOWER COLORADO RIVER AUTHORITY
BALANCE SHEETS
(Dollars in Thousands)

	June 30, 2007	June 30, 2006
Liabilities		
Current Liabilities:		
Accounts payable	$ 192,463	$ 168,016
Compensated absences	9,872	9,221
Bonds, notes and loans payable	286,462	158,619
Total current liabilities	488,797	335,856
Long-term Liabilities:		
Accounts payable from restricted assets	17,592	58,680
Asset retirement obligation	-	9,270
Bonds, notes and loans payable	2,123,227	2,083,453
Deferred credits and other	147,314	153,948
Total long-term liabilities	2,288,133	2,305,351
Total liabilities	2,776,930	2,641,207
Equity		
Invested in capital assets, net of related debt	584,942	568,927
Restricted other	24,622	29,551
Unrestricted	158,328	125,851
Total equity	767,892	724,329
Total Liabilities and Equity	$ 3,544,822	$ 3,365,536

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

LOWER COLORADO RIVER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY

(Dollars in Thousands)

	Year Ended June 30, 2007	Year Ended June 30, 2006
Operating Revenues		
Electric	$ 991,333	$ 953,816
Water, wastewater and irrigation	55,863	52,343
Other	32,185	39,248
Total operating revenues	1,079,381	1,045,407
Operating Expenses		
Fuel	399,790	435,163
Purchased power	177,381	147,597
Operations	196,339	177,795
Maintenance	44,462	38,103
Depreciation, depletion and amortization	112,555	110,604
Total operating expenses	930,527	909,262
Operating income	148,854	136,145
Nonoperating Revenues (Expenses)		
Interest and other income	32,509	14,878
Interest and other expenses	(142,750)	(120,917)
Nonoperating revenues (expenses)	(110,241)	(106,039)
Income before prior cost recovered from revenues, capital contributions and special item	38,613	30,106
Prior Costs Recovered from Revenues	(5,134)	(13,715)
Income before capital contributions and special item	33,479	16,391
Capital Contributions	11,477	11,304
Special Item - Loss on Early Defeasance of Debt	(1,393)	(1,450)
Change in Equity	43,563	26,245
Total Equity, Beginning of Year	724,329	698,084
Total Equity, End of Year	$ 767,892	$ 724,329

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

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

	Year Ended June 30, 2007	Year Ended June 30, 2006
Cash Flows From Operating Activities		
Received from customers	$ 1,077,517	$ 1,009,361
Payments for goods and services	(649,331)	(619,078)
Payments to employees	(160,194)	(148,575)
Other revenues (expenses)	(2,583)	1,906
Net cash provided by operating activities	265,409	243,614
Cash Flows From Noncapital Financing Activities		
Grant proceeds received	9,605	10,006
Other expenses	(8,076)	(1,162)
Net cash provided by noncapital financing activities	1,529	8,844
Cash Flows From Capital and Related Financing Activities		
Purchase of property, plant and equipment	(285,641)	(283,375)
Proceeds from sale of capital assets	241	1,116
Debt issue costs	(1,893)	(4,540)
Contributed capital received for capital expenditures	10,379	13,330
Proceeds from bond issues and commercial paper	405,358	556,348
Debt principal payments and commercial paper redemptions	(89,345)	(111,919)
Interest paid	(112,203)	(107,822)
Payments to refund and defease debt	(154,381)	(329,121)
Net cash used in capital and related financing activities	(227,485)	(265,983)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	276,649	274,428
Purchase of investment securities	(296,546)	(253,691)
Interest received	23,858	14,532
Infrastructure financial assistance activity	485	(1,450)
Net cash provided by investing activities	4,446	33,819
Net Increase in Cash and Cash Equivalents	43,899	20,294
Cash and Cash Equivalents, Beginning of Year	97,819	77,525
Cash and Cash Equivalents, End of Year	$ 141,718	$ 97,819

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

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

	Year Ended June 30, 2007	2006
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 148,854	$ 136,145
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	112,555	110,604
Changes in assets and liabilities:		
Accounts receivable	12,033	(34,930)
Inventories	(3,748)	(15,434)
Other current assets	(1,186)	(596)
Current liabilities	20,604	35,694
Other deferred charges and long-term assets	(7,983)	(8,053)
Deferred credits and other long-term liabilities	(15,720)	20,184
Net cash provided by operating activities	$ 265,409	$ 243,614
Noncash Investing Activities		
Investment market adjustments	$ 4,910	$ (1,608)
Noncash Financing for Property, Plant and Equipment Expenditures		
Purchase of equipment through short-term trade payables	$ -	$ 24,156
Note receivable received in exchange for asset	$ -	$ 2,019
Asset retirement obligation	$ (9,270)	$ 9,270
Acquisition of Alleyton water/wastewater facility	$ 2,446	$ -

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

LOWER COLORADO RIVER AUTHORITY
NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

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

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

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

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

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

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

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

Basis of Accounting: The accompanying financial statements of LCRA, a governmental entity, have been prepared 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, are also considered operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as non-operating.

Issued But Not Yet Effective Pronouncements: In December 2006, the GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." This Statement identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation. The guidance defines when to recognize a liability for the cost of pollution remediation in the financial statements and how to measure the amount of the liability. The suggested method to value the liability would be the "expected-cash-flows" technique. This Statement is effective for LCRA beginning in FY 2008. The implementation of GASB 49 is not expected to have a material effect on the LCRA's financial position, results of operations, or cash flows.

In July 2004, the GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." Government employers have reported the cost of other postemployment benefits (OPEB) on a "pay-as-you-go" basis. The annual cash paid for benefits has been the annual expense. Under GASB 45, state and local government employers must account for, and report, the annual cost of OPEB in the same way as they report pensions. The statement requires the accrual of liabilities and expense of OPEB over the employee's working life. As a result, the annual OPEB costs for government employers will be based on actuarially determined amounts rather than on the "pay-as-you-go" method. This Statement is effective for LCRA beginning in FY 2008.

