

**SABINE RIVER AUTHORITY OF TEXAS
AND
SABINE RIVER AUTHORITY,
STATE OF LOUISIANA
TOLEDO BEND - JOINT OPERATION**

**FINANCIAL REPORT
AUGUST 31, 2023**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
Sabine River Authority of Texas, and
The Board of Commissioners,
Sabine River Authority, State of Louisiana

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Toledo Bend – Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana as of and for the years ended August 31, 2023 and 2022, and the related notes to financial statements, which collectively comprise the Joint Operation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Toledo Bend – Joint Operation, as of August 31, 2023 and 2022, and the respective changes in financial position, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Toledo Bend – Joint Operation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Toledo Bend - Joint Operation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Toledo Bend - Joint Operation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Toledo Bend - Joint Operation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Toledo Bend - Joint Operation's basic financial statements. The schedule of insurance in force and schedule of compensation, benefits and other payments to agency head is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to agency head is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits and other payments to agency head is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of insurance in force has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2023 on our consideration of the Toledo Bend - Joint Operation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Toledo Bend - Joint Operation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Toledo Bend - Joint Operation's internal control over financial reporting and compliance.



Lafayette, Louisiana
November 14, 2023

TOLEDO BEND – JOINT OPERATION

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Toledo Bend – Joint Operation (the “Joint Operation”) annual financial report presents a discussion and analysis of the Joint Operation’s financial performance during the fiscal year that ended August 31, 2023. The financials of Joint Operation are a representation of the total assets, liabilities, income and expenses that are solely owned and shared equally between Sabine River Authority of Texas and Sabine River Authority, State of Louisiana. Please read this section in conjunction with the Joint Operation’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Joint Operation’s net position was \$72,804,363 at August 31, 2023. Of this amount, \$72,461,394 was invested in capital assets and a surplus of \$342,969 was considered unrestricted. Net position increased by \$245,867 in 2023, decreased by \$849 in 2022 and decreased by \$1,116,522 in 2021.

Transfers into Joint Operations were \$8,528,000, \$6,992,579, and \$5,370,000, during the 2023, 2022, and 2021 fiscal years, respectively, and operating expenses were \$8,695,025, \$7,402,645, and \$7,086,499, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial report consists of three parts: Management’s Discussion and Analysis (this section), the basic financial statements, and the notes to the financial statements.

The basic financial statements present information for the Joint Operations as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the statements of net position and the statements of revenues, expenses and changes in net position.

The statements of net position presents the assets and liabilities. The difference between total assets and total liabilities is the net position and may provide a useful indicator of whether the financial position of the Joint Operation is improving or deteriorating.

The statements of revenues, expenses and changes in net position presents information showing how the Joint Operation’s assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, transactions are recorded that will not affect cash until future periods.

The financial statements provide information about the Joint Operation’s overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Joint Operation’s financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Under this basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of the Joint Operation are included in the statements of net position.

CONDENSED FINANCIAL INFORMATION

The following tables reflect condensed financial information represented in Joint Operations:

TABLE I
CONDENSED STATEMENT OF NET POSITION

	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS			
Current assets	\$ 2,711,983	\$ 3,047,142	\$ 3,255,271
Capital assets	72,461,394	69,866,069	69,525,489
Other assets	<u>342,197</u>	<u>168,543</u>	<u>306,844</u>
Total assets	<u>\$75,515,574</u>	<u>\$73,081,754</u>	<u>\$73,087,604</u>
LIABILITIES AND NET POSITION			
Current liabilities	\$ 2,711,211	\$ 523,258	\$ 528,259
Net position:			
Invested in capital assets	72,461,394	69,866,069	69,525,489
Unrestricted	<u>342,969</u>	<u>2,692,427</u>	<u>3,033,856</u>
Total net position	<u>\$72,804,363</u>	<u>\$72,558,496</u>	<u>\$72,559,345</u>
Total liabilities and net position	<u>\$75,515,574</u>	<u>\$73,081,754</u>	<u>\$73,087,604</u>

