

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Brazos River Authority:

We have audited the general purpose financial statements of the Brazos River Authority (the "Authority") as of August 31, 2002, and for the year then ended listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of the Authority at August 31, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as combining financial statements in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Authority. This additional information is the responsibility of the management of the Authority. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2002, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Introductory and Statistical section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City. Such additional information has not been subject to the auditing procedures applied in the audit of the general purpose financial statements, and accordingly, we express no opinion on it.

Deloitte + Touche LLP

December 6, 2002

General Purpose Financial Statements

BRAZOS RIVER AUTHORITY

Exhibit 1 Combined Balance Sheet - All Fund Types

August 31, 2002
(With Comparative Totals for August 31, 2001)
(In thousands)

ASSETS	Proprietary Fund Type	Fiduciary Fund Type	Total	
	Enterprise Funds	Agency Funds	(Memorandum Only) 2002	2001
CURRENT ASSETS:				
Deposits (Note 2):				
Cash and cash equivalents	\$ 12,101	\$ -	\$ 12,101	\$ 13,833
Investments (Note 2)	40,537	-	40,537	35,999
Receivables:				
Accounts	2,232	-	2,232	2,757
From other funds (Note 8)	11,181	-	11,181	3,570
Accrued interest	385	-	385	491
Current portion of contracts receivable	161	-	161	146
Other current assets	839	-	839	716
Total current assets	67,436	-	67,436	57,512
RESTRICTED ASSETS (Notes 2 and 5):				
Deposits:				
Cash and cash equivalents	26,372	613	26,985	40,828
Investments	11,326	724	12,050	30,208
Accrued interest	37	-	37	265
Total restricted assets	37,735	1,337	39,072	71,301
PROPERTY, PLANT, AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION (Note 3)	279,816	766	280,582	246,651
STORAGE RIGHTS, NET	34,776	-	34,776	36,082
CONTRACT RECEIVABLE, NET OF CURRENT PORTION	1,972	-	1,972	2,121
ADVANCES TO OTHER FUNDS	1,824	-	1,824	-
PROJECT DEVELOPMENT COSTS	1,194	-	1,194	2,938
OTHER ASSETS, NET	5,743	-	5,743	5,703
TOTAL ASSETS	\$ 430,496	\$ 2,103	\$ 432,599	\$ 422,308

See accompanying notes to financial statements.

BRAZOS RIVER AUTHORITY

Exhibit 1 Combined Balance Sheet - All Fund Types (continued)

August 31, 2002
(With Comparative Totals for August 31, 2001)
(In thousands)

	<u>Proprietary Fund Type Enterprise Funds</u>	<u>Fiduciary Fund Type Agency Funds</u>	<u>Total (Memorandum Only)</u>	
			<u>2002</u>	<u>2001</u>
LIABILITIES AND FUND EQUITY				
CURRENT LIABILITIES:				
Accounts payable	\$ 4,929	\$ -	\$ 4,929	\$ 5,155
Accrued interest	976	-	976	844
Due to other funds (Note 8)	11,181	-	11,181	3,570
Deferred revenues	<u>11,634</u>	<u>-</u>	<u>11,634</u>	<u>10,468</u>
 Total current liabilities	 28,720	 -	 28,720	 20,037
 Current liabilities payable from restricted assets:				
Accrued interest	2,437	-	2,437	2,509
Revenue bonds payable (Note 5)	10,515	-	10,515	23,210
Storage contracts payable (Note 5)	912	-	912	906
Construction contracts payable (Note 5)	4,426	-	4,426	2,574
Deferred compensation benefits payable	237	-	237	346
Held for future debt service	-	2,103	2,103	2,190
Other	<u>112</u>	<u>-</u>	<u>112</u>	<u>196</u>
 Total current liabilities payable from restricted assets	 18,639	 2,103	 20,742	 31,931
 LONG-TERM LIABILITIES:				
Revenue bonds payable, net of current portion (Note 5)	179,897	-	179,897	170,662
Discount on revenue bonds payable	(4,679)	-	(4,679)	(4,715)
Contracts payable, net of current portion (Note 5)	41,706	-	41,706	42,640
Advances from other funds	1,824	-	1,824	-
Deferred revenues	22,615	-	22,615	21,375
Other liabilities	<u>761</u>	<u>-</u>	<u>761</u>	<u>744</u>
 Total long-term liabilities	 <u>242,124</u>	 <u>-</u>	 <u>242,124</u>	 <u>230,706</u>
 Total liabilities	 <u>\$ 289,483</u>	 <u>\$ 2,103</u>	 <u>\$ 291,586</u>	 <u>\$ 282,674</u>

See accompanying notes to financial statements.

BRAZOS RIVER AUTHORITY

Exhibit 1 Combined Balance Sheet - All Fund Types (continued)

August 31, 2002
(With Comparative Totals for August 31, 2001)
(In thousands)

	<u>Proprietary Fund Type Enterprise Funds</u>	<u>Fiduciary Fund Type Agency Funds</u>	<u>Total (Memorandum Only)</u>	
			<u>2002</u>	<u>2001</u>
FUND EQUITY:				
Contributed capital:				
Federal	\$ 29,825	\$ -	\$ 29,825	\$ 29,825
State	5,065	-	5,065	5,065
Other	<u>64,454</u>	<u>-</u>	<u>64,454</u>	<u>64,454</u>
	99,344	-	99,344	99,344
Less amortization	<u>(29,257)</u>	<u>-</u>	<u>(29,257)</u>	<u>(28,323)</u>
Total contributed capital	70,087	-	70,087	71,021
Retained earnings:				
Reserved for:				
Repair and replacement	850	-	850	750
Unreserved	<u>70,076</u>	<u>-</u>	<u>70,076</u>	<u>67,863</u>
Total retained earnings	70,926	-	70,926	68,613
TOTAL FUND EQUITY	<u>141,012</u>	<u>-</u>	<u>141,012</u>	<u>139,634</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 430,496</u>	<u>\$ 2,103</u>	<u>\$ 432,599</u>	<u>\$ 422,308</u>

See accompanying notes to financial statements.

BRAZOS RIVER AUTHORITY

Exhibit 2 Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - Proprietary Fund Type

Year Ended August 31, 2002
(With Comparative Totals for the Year Ended August 31, 2001)
(In thousands)

	<u>Enterprise Funds</u>	
	<u>2002</u>	<u>2001</u>
OPERATING REVENUES:		
Water sales and treatment fees	\$ 23,214	\$24,142
Sewerage services	14,328	13,348
Lease income	1,378	1,196
Power sales	472	666
Pollution control financing fees	4,196	604
Administrative and general	4,017	5,087
Grants	853	1,693
Other	<u>2,865</u>	<u>2,474</u>
Total operating revenues	51,323	49,210
OPERATING EXPENSES:		
Personnel services	12,481	9,904
Materials and supplies	1,521	1,272
Utilities	3,015	2,811
Depreciation and amortization	9,527	9,199
Administrative and general	3,700	4,654
Professional services	3,292	3,233
Other	<u>4,437</u>	<u>2,676</u>
Total operating expenses	<u>37,973</u>	<u>33,749</u>
OPERATING INCOME	13,350	15,461
NON-OPERATING REVENUES (EXPENSES):		
Investment income	3,571	5,778
Interest expense	(11,608)	(10,061)
Other	<u>(3,934)</u>	<u>(1,367)</u>
Total nonoperating (expenses), net	<u>\$ (11,971)</u>	<u>\$ (5,650)</u>

See accompanying notes to financial statements.

BRAZOS RIVER AUTHORITY

Exhibit 2 Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - Proprietary Fund Type (continued)

Year Ended August 31, 2002
(With Comparative Totals for the Year Ended August 31, 2001)
(In thousands)

	<u>Enterprise Funds</u>	
	<u>2002</u>	<u>2001</u>
INCOME BEFORE OPERATING TRANSFERS	\$ 1,379	\$ 9,811
CONTRIBUTIONS	-	7,539
OPERATING TRANSFERS - IN	762	2,335
OPERATING TRANSFERS - OUT	<u>(762)</u>	<u>(2,335)</u>
NET INCOME	1,379	17,350
DEPRECIATION OF PREVIOUSLY CONTRIBUTED FIXED ASSETS	<u>934</u>	<u>934</u>
INCREASE IN RETAINED EARNINGS	2,313	18,284
RETAINED EARNINGS AT BEGINNING OF YEAR	<u>68,613</u>	<u>50,329</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 70,926</u>	<u>\$ 68,613</u>

See accompanying notes to financial statements.