In May 2007, the Texas legislature passed House Bill 2365. The bill established a "statutory modified accrual basis" of accounting that "recognizes revenue when it is measurable and available to finance current expenditures and recognized expenditures when they are normally expected to be liquidated…" The bill addresses accounting for other postemployment benefits by stating that when generally accepted accounting principles require accounting or reporting of OPEB on any basis other than pay-as-you-go, local governments may account for or report those OPEB in accordance with the statutory accounting principles established by the Bill. In essence, the Bill allows local government entities to decide for themselves whether or not to comply with GASB Statement No. 45.

Based on Texas legislation, LCRA will opt to implement GASB 45 in FY 2008. In accordance with GASB 45, LCRA will account for OPEB costs on an accrual basis. The implementation of GASB 45 is not expected to have a material effect on LCRA's financial position, results of operations, or cash flows.

In May 2007, the GASB issued Statement No. 50, "Pension Disclosures." The Statement amends current pension disclosures. The Statement more closely aligns current pension disclosure requirements with recently issued other postemployment disclosure requirements. Generally, the Statement will require disclosures regarding the funding status of governments' pension plans and contribution rates. The Statement's requirements are effective for LCRA in FY 2008. The Statement will not impact LCRA's financial position, results of operations, or cash flows.

Major Customers and Electric Revenues: Sales of electricity to LCRA's three major customers represented approximately 44 percent of total electric revenue for both FY 2007 and FY 2006. No other customer accounts for more than 25 percent of LCRA's total electric revenues in FY2007.

Electric revenues represented approximately 94 percent of LCRA's operating revenues for FY 2007 and 95 percent for FY 2006.

ERCOT Settlements Reporting: LCRA reports power balancing transactions, which represent wholesale purchases and sales of power for real-time balancing purposes as measured in 15 minute intervals. These purchases and sales with ERCOT, as the balancing energy clearinghouse agent, are reported net. These amounts have historically represented a net purchase of power to LCRA; however, during FY 2007 and FY 2006 major components of these amounts resulted in net sales of power and ancillary services. These amounts are classified as electric revenues. The amounts included in electric revenues were $39.1 million for 2007 and $26.7 million for FY 2006.

Restricted Funds: 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, telecommunications facilities, and related projects under construction. These assets are recorded at cost, which includes materials, labor, overhead, and interest capitalized during construction. The costs of repairs and minor replacements are charged to operating expense as incurred. Costs of asset replacements and betterments are capitalized. The cost of depreciable plant retired, along with removal expense less salvage value, is charged to non-operating expense on the Statement of Revenues, Expenses and Changes in Equity. Gains and losses upon disposition are recorded in the period incurred.

Water Rights: Water rights are stated at cost, net of accumulated amortization of $7.4 million as of June 30, 2007 and 2006. Beginning in FY 2003, in accordance with accounting and reporting requirements, water rights are no longer being amortized but are evaluated annually to determine whether they are impaired and whether an indefinite life is reasonable.

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

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

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

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

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

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

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

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

FY 2006 transmission revenues of $156 million are the result of rate changes authorized during the fiscal year. The predominant rate of $2.77 per kW was in place from Sept. 26, 2005 through June 30, 2006. LCRA TSC filed an interim update of wholesale transmission rates with the PUC on July 25, 2005, and the PUC Commissioners approved the new rate of $2.77 per kW on September 26, 2005.

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

LCRA TSC filed an interim update of wholesale transmission rates with the PUC on July 23, 2007, and the PUC Commissioners approved the new rate of $3.02 per KW on Oct. 2, 2007.

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 $228.6 million and $238 million at June 30, 2007 and 2006, respectively. Regulatory liabilities amounted to $1.2 million and $1.7 million at June 30, 2007 and 2006, respectively. The regulatory assets, which are included under deferred charges, consist of depreciation of debt-funded assets and costs related to outstanding debt. Debt-funded costs are deferred pending future recovery through the inclusion of the related debt service in rates. Regulatory liabilities are included in deferred credits and other long-term liabilities.

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

LCRA has reviewed and will continue to monitor the relevance of SFAS 71 in light of SB 7 and future changes in the Texas electric industry. As of June 30, 2007, and for the foreseeable future, management believes that SFAS 71 will continue to apply and anticipates no material losses from the write-off of regulatory assets.

Capitalized Interest: Interest which is financed by debt proceeds is capitalized as part of the cost of capital assets and deferred charges. During FY 2007 and FY 2006, LCRA capitalized $17.8 million and $13.8 million of interest, respectively.

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

Gas Price Management: LCRA enters into futures contracts, swaps and options for energy price risk management purposes. Derivative instruments are recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings. LCRA is using mark to market accounting as a component of the fuel factor for its derivatives, and gains and losses related to the financial contracts are recognized in current earnings.

Natural Gas Development and Production: LCRA has adopted the full-cost method of accounting for natural gas development and production. Under this method, all costs directly associated with acquisition and development of oil and gas properties are capitalized and depleted to expense over the life of proved reserves on a units-of-production method. For both the years ended June 30, 2007 and 2006, depletion expense totaled approximately $0.4 million.

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

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

Depreciation, Depletion and Amortization: LCRA depreciates its plant in service on a straight-line basis over the estimated useful lives of the various classes of these assets. Annual depreciation expense, expressed as a percentage of depreciable plant, was approximately 3 percent for FY 2007 and 2006. Depreciation, depletion and amortization expense for FY 2007 and 2006 was $112.6 million and $110.6 million, respectively.