TABLE II
CONDENSED STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN NET POSITION

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 380,899	\$ 419,966	\$ 589,816
Operating expenses:			
Contract services	\$ 6,110,175	\$ 5,081,641	\$ 4,901,754
Depreciation	1,127,264	1,133,189	1,136,082
Supplies	122,439	100,785	77,703
Maintenance	1,141,494	900,994	774,597
Other operating expenses	<u>193,653</u>	<u>186,036</u>	<u>196,363</u>
Total operating expenses	<u>\$ 8,695,025</u>	<u>\$ 7,402,645</u>	<u>\$ 7,086,499</u>
Operating loss	\$(8,314,126)	\$(6,982,679)	\$(6,496,683)
Interest income (loss), net	31,993	(7,471)	10,161
Loss on disposal of fixed assets	-	(3,278)	-
Transfers in	<u>8,528,000</u>	<u>6,992,579</u>	<u>5,370,000</u>
Change in net position	<u>\$ 245,867</u>	<u>\$ (849)</u>	<u>\$ (1,116,522)</u>

FINANCIAL ANALYSIS

Joint Operation's total net position increased by \$245,867 in 2023 or 0.34%, decreased by \$849 in 2022 or 0.00%, and decreased by \$1,116,522 in 2021 or 1.52%. The increase in net position for the year ended August 31, 2023 related primarily to an increase in transfers in from Sabine River Authorities of Louisiana and Texas.

CAPITAL ASSETS

As of August 31, 2023, Joint Operations recorded \$72,461,394 (net of accumulated depreciation) invested in capital assets. These assets are solely owned and equally shared between the Sabine River Authorities of Louisiana and Texas. During the 2023 fiscal year, the Joint Operation also incurred capital purchases of \$3,722,589 related to the powerhouse transformer replacement and other equipment. These costs are being capitalized and depreciated over the expected useful lives of the assets. The following table reflects the Joint Operation's recorded capital assets net of accumulated depreciation:

TABLE III
CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Reservoir and waterways	\$36,001,159	\$36,001,159	\$36,001,159
Construction in progress	5,585,563	1,948,220	572,773
Dam and spillway	17,000,627	17,634,323	18,268,019
Hydroelectric power plant	12,983,489	13,365,917	13,748,345
Buildings, structures, and equipment	<u>890,556</u>	<u>916,450</u>	<u>935,193</u>
Total	<u>\$72,461,394</u>	<u>\$69,866,069</u>	<u>\$69,525,489</u>

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

There are currently no known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

CONTACTING JOINT OPERATION'S FINANCIAL MANAGEMENT

This financial report is designated to provide our legislatures, state officials, the Louisiana Legislative Auditor's office, patrons, and other interested parties with a general overview of Joint Operation's finances and to demonstrate Joint Operation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ms. Holly Smith at (409) 746-2192.

BASIC FINANCIAL STATEMENTS

TOLEDO BEND – JOINT OPERATION

STATEMENTS OF NET POSITION

August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 226,674	\$ 638,061
Certificate of deposit	575,422	569,538
Due from other governments	265,961	237,368
Investments	195,601	361,878
Accrued interest receivable	4,580	252
Prepaid expenses	<u>1,443,745</u>	<u>1,240,045</u>
	<u>\$ 2,711,983</u>	<u>\$ 3,047,142</u>
CAPITAL ASSETS:		
Non-depreciable	\$ 41,586,722	\$ 37,949,379
Depreciable, net	<u>30,874,672</u>	<u>31,916,690</u>
	<u>\$ 72,461,394</u>	<u>\$ 69,866,069</u>
OTHER ASSETS:		
Investments – long term	<u>\$ 342,197</u>	<u>\$ 168,543</u>
Total assets	<u>\$ 75,515,574</u>	<u>\$ 73,081,754</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,312,079	\$ 519,795
Retainage payable	325,059	-
Due to other governments	<u>74,073</u>	<u>3,463</u>
Total current liabilities	<u>\$ 2,711,211</u>	<u>\$ 523,258</u>
NET POSITION		
Net investment in capital assets	\$ 72,461,394	\$ 69,866,069
Unrestricted	<u>342,969</u>	<u>2,692,427</u>
Total net position	<u>\$ 72,804,363</u>	<u>\$ 72,558,496</u>
Total liabilities and net position	<u>\$ 75,515,574</u>	<u>\$ 73,081,754</u>

See Notes to Financial Statements.