BRAZOS RIVER AUTHORITY

Exhibit 3 Combined Statement of Cash Flows

Year Ended August 31, 2002
(With Comparative Totals for the Year Ended August 31, 2001)
(In thousands)

	<u>Enterprise Funds</u>	
	<u>2002</u>	<u>2001</u>
OPERATING ACTIVITIES:		
Operating income	\$ 13,350	\$ 15,461
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,075	7,718
Amortization	1,452	1,481
Changes in assets and liabilities:		
Receivables	(6,633)	3,451
Other current assets	(99)	(71)
Account payable	(226)	3,002
Accrued interest payable	60	859
Due to other funds	7,611	(3,400)
Deferred revenues	2,406	1,635
Construction contracts payable	1,852	2,439
Other current liabilities	(217)	(480)
Other	1	(4)
Other operating activities	<u>(4,003)</u>	<u>(1,706)</u>
Net cash provided by operations	<u>23,629</u>	<u>30,385</u>
NONCAPITAL FINANCING ACTIVITIES:		
Operating transfers - in	762	2,335
Operating transfers - out	<u>(762)</u>	<u>(2,335)</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of revenue bonds and contracts payable and loans payable	22,502	50,563
Acquisition and construction of capital assets	(40,404)	(45,205)
Principal paid on revenue bonds, variable rates bonds and contracts payable	(25,038)	(12,325)
Interest paid	(11,608)	(10,061)
Contributed capital	<u>-</u>	<u>7,539</u>
Net cash used for capital and related financing activities	<u>(54,548)</u>	<u>(9,489)</u>

BRAZOS RIVER AUTHORITY

Exhibit 3 Combined Statement of Cash Flows (continued)

Year Ended August 31, 2002
(With Comparative Totals for the Year Ended August 31, 2001)
(In thousands)

	<u>Enterprise Funds</u>	
	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of certificates of deposit and investments	\$ (31,853)	\$ (38,666)
Proceeds from sale and maturities of certificates of deposit and investments	44,222	20,834
Interest received	<u>2,986</u>	<u>4,044</u>
Net cash provided by (used for) investing activities	<u>15,355</u>	<u>(13,788)</u>
NET CHANGE IN CASH	(15,564)	7,108
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>54,037</u>	<u>46,929</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 38,473</u>	<u>\$ 54,037</u>

See accompanying notes to financial statements.

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements

August 31, 2002
(All Dollar Amounts in Thousands)

1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Brazos River Authority (the Authority) was created by the Texas Legislature in 1929, pursuant to constitutional Provision Section 59, Article 16, as a governmental agency of the state of Texas. The Authority is governed by a board of 21 directors appointed by the Governor for six-year terms, subject to approval by the Texas Senate. The Authority is not financially accountable to the state of Texas. The Authority is responsible for conservation, control, and development of the surface water resources of the Brazos River Basin. The Authority cooperates with cities and other local agencies in the construction and operation of regional sewerage systems to improve and maintain the quality of water in the Brazos River and its tributaries. The Authority also plans and develops water supply projects and commits the water it can supply under contracts to cities, towns, industries, and other water users throughout the Brazos River Basin and adjacent areas.

Under accounting principles generally accepted in the United States of America, the financial reporting entity (the government) includes all the funds and account groups of the primary government (i.e., the Brazos River Authority as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are includable as part of the primary government. Discretely presented component units would be reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. There are no separate entities which meet the aforementioned criteria; therefore, none are included in the accompanying general purpose financial statements.

Basis of Presentation - Fund Accounting

The accounts of the Authority are organized on the basis of funds which are considered separate accounting entities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity/retained earnings, revenues, and expenses. The various funds are summarized by type in the general-purpose financial statements. The following fund types are used by the Authority:

Proprietary Fund Type

Enterprise Funds

Enterprise funds have an economic resources measurement focus and are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

(b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Type

Agency Funds

The Authority's agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Authority holds for others in an agency capacity.

Basis of Accounting

The accrual basis of accounting is used by the enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) in accounting and reporting for its proprietary operations unless they conflict with governmental accounting standards. In accordance with a pronouncement of the Governmental Accounting Standards Board, the Authority has elected not to follow FASB pronouncements issued after November 30, 1989.

The modified accrual basis of accounting is followed by the agency funds for purposes of asset and liability recognition.

Cash and Cash Equivalents

The Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

No allowance for doubtful accounts has been provided in the general purpose financial statements because the Authority considers accounts receivable to be fully collectible.

Property, Plant, and Equipment - Enterprise Funds

Property, plant, and equipment owned by the enterprise funds are stated at cost except for contributed assets which are stated at estimated fair market value at the time donated. The costs of repairs and maintenance which do not extend the lives of or improve the value of fixed assets are expensed currently. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

Depreciation is provided over the estimated useful lives of the fixed assets using straight-line method. Estimated useful lives are as follows:

Reservoir facilities	40 - 83 years
Water treatment and sewerage system facilities	20 years
Buildings, structures, and improvements	10 - 67 years
Machinery and equipment	3 - 33 years

The Authority capitalizes net interest costs as a component cost of construction in progress. During the year ended August 31, 2002, the Authority had \$866 in capitalized interest.

Storage Rights

Storage rights represent rights in the Federal Reservoirs purchased through long-term contracts from the federal government. They are recorded at cost and amortized using the straight-line method. In accordance with Accounting Principles Board Opinion No. 17, storage rights acquired prior to November 1, 1970, are amortized over the contract terms while storage rights acquired after October 31, 1970, are amortized over a certain period, not to exceed 40 years.

Storage rights at August 31, 2002, consist of the following:

Storage rights purchased prior to November 1, 1970, and amortized over the initial terms of the contract, ranging	
Storage rights purchased prior to November 1, 1970, and amortized over the initial terms of the contract, ranging from 50 to 65 years, net of accumulated amortization	\$ 6,535
Storage rights purchased after October 31, 1970, and amortized over 40 years (50-year contract terms), net of accumulated amortization	<u>28,241</u>
	<u>\$ 34,776</u>

Interfund Transactions

The various funds of the Authority pay administrative and general charges to Central Services based on time expended by Central Services on each fund, except for three of the Regional Sewerage System funds which are charged 10% of each fund's operating and maintenance expenses as set forth in various contracts. These charges (\$3,094 in 2002) are treated as administrative and general expense in the various funds and as administrative and general revenue in Central Services.

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

Vacation and Sick Leave

The Authority's employees are granted vacation and sick leave in specified amounts. In the event of termination, an employee is reimbursed for all accumulated unused vacation up to a maximum of thirty days. No reimbursement is made for accumulated unused sick leave upon termination of employment except that, at retirement, an employee is paid for 50% of accumulated unused sick leave. The Authority does not accrue vacation or sick pay in its accounts, but rather records such items when paid. At August 31, 2002, accumulated unpaid vacation and sick pay were not material to the financial position of the Authority.

Revenue Recognition

Revenues in the enterprise funds are recorded when earned. Unearned revenues are reflected in the accompanying combined balance sheet as deferred revenues. Nonrefundable charges to contracting parties relating to the acquisition of fixed assets or project development costs are initially recorded as long-term deferred revenues and are amortized to income over periods equal to the lives of the assets purchased from such charges on a straight-line basis. Refundable charges to contracting parties relating to the acquisition of fixed assets or project development costs are recorded as other long-term liabilities.

The Authority has constructed reservoir, water treatment, and sewerage system facilities which were financed primarily by the issuance of revenue bonds and/or federal grants. The recipients of the services provided by these facilities generally contract to pay the Authority amounts equivalent to operating and maintenance expenses and/or the debt service requirements of the related revenue bonds. Revenue bond debt service is predominantly applicable to interest in the early years, with the portion applicable to principal retirements increasing in later years. Depreciation expense, provided on the straight-line method, usually exceeds the portion of revenues applicable to the principal portion of bond retirements which partially results in reporting operating losses in early years which will reverse in later years.

Restricted Assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

Retained earnings have been reserved for the excess of restricted assets over related liabilities to the extent such restricted assets were accumulated from revenues (i.e., in some cases, restricted assets were obtained in total or in part from the proceeds of bond sales or grants).

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

Other Assets

The Authority capitalizes bond and loan issuance costs and amortizes such costs over the term of the related bonds and loan using the straight-line method. At August 31, 2002, bond and loan issuance costs, net of accumulated amortization, of approximately \$2,265 were included in other assets in the accompanying combined balance sheet.

The Authority has adopted the provisions of Governmental Accounting Standards Board Statement No. 23, "Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities." The Statement requires that the difference between the reacquisition price and the net carrying amount of the refunded old debt be deferred and amortized as a component of interest expense in a systematic and rational manner over the life of the old debt or the life of the new debt, whichever is shorter. Accordingly, on the balance sheet, the deferred amount of \$3,084 is included as a deduction from the debt liability. The deferred amount resulted from refunding of debts in 1995, 1997 and 2001.