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

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

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

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

Reclassifications: Certain amounts in the prior year's financial statements have been reclassified to conform to current year presentation. Additionally, in FY 2006, LCRA implemented FASB Interpretation No. 47 (FIN No. 47), "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No 143." FIN No. 47 clarifies the term, "conditional asset retirement obligation," as used in FASB Statement No. 143. Accordingly, GASB ruled that FIN 47 conflicted with GASB 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." LCRA has reversed its previously recorded asset retirement obligation and the corresponding regulatory asset which has the following effect on the financial statements.

	Increase/(Decrease) *(Dollars in Millions)*	
Balance Sheet		
Capital Assets:		
Utility plant in service	$	(1.4)
Cost to be recovered for future revenues	$	(7.9)
Liabilities:		
Asset retirement obligation	$	(9.3)
Statement of Revenues, Expenses and Changes in Equity		
Operating expenses (Accretion)	$	(1.3)
Depreciation, depletion and amortization	$	(6.6)
Prior costs recovered from revenues	$	7.9
Total Equity	$	-

2. Financial Instruments

As of June 30, 2007 and 2006, LCRA had the following investments and maturities:

Investments	June 30, 2007 Market Value[1]	June 30, 2007 WAM (Years)[2]	June 30, 2006 Market Value[1]	June 30, 2006 WAM (Years)[2]
Cash Equivalents				
U.S. Agency Discount Notes	$ 12,462	0.18	$ 9,963	0.10
Commercial Paper	28,500	0.11	27,500	0.09
Money Market Fund	99,563	0.10	59,749	0.09
Investments				
U.S. Government Securities	188,729	0.98	158,831	0.85
U.S. Agency Discount Notes	4,897	0.48	9,988	0.50
Total	$ 334,151	0.61	$ 266,031	0.56

Cash and investments as of June 30, 2007 and 2006 consisted of the following:

	2007	2006
Cash	$ 1,193	$ 607
Investments	334,151	266,031
Total Cash and Investments	$ 335,344	$ 266,638

[1] Dollars in Thousands
[2] Weighted Average Maturity

External Investments Pool: LCRA investments included a money market fund with TexPool at June 30, 2007 and 2006. The State Comptroller of Public Accounts oversees TexPool, and the pool seeks to maintain a $1 value per share as required by the Texas Public Funds Investment Act. There are no minimum balance requirements for TexPool participants, and there is no limit on the number of accounts per participants.

Interest Risk: LCRA has no formal policy to address exposure to fair value losses resulting from changes in interest rates. However, in accordance with management policy, LCRA manages its exposure to rising interest rates by investing a majority of its investment portfolio in securities with short-term maturities and holding investments to maturity.

Credit Risk: LCRA investment activities are governed by state statute (Public Funds Investment Act) which specifies the type and ratings of investments governmental entities are allowed to purchase. In addition, LCRA Board policy, internal operating procedures and applicable bond resolutions further restrict investment activity. At June 30, 2007 and 2006, LCRA investment in the investment pool (money market) was rated AAAm by Standard & Poor's. Investments in commercial paper were rated A-1+ by Standard & Poor's and P-1 by Moody's Ratings. Investments in US Agencies were rated Aaa by Moody's Ratings.

Concentration of Credit Risk: As of June 30, 2007, LCRA had commercial paper representing 6.28% of LCRA investments from a single issuer. LCRA has no formal policy to limit the amount that may be invested in any one issuer. The Public Funds Investment Act requires investments in commercial paper to be rated A-1, P-1, or an equivalent rating. However, LCRA's internal investment strategy requires higher commercial paper ratings of A-1+ or P-1, and management closely monitors the portfolio mix to provide diversity and limit concentration.

Estimation of Fair Value: The carrying amounts of receivables and certain other liabilities approximate market value due to the short maturity of these instruments. The estimated market value of long-term debt, based on current market yields was $2.7 billion and $2.6 billion at June 30, 2007 and 2006, respectively.

Securities Lending Transactions: In July, 2006, LCRA began engaging in securities lending transactions. State statutes and board policies permit LCRA to use investments to enter into these transactions – loans of governmental securities to broker-dealers and financial institutions in exchange for cash collateral with a simultaneous agreement to return the collateral for the same securities in the future. LCRA's securities custodian acts as an agent in lending LCRA securities for cash collateral equal to 102 percent of the loan amounts. The agent is required to invest and reinvest substantially all cash collateral received. If the borrower defaults, the lending agent must, at its own expense, deposit replacement securities of the same issue, type, class and series to the LCRA custody account. If the lending agent is unable to obtain replacement securities, then the agent will, at its expense, credit the account in U.S. dollars with the market value of the securities on loan on the credit date. If the agent is required to replace the lent securities, it is entitled to the borrower's collateral.

All securities loans can be terminated on demand by either LCRA or the borrower, although the majority of loans have a maturity of less than one week. The term to maturity of the securities loans is matched with the term to maturity of the investments made with the cash collateral by investing in short term, high quality fixed income investments. There were no violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior-period losses during the year. At year end, LCRA had no credit risk exposure to borrowers because there were no loans outstanding on the financial statement date. LCRA terminated its securities lending program prior to the end of the fiscal year.

Gas Price Management: 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 mitigate the financial and market risk associated with these activities for the customers, LCRA routinely enters into natural gas swaps, futures contracts and options for other than trading purposes. This use of these types of transactions for the purpose of reducing exposure to price risk is generally referred to as hedging, with the results matching the financial impact of these transactions with the cash impact resulting from consummation of the transaction being hedged. These contracts are commitments to either purchase or sell designated quantities of a commodity at a specified price and at a specified date. These contracts may be settled in cash or through delivery of the specified commodity; however, in general, LCRA settles futures contracts in cash. LCRA holds highly liquid contracts with terms ranging up to 18 months. Initial margin requirements, which are flat fees per contract, and daily margin calls are met in cash or short-term liquid government securities. The financial impact of these futures contracts, the effects of which were substantially offset by the physical gas purchases, was to recognize a loss of approximately $3.7 million during 2007 and a loss of approximately $17.6 million during 2006. Net income is not affected because this activity is a component of the fuel costs passed through to the customers and is included in the balance sheet fuel over- or under-recovery account.