TOLEDO BEND – JOINT OPERATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Miscellaneous	\$ 380,899	\$ 419,966
OPERATING EXPENSES		
Contract services	\$ 6,110,175	\$ 5,081,641
Depreciation	1,127,264	1,133,189
Supplies	122,439	100,785
Maintenance:		
Structures and spillway	1,061,765	817,448
Equipment	79,729	83,546
Other operating expenses	<u>193,653</u>	<u>186,036</u>
Total operating expenses	\$ 8,695,025	\$ 7,402,645
Operating loss	\$ (8,314,126)	\$ (6,982,679)
Non-operating revenue (expense):		
Investment income (loss), net	\$ 31,993	\$ (7,471)
Loss on disposal of fixed assets	<u>-</u>	<u>(3,278)</u>
Total non-operating revenue (expense)	\$ 31,993	\$ (10,749)
Loss before contributions and transfers	\$ (8,282,133)	\$ (6,993,428)
Transfers in	<u>8,528,000</u>	<u>6,992,579</u>
Change in net position	\$ 245,867	\$ (849)
Net position, beginning	<u>72,558,496</u>	<u>72,559,345</u>
Net position, ending	<u>\$ 72,804,363</u>	<u>\$ 72,558,496</u>

See Notes to Financial Statements.

TOLEDO BEND – JOINT OPERATION

STATEMENTS OF CASH FLOWS
Years Ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Paid to suppliers	\$ (5,583,508)	\$ (6,371,779)
Other receipts	<u>347,978</u>	<u>1,195,430</u>
Net cash used in operating activities	<u>\$ (5,235,530)</u>	<u>\$ (5,176,349)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in	<u>\$ 8,528,000</u>	<u>\$ 6,992,579</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of fixed assets	<u>\$ (3,722,589)</u>	<u>\$ (1,477,047)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificate of deposits	\$ (5,884)	\$ (5,576)
Purchases of investments	(486,430)	(240,763)
Sales and maturities of investments	487,672	140,727
Investment income receipts, net	<u>23,374</u>	<u>9,779</u>
Net cash provided by (used in) investing activities	<u>\$ 18,732</u>	<u>\$ (95,833)</u>
Net increase (decrease) in cash	\$ (411,387)	\$ 243,350
Balance, at beginning of year	<u>638,061</u>	<u>394,711</u>
Balance, at end of year	<u>\$ 226,674</u>	<u>\$ 638,061</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (8,314,126)	\$ (6,982,679)
Adjustments to reconcile operating loss to net cash used in operating activities –		
Depreciation expense	1,127,264	1,133,189
Changes in assets and liabilities:		
Due from other governmental entities	(28,593)	774,152
Accrued interest receivables	(4,328)	1,312
Prepaid expenses	(203,700)	(97,322)
Accounts payable	1,792,284	(5,212)
Retainage payable	325,059	-
Due to other governmental entities	<u>70,610</u>	<u>211</u>
Net cash used in operating activities	<u>\$ (5,235,530)</u>	<u>\$ (5,176,349)</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the Toledo Bend - Joint Operation (the "Joint Operation") have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Operation are described below.

Reporting entity:

The Joint Operation is a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, and was established by joint resolution of the Texas and Louisiana Sabine River Authorities. The operation is administered by an Operating Board composed of three members appointed by the Texas Authority and three members appointed by the Louisiana Authority. The financials of the Joint Operation are merely a representation of the total assets, liabilities, income and expenses that are solely owned and shared equally by the two Authorities. Each Authority records half of the assets, liabilities, income and expenses within their respective financial statements.