By agreement in 1988, the Authority amended a water contract with a utility company which provided for the sale of 162,000 acre feet of water per year through the year 2030. The amendment reduced the utility company's right to purchase water to 83,000 acre feet per year beginning January 1, 1989. As consideration for the 79,000-acre-feet reduction, the Authority (1) paid the utility company \$3,823 in 1988 and (2) reduced charges to the utility company by approximately \$350 per year beginning January 1, 1989. The Authority has sold the 79,000 acre feet to various third parties under long-term water contracts. The balance of \$2,995 at August 31, 2002, is included in other assets and will be amortized against related revenues from such contracts over the contract lives.

Contributed Capital

Federal and State grants and other contributions are normally restricted for the acquisition and/or construction of fixed assets and, in prior years, were recognized as contributed capital when earned. Upon implementation of GASB Statement 33 in fiscal year 2001, contributions are recorded as revenues in the statement of revenues, expenses, and changes in retained earnings. Depreciation expense on such assets contributed prior to September 1, 2000 is closed to contributed capital rather than retained earnings.

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

The following is a summary of changes in contributed capital for the year ended August 31, 2002:

	<u>Federal</u>	<u>State</u>	<u>Other</u>	<u>Amortization</u>	<u>Total</u>
Balance at September 1, 2001	\$ 29,825	\$ 5,065	\$ 64,454	\$ (28,323)	\$ 71,021
Depreciation on contributed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>(934)</u>	<u>(934)</u>
Balance at August 31, 2002	<u>\$ 29,825</u>	<u>\$ 5,065</u>	<u>\$ 64,454</u>	<u>\$ (29,257)</u>	<u>\$ 70,087</u>

Comparative Total Data

Comparative total data for the prior year have been presented in the accompanying general purpose financial statements in order to provide an understanding of changes in the Authority's financial position and operations. However, comparative data (i.e., presentation of prior year totals by fund type) have not been presented in each of the statements, since their inclusion would make the statements unduly complex and difficult to read.

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns are not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

New Accounting Pronouncements

In June of 1999, GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. GASB Statement No. 34, which is required to be adopted by the Authority in its fiscal year ending August 31, 2003, establishes new financial reporting requirements for state and local governments throughout the United States. The Authority has not yet determined the impact of GASB Statement No. 34. In addition, GASB No.37 and No. 38, *Certain Financial Statement Note Disclosures* were issued. These statements amend GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and adopt new note disclosure for financial reporting. The Authority has not yet evaluated the impact of these statements.

2. DEPOSITS AND INVESTMENTS

Investment of Authority funds is in accordance with a written investment policy authorized by the Brazos River Authority Board of Directors in accordance with the Public Funds Investment Act. The following are authorized investments under the Act: (1) obligations of the United States or its agencies

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

and instrumentalities; (2) direct obligations of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, Texas or the United States or their respective agencies and instrumentalities; and (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. The Act also authorizes, with restrictions specified in the Act, investment in certain other instruments as follows: certificates of deposit and share certificates, repurchase agreements, bankers' acceptances, commercial paper, mutual funds, guaranteed investment contracts, and investment pools. During the year ended August 31, 2002, the Authority did not own any types of securities or investments other than those permitted by the Authority's investment policy and the Public Funds Investment Act.

The components of the Authority's deposits and investments (including Agency Funds as restricted) at August 31, 2002, were as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash	\$12,101	\$26,985	\$39,086
Investments	<u>40,537</u>	<u>12,050</u>	<u>52,587</u>
	<u>\$52,638</u>	<u>\$39,035</u>	<u>\$91,673</u>

Unrestricted deposits and investments of the Temple-Belton Regional Sewerage System, Sugar Land Regional Sewerage System, Waco Metropolitan Area Regional Sewerage System, Lake Granbury Surface Water and Treatment System, Possum Kingdom Hydroelectric, Lake Alan Henry, Brushy Creek Regional Wasterwater System, Hutto Wastewater System, Sandy Creek (Leander) Water Treatment System, Clute/Richwood Wastewater System, Lee County Fresh Water Supply District No. 1 and the Williamson County Regional Raw Water Line enterprise funds are limited by contractual agreements and bond resolutions for use only in the individual enterprise funds and are not available for the general use of the Authority.

At August 31, 2002, the Authority's bank balances were fully insured or collateralized with securities held by the Authority's agent in the Authority's name. Also for liquidity purposes, the Authority invests in TexPool, a portfolio operated by the Texas Treasury Safekeeping Trust Company (Trust Company). The Comptroller of Public Accounts (the Comptroller) is the sole officer, director, and shareholder of the Trust Company. Administrative and investment services are provided to TexPool by Lehman Brothers Inc. (Lehman) and Federated Investors Inc. (Federated), under an agreement with the Comptroller, acting on behalf of the Trust Company. The Comptroller maintains oversight of the

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

services provided to TexPool by Lehman and Federated. Federated serves as investment manager and provides portfolio accounting, custodial and transfer agency services to TexPool. Lehman Brothers Inc. provides Marketing and Participant Services, serving as the contact for Participants of TexPool. State Street Bank & Trust serves as Custodian to TexPool.

TexPool is rated AAAM by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts, for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

The Authority accounts for its investments in debt securities, equity securities, and certain other investments at fair value. Fair value is defined as the price at which two willing parties would exchange the investment. All investment income, including changes in fair value of investments are reported as non-operating revenues in the operating statement.

The Authority's investments are categorized to give an indication of the level of custodial credit risk (Category 1 - lowest level of risk to Category 3 - highest level of risk) assumed by the Authority at August 31, 2002. Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority's agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by the counterparty's trust department or agent, but not

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002
(All Dollar Amounts in Thousands)

in the Authority's name. The Authority does not have any investments in Categories 2 or 3. The Authority's investments at August 31, 2002, are as follows:

	<u>Category 1</u>	<u>Fair Value*</u>
Carried at fair value:		
U.S. Treasury Securities	\$ 13,429	\$ 13,429
U.S. government agency securities	38,920	38,920
Deferred compensation plan investments (Note 10):		
Variable annuities (not categorized)	-	199
Mutual funds (not categorized)	-	39
	<hr/>	<hr/>
Total Deferred Compensation Plan Investments	-	238
	<hr/>	<hr/>
	\$ 52,349	\$ 52,587

*Investments expected to mature in 12 months or less are carried at historical cost.

3. PROPERTY, PLANT, AND EQUIPMENT

A summary of proprietary fund property, plant, and equipment at August 31, 2002, follows:

Land and land rights	\$ 27,986
Reservoirs, water treatment, and sewerage facilities	255,733
Buildings, structures, and improvements	14,769
Machinery and equipment	13,288
Construction in progress (Note 10)	73,332
	<hr/>
	385,108
Less accumulated depreciation	<hr/>
	(105,292)
	<hr/>
	\$ 279,816

4. EMPLOYEES' RETIREMENT PLAN

General

The Plan was established in 1959 by the Brazos River Authority (Authority), a governmental agency of the state of Texas, and was amended and restated effective September 1, 1997. Prior to the revision, the Plan was an exclusive defined benefit structure. Effective September 1, 1997, the Plan has changed to a combination defined benefit and defined contribution structure (Internal Revenue Code Section 401(a)

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

for all eligible employees who first become participants (or who reenter plan participation) on or after September 1, 1997. Employees who were active plan participants on August 31, 1997 made a one-time irrevocable election to choose to either remain under the benefit provisions of the prior plan as it existed August 31, 1997 or to have benefits determined under the new benefit provisions effective September 1, 1997. The Plan is administered by a retirement committee appointed by the Authority's Board of Directors and has a fiscal year-end of the last day in February.

As of February 28, 2002, and February 28, 2001, total participation in the defined contribution component is 82 and 82. Participation in the defined benefit component, as of February 28, 2002 and 2001, is composed of the following:

<u>Group</u>	<u>2002</u>	<u>2001</u>
Retirees and beneficiaries currently receiving benefits	67	62
Terminated plan members entitled to but not yet receiving benefits	27	18
Transferred Canal Division Employees *	9	10
Active plan members	<u>182</u>	<u>186</u>
Total	<u>285</u>	<u>276</u>

**These participants were transferred to the Galveston County Water Authority on July 21, 1988. They will continue to accrue vesting as long as they remain employed by the Galveston County Water Authority.*

Payment of Benefits

Defined Benefit Component

The Plan provides pension and death benefits. The Plan's normal retirement age is 65. A participant may retire after both reaching the age of 55 and completing 15 years of service or after both attaining age 62 and completing 10 years of service. Benefits vest after 15 years of service or after both the attainment of age 45 and completion of five years of service.