All derivative instruments are recorded on the balance sheet at their fair value, which generally reflects the estimated amounts that LCRA would receive or pay to terminate the contracts. At June 30, 2007, the fair value of LCRA's hedging assets and liabilities were $0.1 million and $1.4 million, respectively. Changes in the fair value of the derivatives are recorded in current earnings as a component of the fixed-fuel factor. LCRA has not designated any of the derivatives as hedging instruments, as allowed by FASB 133.

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

3. Long-Term Debt

Changes during FY 2007 and FY 2006, of long-term debt, including current portions as follows (in thousands):

Series	May 15, From	To	Balance June 30, 2005	Increase (Decrease)	Balance June 30, 2006	Increase (Decrease)	Balance June 30, 2007	Amount Due [5] in FY 2008
LCRA TSC 2003A (Auction Rate) [1]	2030	2032	$ 50,000	$	$ 50,000	$	$ 50,000	$
LCRA TSC 2003B (5.00%-5.375%)	2009	2031	251,975	(14,735)	237,240	(7,690)	229,550	
LCRA TSC 2003C (5.00%-5.25%)	2008	2033	131,200	(5,640)	125,560	(4,565)	120,995	1,470
LCRA TSC 2004 (3.00%-5.00%)	2009	2034	125,490		125,490	(8,255)	117,235	
LCRA TSC 2005 (3.25%-5.00%)	2008	2035	-	126,095	126,095		126,095	4,175
LCRA TSC 2006 (4.50%-5.00%)	2009	2036	-	135,925	135,925	(4,270)	131,655	
LCRA TSC 2006A (4.00%-5.00%)	2009	2036	-		-	133,585	133,585	
LCRA 2006 (4.00%-5.00%)	2008	2036	-	80,305	80,305	(1,610)	78,695	1,675
LCRA 2004 (4.00%-5.00%)	2008	2029	103,150	(2,850)	100,300	(2,910)	97,390	2,990
LCRA 2004A (3.50%-3.50%) [2]	2007	2007	247	(157)	90	(90)	-	
LCRA 2004B (3.50%-3.50%) [2]	2006	2006	10	(10)	-		-	
LCRA 2004D (3.00%-5.00%)	2008	2034	50,880	(1,970)	48,910	(830)	48,080	835
LCRA 2003 (3.25%-5.25%)	2008	2033	96,250	(5,370)	90,880	(8,905)	81,975	4,225
LCRA 2002 (3.50%-5.00%)	2008	2031	118,070	(1,460)	116,610	(1,580)	115,030	1,915
LCRA 2001A (5.00%-5.375%)	2008	2032	149,340	(11,135)	138,205	(3,540)	134,665	3,035
LCRA 2001 (5.00%-8.00%)	2008	2031	96,430	(675)	95,755	(735)	95,020	1,205
LCRA 1999A (5.50%-5.875%)	2014	2020	347,540	(60)	347,480		347,480	
LCRA 1999B (5.875%-6.00%)	2008	2014	348,520	(70)	348,450	(49,065)	299,385	42,560
LCRA 1999C (7.02%-7.02%)	2006	2006	30,320	(30,320)	-		-	
LCRA 1999E (5.00%-5.75%)	2008	2011	21,960	(1,305)	20,655		20,655	1,900
LCRA 1999F (5.50%-5.75%)	2008	2012	97,930	(25)	97,905		97,905	11,320
LCRA 1999G (3.90%-4.85%) [2] [3]	2007	2016	39,980	(1,875)	38,105	(2,125)	35,980	2,400
LCRA 1999H (3.10%-3.65%) [2] [4]	2008	2011	5,765	(1,500)	4,265	(1,400)	2,865	1,205
LCRA 1999I (3.40%-4.15%) [4]	2008	2020	3,545	(115)	3,430	(130)	3,300	145
LCRA TWDB Note Payable (6.05%-6.10%)	2020	2034	10,500		10,500		10,500	
LCRA TWDB Note Payable (5.58%-5.83%)	2023	2038	14,040		14,040		14,040	
Add: Unamortized Net Premium			39,752	(4,159)	35,593	(3,139)	32,454	578
Subtotal			$ 2,132,894	$ 258,894	$ 2,391,788	$ 32,746	$ 2,424,534	$ 81,633
Unamortized Net Losses on Refunded Debt			(256,852)	10,636	(246,216) [6]	13,271	(232,945) [7]	(13,271)
Taxable Commercial Paper (Variable Rate)			11,500	6,600	18,100	2,200	20,300	20,300
Tax-Exempt Commercial Paper (Variable Rate)			235,900	(157,500)	78,400	119,400	197,800	197,800
Total			$ 2,123,442	$ 118,630	$ 2,242,072	$ 167,617	$ 2,409,689	$ 286,462

(1) Rate is reset at auction every 28 days (3.75 percent as of June 30, 2007).
(2) Represents yield rate of Capital Appreciation Bonds.
(3) Maturity Date is July 1.
(4) Maturity Date is January 1.
(5) Total amount due in FY 2007 is $158.6 million.
(6) $193,555 is associated with LCRA 1999 A-I refunding bonds and $52,661 is associated with LCRA TSC 2003A and 2003B refunding bonds.
(7) $181,694 is associated with LCRA 1999 A-I refunding bonds and $51,251 is associated with LCRA TSC 2003A and 2003B refunding bonds.