Basis of presentation:

The financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange or exchange like transactions are recognized when the exchange occurs (regardless of when cash is received or disbursed).

Operating income reported within the financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues include water royalties as well as other miscellaneous charges. Principal operating expenses are the costs associated with the operations of the fund and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Proprietary funds are accounted for using a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. The proprietary fund uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash, cash equivalents and investments:

Cash includes amounts in demand and savings deposits and cash on hand. For purposes of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Investments are reported at fair value with adjustments to fair value recognized in current year earnings. Interest, gains and losses, both realized and unrealized, on investments are included in non-operating revenue. The Joint Operation's investment objectives are preservation of capital, liquidity and yield. Each Authority selects the financial institution and investment types for the respective accounts. All funds are invested in compliance with applicable laws of each state. Investments consists of municipal bonds, corporate bonds and U.S. government and agency securities.

Capital assets:

Capital assets, which include the dam, spillway, hydroelectric power plant, reservoir, waterways, buildings, structures and equipment are reported at historical cost. All capital assets are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Dam and spillway	67
Hydroelectric power plant	67
Buildings, structures and equipment	5 – 40

Impairments:

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The Joint Operation is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. The Joint Operation recorded no impairment losses during the years ended August 31, 2023 and 2022.

Prepaid expenses:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Net position and flow of funds:

Restricted net position is legally restricted by outside parties for a specific purpose. Net investment in capital assets represents the Joint Operation's investment in capital assets, less outstanding debt, if any, that was issued to construct or acquire the capital asset. Unrestricted net position consists of net position that does not meet the definition of restricted or net investment in capital assets. If restricted or unrestricted funds are available for spending, the restricted funds are spent first.

Fair value measurements:

Investments measured and reported at fair value are classified according to the following hierarchy:

Level 1 - investments reflect prices quoted in active markets.

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Level 2 - investments reflect prices that are based on similar observable assets either directly or indirectly, which may include inputs from markets that are not considered to be active.

Level 3 - investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Debt securities classified as Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Investments classified as Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. Investments classified as Level 3 are valued based upon unobservable sources.

Note 2. Deposits and Investments

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Joint Operation's deposits may not be returned to it. The Joint Operation's policy to ensure there is no exposure to this risk is to require each financial institution to pledge their own securities to cover any amount in excess of Federal Depository Insurance Coverage. These securities must be pledged in the Joint Operation's name. As of August 31, 2023 and 2022, the Joint Operation had \$432,515 and \$684,549, respectively, of deposits with financial institutions for which securities were pledged to cover the excess over Federal Depository Insurance Coverage, respectively.

As of August 31, 2023 and 2022, the Joint Operation had the following investments and maturities:

<u>2023</u>						
<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>			
			<u>< 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>> 5 Years</u>
U.S. government and agencies	AA+	\$368,532	\$ 146,198	\$ 222,334	\$ -	\$ -
Municipal bonds	Aa1 - AA	119,863	-	119,863	-	-
Corporate bonds	AA - NR	49,403	49,403	-	-	-
Total		<u>\$537,798</u>	<u>\$ 195,601</u>	<u>\$ 342,197</u>	<u>\$ -</u>	<u>\$ -</u>

<u>2022</u>						
<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>			
			<u>< 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>> 5 Years</u>
U.S. government and agencies	Aaa	\$361,878	\$ 361,878	\$ -	\$ -	\$ -
Municipal bonds	Aa2 - AA	120,437	-	120,437	-	-
Corporate bonds	Aa2 - NR	48,106	-	48,106	-	-
Total		<u>\$530,421</u>	<u>\$ 361,878</u>	<u>\$ 168,543</u>	<u>\$ -</u>	<u>\$ -</u>

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

As of August 31, 2023 and 2022, the Joint Operation's fair value measurements were classified as follows:

<u>Investments by Fair Value Level</u>	<u>Fair Value</u>	<u>Fair Value Measurement Using:</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>2023</u>				
U.S. government and agencies	\$368,532	\$ 368,532	\$ -	\$ -
Municipal bonds	119,863	-	119,863	-
Corporate bonds	<u>49,403</u>	<u>-</u>	<u>49,403</u>	<u>-</u>
Total	<u>\$537,798</u>	<u>\$ 368,532</u>	<u>\$ 169,266</u>	<u>\$ -</u>
<u>2022</u>				
U.S. government and agencies	\$361,878	\$ 361,878	\$ -	\$ -
Municipal bonds	120,437	-	120,437	-
Corporate bonds	<u>48,106</u>	<u>-</u>	<u>48,106</u>	<u>-</u>
Total	<u>\$530,421</u>	<u>\$ 361,878</u>	<u>\$ 168,543</u>	<u>\$ -</u>

Interest Rate Risk – The Joint Operation does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates. However, fixed income investments are limited to maturities of less than five years. The table on page 13 includes the maturities of the Joint Operation's investments.

Credit Risk for Investments – Credit risk for investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Joint Operation does not have a formal investment policy for credit risk but follows the applicable state statutes regarding minimum credit ratings of fixed rate investments in order to minimize credit risk. Credit ratings for the Joint Operation's investments are noted in the table on page 13.

Concentration of Credit Risk for Investments – The Joint Operation places no limit on the amount it may invest in any one issuer. As of August 31, 2023, the Joint Operation had investments with 5 separate issuers which accounted for between 4% and 9% each of the total portfolio value. As of August 31, 2022, the Joint Operation had investments with 5 separate issuers which accounted for between 5% and 9% each of the total portfolio value. All other investments were in U.S. government securities.

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital assets activity for the years ended August 31, 2023 and 2022 was as follows:

	Balance <u>09/01/2022</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>08/31/2023</u>
Capital assets not being depreciated:				
Reservoir and waterways	\$36,001,159	\$ -	\$ -	\$36,001,159
Construction in process	<u>1,948,220</u>	<u>3,637,343</u>	<u>-</u>	<u>5,585,563</u>
	<u>\$37,949,379</u>	<u>\$ 3,637,343</u>	<u>\$ -</u>	<u>\$41,586,722</u>
Capital assets being depreciated:				
Dam and spillway	\$33,976,610	\$ -	\$ -	\$33,976,610
Hydroelectric power plant	27,795,737	-	-	27,795,737
Buildings, structures and equipment	<u>2,701,194</u>	<u>85,246</u>	<u>-</u>	<u>2,786,440</u>
	<u>\$64,473,541</u>	<u>\$ 85,246</u>	<u>\$ -</u>	<u>\$64,558,787</u>
Less accumulated depreciation for:				
Dam and spillway	\$16,342,287	\$ 633,696	\$ -	\$16,975,983
Hydroelectric power plant	14,429,820	382,428	-	14,812,248
Buildings, structures and equipment	<u>1,784,744</u>	<u>111,140</u>	<u>-</u>	<u>1,895,884</u>
	<u>\$32,556,851</u>	<u>\$ 1,127,264</u>	<u>\$ -</u>	<u>\$33,684,115</u>
Capital assets being depreciated, net	<u>\$31,916,690</u>	<u>\$(1,042,018)</u>	<u>\$ -</u>	<u>\$30,874,672</u>
Total capital assets, net	<u>\$69,866,069</u>	<u>\$ 2,595,325</u>	<u>\$ -</u>	<u>\$72,461,394</u>