Pension benefits are based on the participant's final average monthly compensation and credited service. Final average monthly compensation is defined as the participant's average monthly rate of basic compensation during whichever five successive calendar years out of the last ten calendar years immediately preceding the January 1 coincident with or next following the date on which the participant's service terminated give the highest average monthly rate of compensation for the participant.

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

Defined Contribution Component

Whenever a participant or beneficiary is to receive a distribution of a payment account balance, the form of such distribution shall be in accordance with one of the following options selected by the recipient:

- (a) A single, lump-sum payment in cash
- (b) Substantially equal periodic annual, monthly, or quarterly cash installments
- (c) Irregular, nonperiodic distributions paid once a year

Death and Disability Benefits

Defined Benefit Component

At normal retirement date, a disabled participant will receive the monthly income to which he or she would have been entitled if he or she had continued in employment with the Authority at his or her last regular rate of compensation until his or her normal retirement date; however, income payable at the normal retirement date cannot exceed the amount that he or she was receiving under disability retirement immediately preceding the normal retirement date.

Upon the death of a participant while employed or disabled prior to normal retirement, the participant's beneficiary normally receives monthly benefits payable for ten years certain and life thereafter. Such benefits are based on final average monthly compensation and credited service. If the participant dies after normal retirement but prior to actual retirement, the beneficiary normally receives monthly benefits payable for ten years certain and life thereafter. Such benefits equal the benefits the participant would have been entitled to receive if he or she had retired on his or her date of death.

Defined Contribution Component

In the event of disability or death, the participant or beneficiary shall also be entitled to receive a distribution of the participant's account.

The Plan's audited financial statements are available at the Authority's offices in Waco, Texas.

Contributions

Defined Benefit Component

The Authority's employees are not required or allowed to contribute to the defined benefit component of the Plan. The Authority intends, but does not guarantee, to make annual contributions in amounts at least equal to the amounts that would be required to meet the minimum funding requirements of Section 412 of the Internal Revenue Code (Code).

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

Defined Contribution Component

Each plan year all participants, other than prior plan-electing participants, shall be required to contribute an amount each pay period equal to 3.0% of their compensation earned during such pay period.

Each plan year the employer shall contribute a total amount which, with applicable forfeitures from non-vested employer contribution accounts, equals 3.0% of each participant's compensation earned during the plan year.

In addition to the above employer contribution, the employer shall contribute a total amount of matching employer contribution which, with applicable forfeitures from non-vested matching employer contribution accounts, equals 50% of the amount of compensation amounts deferred by active participants to the eligible deferred compensation plan (457 plan) sponsored by the employer pursuant to Code Section 457(b). The matching employer contribution amount contributed on behalf of a particular active participant shall be based on actual deferrals made to the 457 plan but not to exceed 3% of compensation earned during the plan year.

Funding Requirements

The following table presents funding progress of the defined benefit portion of the Plan based on actuarial data.

Actuarial Valuation Date	Value of Assets (a)	Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll (b-a)/(c)
March 1, 2000	\$21,900	\$24,646	\$2,746	89%	\$6,649	41%
March 1, 2001	23,604	26,453	2,849	89	7,825	36
March 1, 2002	24,379	27,273	2,894	89	7,642	38

The actuarial assumptions used for the current fiscal year are as follows:

Investment rate of return*	7.50%
Projected salary increase	5.50%
Cost-of-living adjustments	None

*Includes inflation at 3.50%

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002
(All Dollar Amounts in Thousands)

Additionally, the aggregate actuarial cost method was used which does not separately identify or separately amortize unfunded liabilities. The method used to determine the actuarial valuation of assets is the five-year smoothed market. During 2002, the Authority contributed \$263 to the Plan, which was the Annual Required Contribution. Pension cost for 2001 and 2000 was \$263 and \$316, respectively. These amounts represent 100% of pension cost contributed.

5. BONDS AND CONTRACTS PAYABLE

The following is a summary of debt transactions of the Authority for the year ended August 31, 2002:

	<u>Revenue Bonds</u>	<u>Contracts Payable</u>
Balance at September 1, 2001	\$ 193,872	\$ 46,120
Debt retired	(23,210)	(1,828)
New issues/contracts	<u>19,750</u>	<u>2,752</u>
Balance at August 31, 2002	<u>\$ 190,412</u>	<u>\$ 47,044</u>

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

Revenue Bonds

Revenue bonds payable at August 31, 2002, are composed of the following individual issues:

Sale and Delivery of Water:

\$16,885 Series 1972 Brazos River Authority Water Supply Refunding serial bonds to finance DeCordova Bend Dam and Lake Granbury; due in annual installments of \$555 to \$1,015 through 2011; interest at 5.5%	\$ 7,940
\$30,000 Series 1975 Brazos River Authority Water Supply serial and term bonds to construct Sterling C. Robertson Dam and Lake Limestone; due in annual installments of \$1,805 to \$4,800 through 2004; interest at 7%	6,880
\$10,000 Series 1976 Brazos River Authority Water Supply serial and term bonds to construct Sterling C. Robertson Dam and Lake Limestone; due in annual installments of \$640 to \$775 through 2004; interest at 6.375%	1,505
\$58,170 Series 1995 Brazos River Authority serial bonds to refund Lake Alan Henry Series 1989 and Series 1991 bonds; due in annual installments of \$1,500 to \$3,890 through 2021; interest at 4.55% to 5.5%	48,810
\$20,000 Series 1999 Brazos River Authority Texas Water Development Board State Participation Loan for Williamson Co. Regional Raw Water Line; due in annual installments of \$860 to \$1,940 (2021-2035)	20,000
\$17,262 Series 2000 Brazos River Authority serial and capital appreciation bonds for Williamson Co. Regional Raw Water Line; due in annual installments of \$265 to \$1,015 through 2030; interest at 4.35% to 5.80%	16,927
\$8,925 Series 2001A Brazos River Authority serial and term bonds for repairs to Morris Sheppard Dam and Possum Kingdom facility and refunding the Series 1991 Water Supply Revenue Bonds; due in annual installments of \$340 to \$1,700 through 2021; interest at 4.35% to 5.65%	8,585
\$1,060 Series 2001B Brazos River Authority serial bonds to refund Lake Whitney Corps of Engineers contract; due in annual installments of \$60 to \$100 through 2015; interest at 3.3% to 5.125%	1,000
\$6,000 Series 2002 Brazos River Authority State Participation Loan (Allens Creek Project); for purchase of land for Allens Creek Reservoir site; due in installments of \$260 to \$580 through 2036; interest at 5.776% to 5.876%	6,000

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

Regional Water/Wasterwater Systems:

\$2,100 Series 1973 Brazos River Authority serial bonds to construct the Sugar Land Regional Sewerage System; due in annual installments of \$130 to \$155 through 2003; interest at 4.75% to 5.55%	\$ 300
\$960 Series 1979 Brazos River Authority serial bonds to construct the Sugar Land Regional Sewerage System; due in annual installments of \$70 to \$80 through 2003; interest at 6.75%	160
\$1,400 Series 1994 Brazos River Authority serial bonds to construct improvements to the Sugar Land Regional Sewerage System; due in annual installments of \$100 to \$130 through 2009; interest at 4.8% to 5.6%	820
\$7,840 Series 1986 Brazos River Authority serial bonds to construct the Waco Metropolitan Area Regional Sewerage System improvements; due in annual installments of \$1,050 in 2005 and 2006; interest at 6.25%	2,100
\$9,655 Series 1989 and 1989 A Brazos River Authority serial bonds to construct the Temple-Belton Regional Sewerage System improvements; due in annual installments of \$460 to \$730 through 2011; interest at 4% to 5.5%	5,480
\$2,175 Series 1990 Brazos River Authority serial bonds to construct the Waco Metropolitan Area Regional Sewerage System improvements; due in annual installments of \$100 to \$205 through 2010; interest at 6.75% to 7.375%	1,390
\$7,785 Series 1991 Brazos River Authority serial bonds to refund a portion of Series 1983 Brazos River Authority serial bonds to construct the Waco Metropolitan Area Regional Sewerage System improvements; due in annual installments of \$735 to \$1,035 through 2004; interest at 6.3% to 6.7%	2,715
\$8,415 Series 1992 Brazos River Authority serial bonds to construct improvements to the Waco Metropolitan Area Regional Sewerage System and to refund a portion of the Series 1970 and Series 1986 Brazos River Authority serial bonds; due in annual installments of \$810 to \$1,365 through 2004; interest at 5.35% to 5.8%	3,245
\$13,645 Series 1992A Brazos River Authority serial bonds to construct improvements to the Waco Metropolitan Area Regional Sewerage System; due in annual installments of \$710 to \$1,250 through 2010; interest at 4.4% to 5.35%	9,160