LCRA's debt as of June 30, 2007, has been rated by Fitch, Moody's and Standard & Poor's, respectively, as follows:

FITCH, MOODY'S AND STANDARD & POOR'S

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

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

Ending June 30	Principal	Interest	Total
2008	$ 81,055	$ 122,307	$ 203,362
2009	106,265	118,017	224,282
2010	110,410	112,583	222,993
2011	115,945	106,772	222,717
2012	121,580	100,511	222,091
2013-2017	635,465	403,839	1,039,304
2018-2022	443,405	256,481	699,886
2023-2027	326,280	153,189	479,469
2028-2032	325,660	76,683	402,343
2033-2037	125,385	13,873	139,258
2038	630	37	667
	$ 2,392,080	$ 1,464,292	$ 3,856,372
Unamortized Net Premium	32,454		32,454
Total	$ 2,424,534	$ 1,464,292	$ 3,888,826

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

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

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

During FY 2006, LCRA issued $6.6 million of taxable commercial paper and $59.1 million of tax-exempt commercial paper. In addition, LCRA on behalf of LCRA TSC issued $145 million of tax-exempt commercial paper.

On May 25, 2006, LCRA issued $80.3 million of tax-exempt Refunding Revenue Bonds, Series 2006. In addition, on May 25, 2006, LCRA on behalf of LCRA TSC issued $135.9 million of Transmission Contract Refunding Revenue Bonds, Series 2006. The proceeds from the bond issues were used to refund tax-exempt commercial paper.

On August 16, 2005, LCRA on behalf of LCRA TSC issued $126.1 million of Transmission Contract Refunding Revenue Bonds, Series 2005. The proceeds from the issue were used to refund $120 million of tax-exempt commercial paper.

During FY 2006, LCRA deposited funds into an escrow account to defease debt early. On May 9, 2006, LCRA defeased approximately $9.7 million from various bond series. In addition, on April 26, 2006, LCRA on behalf of LCRA TSC defeased approximately $9.6 million from the LCRA TSC Series 2003B and LCRA TSC Series 2003C Contract Refunding Revenue Bonds. Pursuant to the stipulations of the Revenue Bonds and in the opinion of LCRA's Bond Counsel, the repayment of these obligations constitutes a legal defeasance. These defeasances reduce future debt service requirements.

The principal associated with the bonds that have been previously refunded by LCRA but remain outstanding at June 30, 2007 and 2006, totals $368 million and $381.8 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, 2007 and 2006.

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

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

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

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

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

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

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

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

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

The LCRA TSC Series 2003A bonds are subject to optional redemption by LCRA, upon the written direction of LCRA TSC, in whole or in part, on any interest payment date immediately following an auction period, in authorized denominations at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date; provided, however, that in the event of a partial redemption of bonds, the aggregate principal amount of bonds that will remain outstanding must equal at least $10 million unless otherwise consented to by the related broker-dealers.

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

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

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

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

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

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

Commercial Paper: LCRA is authorized to issue up to $350 million in short-term tax-exempt obligations and $350 million in short-term taxable obligations to provide system improvements, acquire fuel reserves and facilities, refund outstanding debt, and pay interest on outstanding debt. Outstanding notes were issued in denominations of $100,000 or more with maturities of 270 days or less from their respective issue dates. The Commercial Paper 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 LCRA amounts of up to $187.5 million for the Tax-Exempt Series. Of the $187.5 million, $112.5 million of this agreement expires on Oct. 13, 2008, and the remaining $75 million expires on June 27, 2008. LCRA has an additional revolving credit agreement with a bank that is obligated to lend LCRA aggregate amounts of up to $40 million for the Taxable Series. This agreement expires on Oct. 13, 2008. 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, 2007.

LCRA TSC is authorized to issue tax-exempt commercial paper notes in an aggregate amount of principal and interest not to exceed $150 million in short-term tax-exempt obligations. 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, 2042. It is management's intent to periodically renew outstanding commercial paper upon maturity.

LCRA TSC maintains a $150 million credit facility with a bank that provides available borrowings to pay the principal and interest of the commercial paper notes. Of the $150 million total, $137 million is available to pay the principal of the notes, and $13.0 million is available to pay interest on the notes. The credit facility has an expiration date of Apr. 29, 2009. Failure by LCRA or LCRA TSC to meet certain restrictive covenants could result in the withdrawal of the banks' commitments for the unused line of credit. There were no borrowings under the agreement as of June 30, 2007.

Conduit Debt: At June 30, 2007, there are two series of Pollution Control Revenue Bonds outstanding with an aggregate principal amount payable of $50 million. The bonds mature in April 2027 and 2030, $25 million each year. The bonds were issued to finance the costs of acquiring, constructing and improving certain solid waste and sewage disposal facilities of a private-sector entity. LCRA executed an installment sale agreement with the entity whereby the proceeds of the bonds were used to finance a portion of the project. In turn, the entity agreed to make payments sufficient to pay, when due, the principal and interest on the bonds. The bonds do not constitute a debt or pledge of LCRA, and accordingly, have not been reported in the accompanying financial statements.

Mandatory Redemption: A number of LCRA's term bonds are subject to mandatory sinking fund redemption at the redemption price which equals the principal amount thereof plus accrued interest to the redemption date. The particular bonds or portions thereof to be redeemed are to be selected and designated by LCRA (provided that a portion of a Bond may be redeemed only in an integral multiple of $5,000). The mandatory sinking fund redemption dates range from May 15, 2020 to May 15, 2036.

4. Retirement and 401(k) Plans 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 a stand-alone financial report that is available from the Board of Trustees. The Plan has received a favorable determination letter from the Internal Revenue Service and is exempt from federal income taxes, under the appropriate section of the Internal Revenue Code.