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

	Balance 09/01/2021	Increases	Decreases	Balance 08/31/2022
Capital assets not being depreciated:				
Transformer replacement	\$ 155,884	\$ -	\$ 155,884	\$ -
Reservoir and waterways	36,001,159	-	-	36,001,159
Construction in process	<u>416,889</u>	<u>1,531,331</u>	<u>-</u>	<u>1,948,220</u>
	<u>\$36,573,932</u>	<u>\$ 1,531,331</u>	<u>\$ 155,884</u>	<u>\$37,949,379</u>
Capital assets being depreciated:				
Dam and spillway	\$33,976,610	\$ -	\$ -	\$33,976,610
Hydroelectric power plant	27,795,737	-	-	27,795,737
Buildings, structures and equipment	<u>2,625,924</u>	<u>101,600</u>	<u>26,330</u>	<u>2,701,194</u>
	<u>\$64,398,271</u>	<u>\$ 101,600</u>	<u>\$ 26,330</u>	<u>\$64,473,541</u>
Less accumulated depreciation for:				
Dam and spillway	\$15,708,591	\$ 633,696	\$ -	\$16,342,287
Hydroelectric power plant	14,047,392	382,428	-	14,429,820
Buildings, structures and equipment	<u>1,690,731</u>	<u>117,065</u>	<u>23,052</u>	<u>1,784,744</u>
	<u>\$31,446,714</u>	<u>\$ 1,133,189</u>	<u>\$ 23,052</u>	<u>\$32,556,851</u>
Capital assets being depreciated, net	<u>\$32,951,557</u>	<u>\$(1,031,589)</u>	<u>\$ 3,278</u>	<u>\$31,916,690</u>
Total capital assets, net	<u>\$69,525,489</u>	<u>\$ 499,742</u>	<u>\$ 159,162</u>	<u>\$69,866,069</u>

Depreciation expense attributable to water conservation and reclamation totaled \$1,127,264 and \$1,133,189 for the years ended August 31, 2023 and 2022, respectively.

Note 4. Contingent Liabilities

Public Law 98-571 directed the Federal Energy Regulatory Commission (FERC) to waive annual administration charges for the use of United States lands during the remaining term of the license to operate the Joint Project. On August 29, 2014, FERC issued a new 50 year license for the project. The current license expires 50 years from August 29, 2014. The waiver is contingent upon FERC determining that the power from the project is sold to the public without profit. All exemptions applied for through August 31, 2023 have been approved.

Joint Operation is involved in various legal actions in which claims of varying amounts are being asserted against the Joint Operation. The practice of providing for these claims when a loss is probable and a loss becomes fixed or determinable in amount is followed. In the opinion of management, these actions will not result in a significant impact of the Joint Operation's financial position.

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Note 5. Service Items

Service items included in the category contract services represent the expenses incurred by Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, individually, for the Joint Operation Water Supply and Hydroelectric System Fund. The associated service item expense was \$2,273,182 and \$1,832,828 for the years ended August 31, 2023 and 2022, respectively.

Note 6. Risk Management

Joint Operation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of asset; errors and omissions; and natural disasters. Significant losses resulting from such claims are covered by commercial insurance.

Note 7. Amounts Due To and From Other Governmental Agencies

Amounts due from other governmental agencies for water royalties and hazard mitigation costs were as follows as of August 31:

	<u>2023</u>	<u>2022</u>
Sabine River Authority, State of Louisiana	\$ 206,383	\$ 229,913
Newton County	<u>59,578</u>	<u>7,455</u>
	<u>\$ 265,961</u>	<u>\$ 237,368</u>

Amounts due to other governmental agencies for contract services performed were as follows as of August 31:

	<u>2023</u>	<u>2022</u>
Sabine River Authority, State of Texas	\$ 73,124	\$ 2,321
Sabine River Authority, State of Louisiana	<u>949</u>	<u>1,142</u>
	<u>\$ 74,073</u>	<u>\$ 3,463</u>

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Note 8. Commitments

Joint Operation had open construction and engineering contracts at August 31, 2023 for the following projects:

	<u>Contract</u>	<u>Expended</u>	<u>Remaining Commitments</u>
Powerhouse transformer replacement	\$ 1,581,600	\$ 1,546,200	\$ 35,400
Substation improvements	4,710,126	3,250,585	1,459,541
Office building and site improvements	<u>129,920</u>	<u>33,968</u>	<u>95,952</u>
	<u>\$ 6,421,646</u>	<u>\$ 4,830,753</u>	<u>\$ 1,590,893</u>