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

\$3,975 Series 1995 Brazos River Authority serial bonds to refund a portion of Series 1979 Brazos River Authority serial bonds to construct the Sugar Land Regional Sewerage System improvements; due in annual installments of \$230 to \$395 through 2009; interest at 4.75% to 5.7%	\$ 2,590
\$3,940 Series 2000 Brazos River Authority serial bonds to construct facilities to transport City of Waco's sewage into the Waco Metropolitan Area Regional System; due in annual installments of \$110 to \$315 from 2002 through 2021; interest at 5.1% to 6.0%	3,830
\$10,530 Series 2001 Brazos River Authority serial and term bonds to for expansion of Lake Granbury Surface Water and Treatment System; due in annual installments fo \$320 to \$2,345 through 2022; interest at 4.375% to 5.55%	10,530
\$13,750 Series 2002 Brazos River Authority and Johnson County Rural WSC Contract Revenue Bonds to replace Series 2001 Brazos River Authority taxable serial bonds for Lake Granbury Surface Water and Treatment System; due in annual payments of \$425 to \$1,090 through 2025; interest at 3.875% to 5.500%	13,750
Other:	
\$19,935 Series 1997 Brazos River Authority serial and term bonds to refund the Lake Granbury Surface Water and Treatment System Series 1987 serial bonds; due in annual installments of \$730 to \$1,335 through 2011; term bonds due from 2012 through 2015 in amounts of \$1415 to \$1,690; interest at 5.2% to 6.05%	<u>16,695</u>
Total revenue bonds	190,412
Less current portion	<u>(10,515)</u>
Total revenue bonds, net of current portion	<u>\$ 179,897</u>

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

Defeased Debt

In April 2002, the Authority issued \$13,750 in Series 2002 Revenue Refunding Bonds with interest rates from 3.875% to 5.650% to refund taxable revenue bonds with interest rates of 3.29% to 5.33%. The net proceeds available for refunding of bonds is \$13,235. As a result, the Series 2001 Taxable Contract Revenue Bonds in the amount of \$13,235 are considered to be defeased and the liability has been removed from the accompanying financial statements. There is no outstanding debt at August 31, 2002.

The Refunding was completed in order to repay short-term taxable Bonds. The taxable bonds were in place until the Brazos River Authority received State cap allocation to issue tax-exempt bonds for this project.

The annual requirements to amortize revenue bonds payable as of August 31, 2002, including interest payments of \$133,397 are as follows:

	<u>Revenue Bonds</u>
Year ending August 31:	
2003	\$ 19,495
2004	22,410
2005	16,354
2006	15,754
2007-2011	77,962
2012-2016	64,215
2017-2021	52,612
2022-2026	24,989
2027-2031	18,727
2032-2036	<u>11,291</u>
	<u>\$ 323,809</u>

Certain revenue bond issues contain provisions that allow the Authority to prepay or call the bonds. The Series 2001 Water Supply Revenue Bonds contain a bond coverage requirement of 1.1. The Authority was in compliance in Fiscal Year 2002 with a coverage factor of 1.85.

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

Contracts Payable

Contracts payable at August 31, 2002, are composed of the following individual amounts:

\$5,124 to acquire water conservation storage space in the Belton Reservoir; due in annual installments of principal and interest of \$170 through 2006 and \$126 from 2007 through 2024; interest at 2.5% to 2.544%	\$ 2,274
\$1,314 to acquire water conservation storage space in the Proctor Reservoir; due in annual installments of principal and interest of \$43 through 2015 and \$35 from 2016 through 2024; interest at 2.699%	663
\$7,127 to acquire water conservation storage space in the Stillhouse Hollow Reservoir, due in annual installments of principal and interest of \$284 through 2018; interest at 2.72%	3,636
\$7,383 to acquire water conservation storage space in the Somerville Reservoir; due in annual installments of principal and interest of \$266 through 2023 and \$253 from 2024 through 2027; interest at 2.742%	4,736
\$5,532 to acquire water conservation storage space in the Waco Reservoir; due in annual installments of principal and interest of \$188 through 2015; interest at 2.5%	2,069
\$15,178 to acquire water conservation storage space in the Granger Reservoir; due in annual installments of principal and interest of \$599 through 2041 and \$598 in 2042, with interest at 3.256%	13,298

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002
(All Dollar Amounts in Thousands)

\$7,130 to acquire water conservation storage space in the Georgetown (formerly Northfork) Reservoir; due in annual installments of principal and interest ranging from \$285 through 2032 to \$135 in 2042, with interest at 3.253%	\$ 6,055
\$11,194 to acquire water conservation storage space in Aquilla Lake; due in annual installments of principal and interest of \$593 through 2032 and \$531 from 2033 through 2042. Interest on the remaining principal portion is compounded annually at 5.116%	9,910
Retainage payable on the construction of the John T. Montford Dam and Lake Alan Henry; due upon completion of the project	81
Retainage payable on the improvements to the Temple-Belton Regional Sewerage System; due upon completion of the project	30
Retainage payable on communications upgrade for Lakes Possum Kingdom, Granbury and Limestone; due upon completion of project	16
Retainage payable on construction of the Lake Granbury Surface Water and Treatment System expansion; due upon completion of the project	2,681
Retainage payable on construction of the Hwy 84 wastewater line; due upon completion of the project	103
Retainage payable on the gate repairs at Possum Kingdom Lake; due upon completion of the project	112
Retainage payable on the construction of the Williamson County Regional Raw Water Line; due upon completion of the project	<u>1,380</u>
Total contracts payable (including retainage payable of \$4,426)	47,044
Less current portion	<u>(5,338)</u>
Total contracts payable, net of current portion	<u>\$ 41,706</u>

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

The annual requirements to amortize activated portions of contracts payable outstanding as of August 31, 2002, including interest payments of \$32,389 are as follows:

	<u>Contracts Payable</u>
Year ending August 31:	
2003	\$ 2,428
2004	2,428
2005	2,428
2006	2,428
2007 -2011	11,922
2012 -2016	11,726
2017 -2021	10,091
2022 -2026	9,161
2027 -2031	7,639
2032 -2036	7,011
2037 -2041	6,483
2042	<u>1,264</u>
	<u>\$75,009</u>

As of August 31, 2002, there were no unactivated portions of contracts payable.

6. FINANCING ARRANGEMENTS

The Authority has entered into agreements with cities (contracting parties) to issue tax-exempt debt for the benefit of the contracting parties. The Authority issues the debt in amounts sufficient to provide for construction of sewage treatment and water supply systems. The contracting parties then make payments to the Authority in amounts sufficient to service the debt.

The Authority has no liabilities for repayment of the bonds. The contracting parties pledge revenues from the project as security for the bondholders. Upon redemption of the bonds and completion of the projects, title and interest in the projects transfer to the contracting parties. Accordingly, the constructed assets and the related debt are not reflected in the general-purpose financial statements of the Authority. However, bond proceeds, monies received from the contracting parties, and the related

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002
(All Dollar Amounts in Thousands)

disbursements are included in the Authority's agency funds. The following is a schedule of the debt issued and outstanding for the contracting parties:

<u>Contracting Party</u>	<u>Date of Issue</u>	<u>Original Amount</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Balance at August 31, 2002</u>
City of Temple	1993	\$ 6,355	1994-2007	2.6% to 4.9%	\$ 3,885
City of Robinson	1996	1,615	1998-2017	2.9% to 4.5%	<u>1,360</u>
					<u>\$ 5,245</u>

The Authority regularly enters into agreements with various companies to issue tax-exempt and taxable debt for the benefit of the companies. The Authority issues the debt in amounts sufficient to provide for the construction of the specified capital improvements (usually pollution control and waste disposal facilities) and charges the companies an issuance fee based on the size of the bond issue. The companies then make payments (in the form of installment purchase agreements) to the Authority's trustee in amounts sufficient to service the debt. During 2002, the Authority issued bonds aggregating \$830,305 million which were used to retire bonds previously issued by the Authority and received and recognized pollution control financing fees from the companies totaling \$4,196.

The Authority has no liability for repayment of these bonds. The payments from the companies and the constructed facilities represent the only security for the bondholders. Upon completion of construction, title to the facility transfers to the companies. Accordingly, the assets and debt related to these financing agreements are not reflected in the accompanying general-purpose financial statements.