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

Effective January 1, 2002, the Plan was amended to provide cash balance benefit features. Active employees as of December 31, 2001, were given the opportunity to remain participants under the pension provisions (Retirement Program A) or to elect to become participants under the cash balance provisions (Retirement Program B). Employees hired prior to January 1, 2002, who elected Program A and who worked at least 1,000 hours per annum were eligible plan participants in the Plan upon completion of six months of service and become 100 percent vested after three complete years of service. Any employee that was employed by LCRA prior to January 1, 2002, and who elected Program B was eligible to participate in the cash balance benefit plan as of January 1, 2002, and 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 Program 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 Program A, employees may retire with unreduced accrued benefits at age 65 with five years of service, or when the total of their age and service equals 80. Retirement benefits are based on years of service and salary levels at retirement. Under Program B, the value of the employee's account will be adjusted by increasing the balance by 4 percent of the employee's compensation paid per year. The value of the account earns an annual interest rate of 7 percent. The retirement benefit for an employee who has reached his or her normal retirement date is a single lump sum payment equal to the participant's accrued balance or monthly payments as provided by the Plan.

The LCRA makes annual contributions to the Plan that are actuarially determined as of each valuation date and consist of a normal cost contribution and an amortization of unfunded actuarial accrued liability contribution using the entry age normal actuarial cost method. Unfunded actuarial accrued liability contributions are determined using a 15- to 30-year level percentage of payroll open amortization methodology. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll over a period of 11 years on an open basis.

The required employer contribution for FY 2007 was 8.70 percent of total employee payroll. The current recommended employer contributions for FY 2008 are 8.10 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.

The required contribution was determined as of the April 1, 2006 actuarial valuation using the entry age normal actuarial cost method. The original actuarial assumptions included (a) an 7.75 percent investment rate of return, net of administrative expenses and (b) projected salary increases of 4.5 to 12.5 percent varying by entry age group and attained age. Both (a) and (b) reflect an inflation component of 4 percent. Effective April 1, 2007, the minimum recommended employer contributions were determined using a 19 year open amortization period.

Changes in plan provisions that impacted funding were an ad hoc cost of living adjustment to retirees effective January 1, 2002, an increase in maximum benefits and compensation limitations imposed under the Internal Revenue Code, and revised assumptions for withdrawal and retirement due to cash balance benefits. Effective April 1, 2007 changes in plan provisions include an amendment to the Plan to include additional supplemental credited service.

Schedule of Funding Progress

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability Entry Age	(3) Funded Ratio (1)/(2)	(4) Unfunded Actuarial Accrued Liability (2)-(1)	(5) Annual Covered Payroll[1]	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4)/(5)
April 1, 2005	$ 253,994,422	$ 346,643,812	73.3	$92,649,390	$ 136,103,586	68.1
April 1, 2006	269,195,679	382,758,278	70.3	113,562,599	143,978,576	78.9
April 1, 2007	296,039,961	403,626,660	73.3	107,586,699	147,840,508	72.8

[1] 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, 2005	$12,206,319	100%	$ -
June 30, 2006	14,268,341	100	-
June 30, 2007	16,700,651	100	-

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

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

Employees are eligible to participate in the Plan immediately upon employment. Eligible employees who elect to participate in the Plan may contribute a minimum of 1 percent of their annual compensation, not to exceed $15,500 in 2007. Employees age 50 or over may contribute an additional $5,000 in 2007. Effective January 1, 2002, employees under Program A of the Pension Plan receive an LCRA matching contribution equal to 25 percent of the first 4 percent of compensation that the employee had elected to contribute to the plan. Under Program B of the Pension Plan, LCRA provides matching contributions equal to 100 percent of the first 4 percent of compensation and 50 percent of the next 2 percent of compensation that the employee has elected to contribute to the plan. Contributions made by both the employer and employee are vested immediately. Amendments to the Plan are made only with the authority of the LCRA Board.

Contributions by the LCRA and the employees for the years ended June 30, 2007 and 2006, are presented below:

	2007	2006
	(Dollars in Thousands)	
Employer contributions	$2,627	$2,414
Employee contributions	$9,329	$8,471

Other Post-Employment Benefits (OPEB): LCRA provides post-employment health care benefits to retirees and to terminated employees eligible for such benefits. LCRA contributes approximately 70 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 $4.8 million and $4.5 million for FY 2007 and 2006, respectively. At June 30, 2007, there were 591 retirees and 17 terminated employees eligible for such benefits.

5. Commitments and Contingencies

Construction: LCRA's construction budget provides for capital improvement projects with cash requirements through FY 2012 of approximately $1.6 billion, including $471.8 million in FY 2008.

LCRA's forecasted capital program includes $146.2 million for LCRA's share of the remaining cost of SO_2 scrubbers for two coal-fired generating units jointly owned by LCRA and the City of Austin. The cost of the scrubbers is subject to revision upon the completion of technology evaluations and detailed engineering studies. The scrubbers must be installed by October 2012, under the provisions of a flexible air quality permit received from the Texas Commission on Environmental Quality in 2002.

LCRA's forecasted capital program also includes $200 million for Phase 2 of the Peaker Project for equipment purchase, detailed engineering, construction, and commissioning. The peaker project should be completed in FY 2009. The objective of the project is to add peaking capacity to LCRA's system that will offset costs and risks associated with increasing dependence on market purchases to meet peak demand. The new peaking capacity will reduce cost to LCRA's wholesale customers by being available to generate during periods of peak energy prices.