SUPPLEMENTAL INFORMATION

TOLEDO BEND – JOINT OPERATION

SCHEDULE OF INSURANCE IN FORCE
FOR THE FISCAL YEAR ENDING AUGUST 31, 2023
(Policy Period June 30, 2023 Through June 30, 2024)

<u>NAME OF COMPANY</u>	<u>POLICY NO.</u>	<u>DESCRIPTION</u>	<u>LIMITS</u>
Everest Indemnity Insurance Company	EN4GL00325-231	Commercial General Liability (includes terrorism)	\$1,000,000 Each Occurrence \$2,000,000 General aggregate
AEGIS	XJ511612P	Excess Liability (includes terrorism)	\$35,000,000 each Occurrence \$70,000,000 General Aggregate
AEGIS – 50% Swiss RE/Westport – 25% Princeton Excess & Surplus – 20%	PO5714507P UTP 2000414-03 58A3PP000023604	Property, Boiler and Machinery, Business Interruption, Flood and Earthquake (excludes terrorism)	\$150,000,000 Limits, Contractor's Equipment, Marine Equipment and Communications Equipment - per schedule \$3,000,000 business interruption
Everest National Insurance Commercial Auto Liability	EN4CA00409231	Auto Liability	\$1,000,000 Bodily Injury/ Property Damage
Great Lakes SE – Auto	PFA11500A23	Physical Damage	
Everest National Insurance Company	EN4WC00216-231	Worker's Compensation	\$1,000,000 Each Accident \$1,000,000 Policy Limit \$1,000,000 Each Employee
Ace American Insurance Company	*USTG725599002 (*policy period 1/8/23-1/8/24)	Underground Storage Tank	\$1,000,000 Each Occurrence \$2,000,000 Annual Aggregate
Illinois Union Insurance Company (CHUBB)	PPLG46785836004 06/30/2023-06/30/2025 (Includes Terrorism)	New Pollution Incidents, Non-Owned Disposal Sites, Transported Cargo Liability	\$2,000,000 Aggregate Limit \$1,000,000 Each Incident Limit (\$25,000 Self Insured Retention)
Ark 4020/Apollo 1969	FC0343123	Standalone Terrorism for Property	\$150,000,000 any one Occurrence for damage and financial loss combined

TOLEDO BEND – JOINT OPERATION

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER
PAYMENTS TO AGENCY HEAD
For the Year Ended August 31, 2023

Agency Head: Stanley Vidrine, Chairman

There was no compensation, benefits or other payments to agency head for the year ending August 31, 2023.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors,
Sabine River Authority of Texas, and
The Board of Commissioners,
Sabine River Authority, State of Louisiana

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Toledo Bend – Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, as of and for the year ended August 31, 2023, and the related notes to financial statements, which collectively comprise the Toledo Bend – Joint Operation's basic financial statements, and have issued our report thereon dated November 14, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Toledo Bend - Joint Operation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Toledo Bend – Joint Operation's internal control. Accordingly, we do not express an opinion on the effectiveness of Toledo Bend – Joint Operation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Toledo Bend - Joint Operation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Bernard Roche CPA". The signature is written in a cursive style with a large initial "B" and "R".

Lafayette, Louisiana
November 14, 2023

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended August 31, 2023

We have audited the basic financial statements of Toledo Bend - Joint Operation, a joint operation between the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana, as of and for the year ended August 31, 2023, and have issued our report thereon dated November 14, 2023. 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. Our audit of the financial statements as of August 31, 2023 resulted in an unmodified opinion.

Section I - Summary of Auditors' Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material weakness Yes No

Control deficiencies identified that are not considered to be material weakness Yes None reported

Compliance

Compliance material to financial statements Yes No

Section II - Financial Statement Findings

No matters are reported.

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended August 31, 2023

Section I. Internal Control and Compliance Material to the Financial Statements

None reported.

Section II. Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III. Management Letter

The prior year's report did not include a management letter.