The following is a schedule of the tax-exempt and taxable debt issued and outstanding for the various companies at August 31, 2002:

<u>Year Issued</u>	<u>Original Amount</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Balance at August 31, 2002</u>
1) Monsanto Company - Air and/or Water Pollution Control facilities:				
1990	\$ 7,000	2002	Variable	\$ 7,000
1994	7,150	2004	Variable	<u>7,150</u>
				<u>\$ 14,150</u>

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

<u>Year Issued</u>	<u>Original Amount</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Balance at August 31, 2002</u>
2) Reliant Energy (formerly Houston Industries) - Air and/or Water Pollution Control and Waste Disposal facilities:				
1992A	\$ 43,820	2017	6.70 %	\$ 43,820
1992B	33,470	2012	6.375	33,470
1993	83,565	2017	5.60	83,565
1995	91,945	2015	5.80	91,945
1997	50,000	2018	5.05	50,000
1998A	100,000	2019	5.125	100,000
1998B	90,000	2020	5.125	90,000
1998C	100,000	2019	5.125	100,000
1998D	68,700	2015	4.90	68,700
1999A	100,000	2019	5.375	100,000
1999B	100,000	2018	5.200	100,000
				<u>\$ 861,500</u>

<u>Year Issued</u>	<u>Original Amount</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Balance at August 31, 2002</u>
3) Texas Utilities Electric Company - Air and/or Water Pollution Control and Waste Disposal facilities:				
1993	\$ 100,000	2023	Variable	\$ 43,835
1994A	39,170	2029	Variable	39,170
1994B	39,170	2029	Variable	39,170
1995A	50,670	2030	Variable	50,670
1995B	118,355	2030	4.150	118,355
1999A	110,545	2033	3.70	110,545
1999B	15,955	2034	Variable	15,955
1999C	50,000	2032	Variable	50,000
2001A	120,750	2030	Variable	120,750

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002
(All Dollar Amounts in Thousands)

<u>Year Issued</u>	<u>Original Amount</u>	<u>Year of Maturity</u>	<u>Interest Rate</u>	<u>Balance at August 31, 2002</u>
2001B	19,180	2029	4.75	\$ 19,180
2001C	273,985	2036	5.75	273,985
2001D	271,390	2033	Variable	271,390
2001F	39,025	2036	Variable	39,025
2001G	72,335	2036	Variable	72,335
2001H	30,820	2036	Variable	30,820
2001I	62,920	2036	Variable	62,920
2002A	60,650	2037	Variable	60,650
				<u>\$ 1,418,755</u>
Total financing arrangements				<u>\$ 2,294,405</u>

The Galveston County Water Authority (GCWA) assumed the Authority's obligations on certain revenue bonds in connection with the sale of Canal Division fixed assets and water rights to GCWA in 1988. GCWA is obligated to make payments to the Authority's trustee in amounts sufficient to service outstanding bonds. The Authority is liable for repayment of these bonds only to the extent that payments are not received from GCWA (i.e., the GCWA payments represent the only security for the bondholders). Accordingly, these bonds and related assets are not reflected in the accompanying general-purpose financial statements.

The following is a schedule of bonds assumed by GCWA that are still outstanding at August 31, 2002:

<u>Original Amount</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Balance at August 31, 2002</u>
\$ 7,000	2007	4%-5%	\$ 1,825

7. ACCUMULATED DEFICITS

At August 31, 2002, retained earnings included the following accumulated deficits of individual enterprise funds:

Possum Kingdom Hydro	\$ (1,275)
Water Treatment	(129)

Accumulated deficits of the Water Treatment System funds generally result from depreciation expense being in excess of revenue received relating to retirement of revenue bond principal during the early years of a bond issue. The bond principal payments are smaller during the early years of an issue and large during the later years of the life of an issue. The deficit in the Possum Kingdom Hydro fund is

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

primarily the result of accumulated losses from hydroelectric operations occurring from low generation activity. Accumulated deficits of other funds are not material. Generally, deficits will be eliminated through use of future revenues.

8. INTERFUND BALANCES AND TRANSACTIONS

At August 31, 2002, interfund balances consisted of the following:

	<u>Advances to Other Funds</u>	<u>Advances From Other Funds</u>	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
Central Services	\$ 264	\$ -	\$ 972	\$ -
Possum Kingdom Hydro	-	1,560	1	2,109
Water Supply	1,560	-	10,205	9,068
Water Treatment	-	264	3	4
	<u>\$ 1,824</u>	<u>\$ 1,824</u>	<u>\$ 11,181</u>	<u>\$ 11,181</u>

9. SEGMENT INFORMATION

The Authority maintains four lines of business funds. Selected information for the year ended August 31, 2002, follows:

	<u>Water Supply System</u>	<u>Water Treatment</u>	<u>Possum Kingdom Hydro</u>	<u>Central Services</u>	<u>Combined Totals</u>	
					<u>2002</u>	<u>2001</u>
Operating revenues	\$ 23,533	\$ 18,478	\$ 472	\$ 8,840	\$ 51,323	\$ 49,210
Depreciation and amortization expense	4,269	4,767	70	421	9,527	9,199
Operating income (loss)	6,433	2,540	(346)	4,723	13,350	15,461
Operating transfers in (out)	54	6	(54)	(6)	-	-
Net income (loss)	(475)	(657)	(396)	2,907	1,379	17,350
Additions to property, plant, and equipment	13,348	24,172	108	2,776	40,404	44,345
Net working capital	39,852	(856)	(2,278)	1,998	38,716	37,475
Total assets	319,016	96,951	3,364	11,165	430,496	420,118
Revenue bonds and contracts payable, net of current portion	153,638	67,965	-	-	221,603	213,302
Total fund equity (deficit)	126,095	4,906	(644)	10,656	141,013	139,634

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

10. COMMITMENTS AND CONTINGENCIES

Deferred Compensation Plan

The Authority offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The plan, available to all regular, full-time Authority employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional.

Investments are managed by the plan's administrator under various participant-directed investment options. The choice of the investment option(s) is made by the participant. In accordance with Statement 32 of the Governmental Accounting Standards Board, this plan is not reported because the assets are not held by the Authority in a trustee capacity or as an agent for the participant.

However, prior to the current arrangement, the Authority did manage the Deferred Compensation Plan. When the Authority opted for outside administration of the plan, employees in the plan at that time were given the choice to stay with the Authority-managed plan or change to the outside-managed plan. The assets of the Authority-managed plan are reported at fair value in Central Services of the Authority. Employees hired after the change in plan structure who wish to participate in the plan must use the outside-managed plan.

Construction Projects

During Fiscal Year 2002, the Authority made progress on the following projects:

	Construction In Progress As of <u>August 31</u>	<u>Total Cost</u>	Estimated Project Comp. <u>Date</u>
Williamson Co. Raw Water Line	\$ 31,706	\$ 34,915	2005
Williamson Co. Raw Water Line Remediation	-	13,066	2004
Hwy. 84 Interceptor	3,400	5,185	2002
West Central Brazos Pipeline	500	5,150	2005
Possum Kingdom Gate Replacement: 5 - 9	2,016	7,876	2007
Lake Granbury SWATS Expansion	26,387	30,855	2003
Lake Granbury Gates	9,323	9,616	2002

BRAZOS RIVER AUTHORITY

Notes to General Purpose Financial Statements (continued)

August 31, 2002

(All Dollar Amounts in Thousands)

During 1986, the Authority began work on the Williamson County Regional Raw Water Line project. Total project costs are estimated to be approximately \$35,000. During testing of the line it was discovered that certain portions of the line did not meet specifications. The surety for the primary contractors has assumed full responsibility for the mitigation costs and repairs should be completed during FY2003.

Other

The Authority has participated in a number of state- and federally-assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

Insurance coverage is provided through commercial insurance, for substantially all claims relating to fire and theft coverage, airport and non-owned aircraft liability, employee dishonesty, public officials' liability, travel accident coverage, fiduciary liability, law enforcement liability, and auto liability. Self-insurance programs are maintained in Central Services and cover medical expenses, general liability, and workers' compensation claims. Under its current stop loss policy, the Authority pays medical claims up to \$35 per individual per year up to a maximum of \$946 per year in the aggregate. Such claims are paid out of funds reserved specifically for such claims. For general liability coverage, the Authority has opted for a self-insured retention with excess coverage of \$1,000 aggregate with no deductible. The Authority also maintains a stop loss policy for workers' compensation claims with limits of \$50 per occurrence and an aggregate loss of \$500. Other current liabilities payable from restricted assets in Central Services include an estimate of the eventual loss on claims arising prior to year-end, including claims incurred but not reported. These liabilities are immaterial to financial positions of the Authority and the individual funds.