Finally, LCRA's forecasted capital program also includes $86.8 million for the Clear Springs/Zorn-Hutto Project. The LCRA Transmission Services Corporation (LCRA TSC) is proposing to build a new 345-kilovolt double-circuit transmission line. The proposed project, in conjunction with another transmission line project being constructed by TXU Electric Delivery (TXU ED) north of the Hutto switching station, will address several regional transmission needs and has been recommended by the Electric Reliability Council of Texas (ERCOT).

Customer Transmission Leases: LCRA 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 LCRA or the lessors upon five years written notice. Lease expenses for FY 2007 and 2006 totaled $11.4 million and $11.6 million, respectively.

Coal and Rail Contracts: For FY 2008 approximately 57 percent of the fuel requirements for the Fayette Power Project Units 1 and 2 (FPP 1& 2) will be supplied by two multi-year contracts with mines in Wyoming. The first contract, which ends in the second quarter of FY 2008, will provide coal at a fixed price for its entire term with a fixed volume for each calendar year. The second contract which ends in the second quarter of FY 2010 will provide coal at a separate fixed price per year with a fixed volume for its entire term. Starting in the third quarter of FY 2009, two new multi-year contracts will supply part of FPP 1 & 2's fuel requirements. These new multi-year contracts each have separate fixed prices per calendar year and an annual fixed volume for the entire term. During FY 2007 and 2006, LCRA's share of FPP 1 & 2's multi-year contract purchases totaled $18.7 million and $11.1 million, respectively.

For FY 2008 approximately 81 percent of the fuel requirements for Fayette Power Project Unit 3 (FPP 3) will be supplied by two multi-year contracts with mines in Wyoming. The first contract, which ends in the second quarter of FY 2009, will provide coal at a separate fixed price per year with a fixed volume for each calendar year. The second contract which also ends in the second quarter of FY 2009 will provide coal at a fixed price for its entire term with a fixed volume for each calendar year. Starting in the third quarter of FY 2009, one new multi-year contract will supply part of FPP 3's fuel requirements. The new multi-year contract has a separate fixed price per year and an annual fixed volume. During FY 2007 and 2006, LCRA's multi-year contract purchases totaled $12.6 million and $8.4 million, respectively.

LCRA and Austin Energy have a multi-year transportation contract with one rail carrier to ship Powder River Basin coal to all three units at FPP. FPP committed to ship a specific, minimum volume of coal from the Powder River Basin under a common carrier tariff with a second rail carrier. Freight costs incurred by LCRA were approximately $48.3 million and $45 million in FY 2007 and FY 2006, respectively.

Natural Gas: LCRA has several long-term contracts to provide a portion of the natural gas requirements to its gas-fired generation units, through April 2014. LCRA is committed to buy a fixed amount of gas annually. LCRA's gas purchases under these contracts totaled $116.8 million for FY 2007 and $142.5 million for FY 2006, based on price indices. LCRA also pays approximately $2.9 million per year for firm transportation rights on intrastate pipelines which deliver gas from other supply points.

Purchased Power: LCRA has nineteen contracts with power marketers who provide firm electric energy ranging from 300 MW to 600MW per month, for the period July 2007 through September 2008. The total minimum commitment from these contracts is more than $6.6 million plus energy payments.

Wind Power: LCRA is committed to purchase 35 MW of wind power capacity from Texas' first commercial wind power plant, the Texas Wind Power Project. LCRA in turn sells 10 MW of this capacity to Austin Energy. During FY 2007, LCRA purchased 30 MW of wind power capacity from the Delaware Mountain Wind Farm. In FY 2007, LCRA also purchased 51 MW of wind power capacity from the Indian Mesa Wind Farm. Total wind power capacity is 116 MW, of which 106 MW is for LCRA and its customers. LCRA expects to pay approximately $9.1 million in FY 2008 for purchases from all wind power plants, increasing to approximately $11.7 million in FY 2015.

Water Project Study: LCRA has entered into an agreement with the San Antonio Water System (SAWS) to study the feasibility of implementing the LCRA-SAWS Water Project. The project addresses long-term water needs in both the lower Colorado River basin and the San Antonio area. As proposed, the project would conserve and develop water in the region through the use of off-channel storage facilities, the conjunctive use of groundwater for agriculture, and agricultural conservation. The project would provide up to 150,000 acre-feet of water per year for the San Antonio region, provide a more reliable water supply for agricultural needs in the lower Colorado River basin, address rural water needs above the LCRA Highland Lakes, and increase lake levels in the Lakes Buchanan and Travis over those expected without the project. The study phase, estimated to be completed by March 2010 with a possible 5 year extension, at a total cost of approximately $47.9 million, includes engineering feasibility and environmental studies and costs to obtain necessary permits for development and transfer of water. LCRA, in its role as project manager, receives advances from SAWS to fund this study. SAWS has the option to cancel the study, with a 100 percent refund of unexpended funds and a 50 percent refund of expended funds due to SAWS when cancelled. As of June 30, 2007, LCRA has received $28.6 million from SAWS and has expended $24.3 million in study costs.

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

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

Changes in the accrued liability amount for FY 2006 and 2007 were as follows:

	Balance Beginning of Year	Changes in Estimates	Payments	Balance End of Year
FY 2006	$ 1,986,000	$ 336,000	$ 331,000	$ 1,991,000
FY 2007	$ 1,991,000	$ 194,000	$ 308,000	$ 1,877,000

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.

6. Capital Activity

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

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

Capital asset activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Transfers from Construction in Progress	Retirements	Depreciation/ Depletion	Ending Balance
	(Dollars in Thousands)					
Utility plant in service:						
Depreciable assets	$ 3,042,455	$ 2,354	$ 303,310	$ (52,688)	$	$ 3,295,431
Non-depreciable assets	30,343		6,533	(1,014)		35,862
Total utility plant in service	3,072,798	2,354	309,843	(53,702)	-	3,331,293
Construction work in progress:						
Non-depreciable assets	208,184	305,638	(314,627)	9,813		209,008
Oil and gas property:						
Depletable assets	28,158					28,158
Other physical property:						
Depreciable assets	22,362	129	4,784			27,275
Non-depreciable assets	20,073					20,073
Total other physical property	42,435	129	4,784	-	-	47,348
Less accumulated depreciation	(1,074,952)			33,720	(109,704)	(1,150,936)
Capital assets, net	$ 2,276,623	$ 308,121	$ -	$ (10,169)	$ (109,704)	$ 2,464,871

7. Segment Reporting

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

Segment information for LCRA TSC:

LCRA TRANSMISSION SERVICES CORPORATION-SEGMENT INFORMATION
BALANCE SHEETS

(Dollars in Thousands)

	June 30, 2007	June 30, 2006
Assets		
Current Assets	77,647	75,168
Long-Term Assets		
Restricted cash and cash equivalents	13,016	1,271
Restricted investments	123	114
Accounts receivable from LCRA - restricted	44,134	37,552
Capital assets:		
Utility plant in service	1,349,536	1,211,187
Construction work in progress	53,943	87,565
Less accumulated depreciation	(241,890)	(217,497)
Capital assets, net	1,161,589	1,081,255
Deferred charges:		
Costs to be recovered from future revenues	42,837	41,621
Issue costs	17,294	16,469
Deferred charges, net	60,131	58,090
Total long-term assets	1,278,993	1,178,282
Total Assets	$ 1,356,640	$ 1,253,450
Liabilities		
Current Liabilities	106,471	62,314
Long-Term Liabilities		
Accounts payable to LCRA from construction fund	8,934	29,061
Accounts payable from restricted assets	11,625	48,816
Asset retirement obligation	-	68
Bonds, notes and loans payable	1,072,296	973,075
Deferred credits	1	-
Total long-term liabilities	1,092,856	1,051,020
Total liabilities	1,199,327	1,113,334
Equity		
Invested in capital assets, net of related debt	104,632	80,649
Unrestricted	52,681	59,467
Total equity	157,313	140,116
Total Liabilities and Equity	$ 1,356,640	$ 1,253,450

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

	Year Ended June 30, 2007	Year Ended June 30, 2006
Operating Revenues		
Transmission	$ 169,013	$ 156,249
Transformation	9,178	8,973
Other	635	614
Total operating revenues	178,826	165,836
Operating Expenses		
Operations	61,269	51,988
Maintenance	9,669	10,370
Depreciation and amortization	35,067	32,937
Total operating expenses	106,005	95,295
Operating income	72,821	70,541
Non-Operating Revenues (Expenses)		
Interest and other income	10,215	3,353
Loss on disposition of property	(8,203)	(5,259)
Interest on debt	(52,031)	(45,196)
Other expenses	(8,219)	(5,026)
Total non-operating revenues (expenses)	(58,238)	(52,128)
Income before costs to be recovered from revenues, capital contributions, transfers in, and special item	14,583	18,413
Costs To Be Recovered from Revenues	1,269	1,419
Capital Contributions	1,859	2,384
Income before transfers in and special item	17,711	22,216
Transfers In	842	829
Special Item - Loss on Early Defeasance of Debt	(1,356)	(1,323)
Change in Equity	17,197	21,722
Total Equity, Beginning of Year	140,116	118,394
Total Equity, End of Year	$ 157,313	$ 140,116

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

	Year Ended June 30, 2007	2006
Cash Flows From Operating Activities		
Receipts from customers	$ 176,484	$ 164,919
Payments to suppliers	(71,371)	(65,585)
Net cash provided by operating activities	105,113	99,334
Cash Flows From Noncapital Financing Activities		
Other expenses	(6,974)	(5,026)
Net cash used in noncapital financing activities	(6,974)	(5,026)
Cash Flows From Capital and Related Financing Activities		
Purchases for property, plant and equipment	(181,059)	(174,855)
Issuance costs	(1,867)	(3,683)
Proceeds from long-term debt issues	137,958	265,927
Proceeds from commercial paper issues	165,000	145,000
Principal payments on long-term debt	(37,308)	(42,169)
Payment to defease and refund debt and related issue costs	(149,122)	(259,580)
Interest paid	(32,854)	(26,572)
Cash received on sale of assets	16	149
Capital contributions	1,859	2,384
Accounts payable to LCRA	2,105	(6,977)
Net cash used in capital and related financing activities	(95,272)	(100,376)
Cash Flows From Investing Activities		
Sale and maturity of investment securities	68,947	60,030
Purchase of investment securities	(71,312)	(68,268)
Interest received	8,258	3,916
Net cash provided (used) in investing activities	5,893	(4,322)
Net Increase (Decrease) in Cash and Cash Equivalents	8,760	(10,390)
Cash and Cash Equivalents, Beginning of Period	21,218	31,608
Cash and Cash Equivalents, End of Period	$ 29,978	$ 21,218

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

	Year Ended June 30, 2007	Year Ended June 30, 2006
Reconciliation of Operating Income to Net Cash Flows provided by Operating Activities		
Operating Income	$ 72,821	$ 70,541
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	35,067	32,937
Changes in assets and liabilities:		
Accounts receivable - trade	(2,344)	(1,834)
Inventories	40	(2,524)
Current liabilities	-	214
Other deferred charges and long-term liabilities	(471)	-
Net cash provided by operating activities	$ 105,113	$ 99,334
Noncash Investing Activities		
Investment market adjustments	$ 671	$ (573)
Noncash Financing for Property, Plant and Equipment Expenditures		
Purchase of equipment through short-term trade payables	$ 56,206	$ -
Asset retirement obligation	$ -	$ 68

ENERGY • WATER • COMMUNITY SERVICES

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

www.lcra.org