The Authority has made no significant changes in its insurance coverage from coverage in the prior year. In the past three years the Authority has had no settlements which exceeded insurance coverage.

The Authority is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Authority's financial position.

* * * * *

Combining Financial Statements



**PROPRIETARY FUND TYPE
(ENTERPRISE FUNDS)**

Enterprise funds account for operations that are financed and operated so that the costs of providing goods or services are financed or recovered primarily through user charges. Major functions of the Authority's enterprise funds include the sale and delivery of water, water and wastewater treatment services, hydroelectric generation, and administration and support activities.

BRAZOS RIVER AUTHORITY

STATEMENT A-1

Enterprise Funds Combining Balance Sheet

As of August 31, 2002
(With Comparative Totals for August 31, 2001)
(In thousands)

ASSETS	Water Supply System	Water Treatment	Possum Kingdom Hydro	Central Services	Totals	
					2002	2001
CURRENT ASSETS:						
Cash and cash equivalents	\$ 2,062	\$ 8,870	\$ -	\$ 1,169	\$ 12,101	\$ 13,833
Investments	40,537	-	-	-	40,537	35,999
Receivables:						
Accounts	2,008	214	-	10	2,232	2,757
From other funds	10,205	3	1	972	11,181	3,570
Accrued interest	385	-	-	-	385	491
Current portion of contracts receivable	161	-	-	-	161	146
Total receivables	12,759	217	1	982	13,959	6,964
Other current assets	737	11	4	87	839	716
Total current assets	56,095	9,098	5	2,238	67,436	57,512
Restricted assets:						
Interest and sinking fund:						
Deposits - cash	497	93	-	-	590	1,280
Reserve fund:						
Deposits - cash	1,162	2,730	-	-	3,892	1,344
Investments	3,585	5,708	-	-	9,293	11,185
Accrued interest	10	23	-	-	33	92
Repair and replacement fund:						
Deposits - cash	10	908	-	-	918	214
Investments	1,284	511	-	-	1,795	2,474
Accrued interest	2	2	-	-	4	21
Deposits - cash	10,961	9,386	-	-	20,347	17,675

BRAZOS RIVER AUTHORITY

STATEMENT A-1

Enterprise Funds Combining Balance Sheet (continued)

As of August 31, 2002
(With Comparative Totals for August 31, 2001)
(In thousands)

	Water Supply System	Water Treatment	Possum Kingdom Hydro	Central Services	Totals	
					2002	2001
Other:						
Deposits - cash	\$ -	\$ 311	\$ 170	\$ 144	\$ 625	\$ 19,669
Investments	-	-	-	-	-	15,477
Accrued interest	-	-	-	-	-	137
Deferred compensation:						
Deposits - cash	-	-	-	-	-	22
Investments	-	-	-	238	238	329
Total restricted assets	17,511	19,672	170	382	37,735	69,919
Property, plant, and equipment, at cost:						
Land and land rights	26,213	1,051	-	722	27,986	21,032
Reservoirs, water treatment, and sewerage facilities	151,570	100,220	3,943	-	255,733	255,723
Building, structures, and improvements	5,689	2,965	396	5,719	14,769	8,162
Machinery and equipment	5,343	3,718	359	3,868	13,288	11,131
Accumulated depreciation	(30,158)	(71,286)	(1,820)	(2,028)	(105,292)	(97,500)
Construction in progress	43,070	30,262	-	-	73,332	47,295
Net property, plant, and equipment	201,727	66,930	2,878	8,281	279,816	245,843
Storage rights, net	34,776	-	-	-	34,776	36,082
Contract receivable, net of current portion	1,972	-	-	-	1,972	2,121
Advances to other funds	1,560	-	-	264	1,824	
Project development costs	977	115	102	-	1,194	2,938
Other assets, net	4,398	1,136	209	-	5,743	5,703
Total assets	<u>\$319,016</u>	<u>\$ 96,951</u>	<u>\$ 3,364</u>	<u>\$ 11,165</u>	<u>\$430,496</u>	<u>\$420,118</u>

BRAZOS RIVER AUTHORITY

STATEMENT A-1

Enterprise Funds Combining Balance Sheet (continued)

As of August 31, 2002
(With Comparative Totals for August 31, 2001)
(In thousands)

LIABILITIES AND FUND EQUITY (DEFICIT)	Water Supply System	Water Treatment	Possum Kingdom Hydro	Central Services	Totals	
					2002	2001
Current liabilities						
Accounts payable	\$ 3,105	\$ 1,410	\$ 174	\$ 240	\$ 4,929	\$ 5,155
Accrued interest	976	-	-	-	976	844
Due to other funds	9,068	4	2,109	-	11,181	3,570
Deferred revenues	3,094	8,540	-	-	11,634	10,468
Total current liabilities	16,243	9,954	2,283	240	28,720	20,037
Current liabilities payable from restricted assets:						
Accrued interest	778	1,659	-	-	2,437	2,509
Revenue bonds payable	5,715	4,800	-	-	10,515	23,210
Storage contracts payable	912	-	-	-	912	906
Construction contracts payable	1,613	2,813	-	-	4,426	2,574
Deferred compensation benefits payable	-	-	-	237	237	346
Other	75	35	-	2	112	196
Total current liabilities payable from restricted assets	9,093	9,307	-	239	18,639	29,741
Long-term liabilities:						
Revenue bonds payable, net of current portion	111,932	67,965	-	-	179,897	170,662
Discount on revenue bonds payable	(3,659)	(1,020)	-	-	(4,679)	(4,715)
Contracts payable, net of current portion	41,706	-	-	-	41,706	42,640
Advances from other funds	-	264	1,560	-	1,824	-
Deferred revenues	17,144	5,471	-	-	22,615	21,375
Other liabilities	462	104	165	30	761	744
Total long-term liabilities	167,585	72,784	1,725	30	242,124	230,706
Total liabilities	192,921	92,045	4,008	509	289,483	280,484
Fund equity:						
Contributed capital:						
Federal	4,148	24,987	690	-	29,825	29,825
State	4,398	-	667	-	5,065	5,065
Other	53,165	2,736	778	7,775	64,454	64,454
	61,711	27,723	2,135	7,775	99,344	99,344
Less amortization	(5,064)	(22,689)	(1,504)	-	(29,257)	(28,323)
Total contributed capital	56,647	5,034	631	7,775	70,087	71,021

BRAZOS RIVER AUTHORITY

STATEMENT A-1

Enterprise Funds Combining Balance Sheet (continued)

As of August 31, 2002
(With Comparative Totals for August 31, 2001)
(In thousands)

	<u>Water Supply System</u>	<u>Water Treatment</u>	<u>Possum Kingdom Hydro</u>	<u>Central Services</u>	<u>Totals</u>	
					<u>2002</u>	<u>2001</u>
Retained earnings (deficit):						
Reserved for:						
Repair and replacement	\$ 750	\$ -	\$ -	\$ 100	\$ 850	\$ 750
Unreserved	<u>68,698</u>	<u>(128)</u>	<u>(1,275)</u>	<u>2,781</u>	<u>70,076</u>	<u>67,863</u>
Total retained earnings (deficit)	<u>69,448</u>	<u>(128)</u>	<u>(1,275)</u>	<u>2,881</u>	<u>70,926</u>	<u>68,613</u>
Total fund equity (deficit)	<u>126,095</u>	<u>4,906</u>	<u>(644)</u>	<u>10,656</u>	<u>141,013</u>	<u>139,634</u>
Total liabilities and fund equity	<u>\$319,016</u>	<u>\$ 96,951</u>	<u>\$ 3,364</u>	<u>\$ 11,165</u>	<u>\$430,496</u>	<u>\$420,118</u>

BRAZOS RIVER AUTHORITY

STATEMENT A-2

Enterprise Funds Combining Statement of Revenues, Expenses and Changes in Retained Earnings (Deficit)

As of August 31, 2002
(With Comparative Totals for August 31, 2001)
(In thousands)

	Water Supply System	Water Treatment	Possum Kingdom Hydro	Central Services	Totals	
					2002	2001
Operating revenues:						
Water sales and treatment fees	\$19,599	\$ 3,608	\$ -	\$ 7	\$ 23,214	\$24,142
Sewerage services	-	14,328	-	-	14,328	13,348
Lease income	1,378	-	-	-	1,378	1,196
Power sales	-	-	472	-	472	666
Pollution control financing fees	-	-	-	4,196	4,196	604
Administrative and general	856	67	-	3,094	4,017	5,087
Grants	853	-	-	-	853	1,693
Other	847	475	-	1,543	2,865	2,474
Total operating revenues	23,533	18,478	472	8,840	51,323	49,210
Operating expenses:						
Personnel services	5,800	3,765	253	2,663	12,481	9,904
Materials and supplies	372	927	24	198	1,521	1,272
Utilities	185	2,654	7	169	3,015	2,811
Depreciation and amortization	4,269	4,767	70	421	9,527	9,199
Administrative and general	1,751	1,858	91	-	3,700	4,654
Professional services	2,066	664	176	386	3,292	3,233
Other	2,657	1,303	197	280	4,437	2,676
Total operating expenses	17,100	15,938	818	4,117	37,973	33,749
Operating income (loss)	6,433	2,540	(346)	4,723	13,350	15,461
Nonoperating revenues (expenses):						
Interest income	2,745	667	5	154	3,571	5,778
Interest expense	(7,729)	(3,872)	-	(7)	(11,608)	(10,061)
Other	(1,978)	2	(1)	(1,957)	(3,934)	(1,367)
Total nonoperating revenues (expenses), net	(6,962)	(3,203)	4	(1,810)	(11,971)	(5,650)
Income (loss) before operating transfers	(529)	(663)	(342)	2,913	1,379	9,811
Contributions	-	-	-	-	-	7,539
Operating transfers - in	756	6	-	-	762	2,335
Operating transfers - out	(702)	-	(54)	(6)	(762)	(2,335)
Net income (loss)	(475)	(657)	(396)	2,907	1,379	17,350
Depreciation of contributed fixed assets	99	827	8	-	934	934
Increase (decrease) in retained earnings	(376)	170	(388)	2,907	2,313	18,284
Retained earnings (deficit) at beginning of year as restated	69,824	(298)	(887)	(26)	68,613	50,329
Retained earnings (deficit) at end of year	\$69,448	\$ (128)	\$(1,275)	\$ 2,881	\$ 70,926	\$68,613

BRAZOS RIVER AUTHORITY

STATEMENT A-3

Enterprise Funds Combining Statement of Cash Flows

As of August 31, 2002
(With Comparative Totals for August 31, 2001)
(In Thousands)

	Water Supply System	Water Treatment	Possum Kingdom Hydro	Central Services	Totals	
					2002	2001
OPERATING ACTIVITIES:						
Operating income (loss)	\$ 6,433	\$ 2,540	\$ (346)	\$ 4,723	\$ 13,350	\$ 15,461
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Depreciation	2,918	4,666	70	421	8,075	7,718
Amortization	1,351	101	-	-	1,452	1,481
Changes in assets and liabilities:						
Receivables	(6,355)	366	47	(691)	(6,633)	3,451
Other current assets	(31)	9	5	(82)	(99)	(71)
Account payable	560	(620)	171	(337)	(226)	3,002
Accrued interest payable	76	(16)	-	-	60	859
Due to other funds	9,068	(260)	(1,197)	-	7,611	(3,400)
Advances	(1,560)	264	1,560	(264)	-	-
Deferred revenues	3,104	(698)	-	-	2,406	1,635
Construction contracts payable	(300)	2,516	-	(364)	1,852	2,439
Other current liabilities	(56)	(42)	-	(119)	(217)	(480)
Other	2	6	(1)	(6)	1	(4)
Other operating activities	(1,911)	(183)	21	(1,930)	(4,003)	(1,706)
Net cash provided by operations	13,299	8,649	330	1,351	23,629	30,385
NONCAPITAL FINANCING ACTIVITIES:						
Operating transfers - in	756	6	-	-	762	2,335
Operating transfers - out	(702)	-	(54)	(6)	(762)	(2,335)
Net cash provided by (used for) noncapital financing activities	54	6	(54)	(6)	-	-
CAPITAL AND RELATED FINANCING ACTIVITIES:						
Proceeds from sale of revenue bonds and contracts payable and loans payable	6,000	13,352	-	-	19,352	50,563
Acquisition and construction of capital assets	(13,348)	(24,172)	(108)	(2,776)	(40,404)	(45,205)
Principal paid on revenue bonds, variable rates bonds and contracts payable	(6,158)	(17,546)	-	-	(23,704)	(12,325)
Interest paid	(7,729)	(3,872)	-	(7)	(11,608)	(10,061)
Contributed capital	-	-	-	-	-	7,539
Net cash provided by (used for) capital and related financing activities	(21,235)	(32,238)	(108)	(2,783)	(56,364)	(9,489)

BRAZOS RIVER AUTHORITY

STATEMENT A-3

Enterprise Funds Combining Statement of Cash Flows (continued)

As of August 31, 2002
(With Comparative Totals for August 31, 2001)
(In Thousands)

	<u>Water Supply System</u>	<u>Water Treatment</u>	<u>Possum Kingdom Hydro</u>	<u>Central Services</u>	<u>Totals</u>	
					<u>2002</u>	<u>2001</u>
INVESTING ACTIVITIES:						
Purchases of certificates of deposit and investments	\$(26,695)	\$ (3,342)	\$ -	\$ -	\$(30,037)	\$(38,666)
Proceeds from sale and maturities of certificates of deposit and investments	24,896	19,235	-	91	44,222	20,834
Net change in fair value Interest received	<u>2,116</u>	<u>711</u>	<u>5</u>	<u>154</u>	<u>2,986</u>	<u>4,044</u>
Net cash provided by (used for) investing activities	317	16,604	5	245	17,171	(13,788)
NET CHANGE IN CASH	(7,565)	(6,979)	170	(1,190)	(15,564)	7,108
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>22,257</u>	<u>29,277</u>	<u>-</u>	<u>2,503</u>	<u>54,037</u>	<u>46,929</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 14,692</u>	<u>\$ 22,298</u>	<u>\$ 170</u>	<u>\$ 1,313</u>	<u>\$ 38,473</u>	<u>\$ 54,037</u>

AGENCY FUNDS

The Agency Funds account for assets held by the Authority in a fiduciary capacity as trustee, custodian, or agent for other governmental units.

BRAZOS RIVER AUTHORITY**STATEMENT A-4****All Agency Funds
Combining Balance Sheet**

**As of August 31, 2002
(With Comparative Totals for August 31, 2001)
(In thousands)**

ASSETS	City of Temple Debt Service Fund	City of Robinson Construction Project	Combined Totals	
			<u>2002</u>	<u>2001</u>
Cash	\$ 27	\$ 586	\$ 613	\$ 624
Investments	724	-	724	743
Interest receivable	-	-	-	15
Construction in progress	-	766	766	808
Total assets	<u>\$ 751</u>	<u>\$ 1,352</u>	<u>\$ 2,103</u>	<u>\$ 2,190</u>
Liabilities				
Held for future debt service	<u>\$ 751</u>	<u>\$ 1,352</u>	<u>\$ 2,103</u>	<u>\$ 2,190</u>
Total liabilities	<u>\$ 751</u>	<u>\$ 1,352</u>	<u>\$ 2,103</u>	<u>\$ 2,190</u>

BRAZOS RIVER AUTHORITY**STATEMENT A-5**

All Agency Funds
Combining Statement of Changes in Assets and Liabilities

Year Ended August 31, 2002
(In thousands)

	Balance September 1, 2001	Additions	Deductions	Balance August 31, 2002
City of Temple Debt Service Fund				
ASSETS				
Cash	\$ 11	\$ 750	\$ 734	\$ 27
Investments	743	1,461	1,480	724
Interest receivable	15	9	24	-
Due from other funds	<u>-</u>	<u>1,920</u>	<u>1,920</u>	<u>-</u>
Total assets	<u>\$ 769</u>	<u>\$ 4,140</u>	<u>\$ 4,158</u>	<u>\$ 751</u>
LIABILITIES				
Held for future debt service	<u>\$ 769</u>	<u>\$ 747</u>	<u>\$ 765</u>	<u>\$ 751</u>
Total liabilities	<u>\$ 769</u>	<u>\$ 747</u>	<u>\$ 765</u>	<u>\$ 751</u>

City of Robinson Construction Project				
ASSETS				
Cash	\$ 613	\$ 326	\$ 353	\$ 586
Due from other funds	-	3,007	3,007	-
Construction in progress	<u>808</u>	<u>-</u>	<u>42</u>	<u>766</u>
Total assets	<u>\$ 1,421</u>	<u>\$ 3,333</u>	<u>\$ 3,402</u>	<u>\$ 1,352</u>
LIABILITIES				
Held for future debt service	<u>\$ 1,421</u>	<u>\$ 250</u>	<u>\$ 319</u>	<u>\$ 1,352</u>
Total liabilities	<u>\$ 1,421</u>	<u>\$ 250</u>	<u>\$ 319</u>	<u>\$ 1,352</u>