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**SABINE RIVER AUTHORITY OF TEXAS
AND
SABINE RIVER AUTHORITY,
STATE OF LOUISIANA
TOLEDO BEND - JOINT OPERATION
WATER SUPPLY HYDROELECTRIC SYSTEM FUND
FINANCIAL REPORT
AUGUST 31, 1996**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court

Release Date NOV 20 1996



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INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS

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

We have audited the accompanying financial statements 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, 1996, as listed in the table of contents. These financial statements are the responsibility of the Joint Operation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Toledo Bend - Joint Operation as of August 31, 1996, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying financial information listed as "Schedules" in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Toledo Bend - Joint Operation. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to such financial statements taken as a whole.

The financial information for the proceeding year which is included for comparative purposes was taken from the financial report for that year in which we expressed an opinion on the general purpose financial statements of the Toledo Bend - Joint Operation, as of and for the year ended August 31, 1995, which opinion was the same as that expressed on the current financial statements.

In accordance with Government Auditing Standards, we have also issued a report dated September 26, 1996, on our consideration of the Toledo Bend - Joint Operation's internal control structure and a report dated September 26, 1996, on its compliance with laws and regulations.

Broussard, Poché, Lewis & Beauregard

Lafayette, Louisiana
September 26, 1996

GENERAL PURPOSE FINANCIAL STATEMENTS
(COMBINED STATEMENTS - OVERVIEW)

TOLEDO BEND - JOINT OPERATION

COMBINED BALANCE SHEET -
GOVERNMENTAL FUND TYPE AND ACCOUNT GROUP
August 31, 1996

ASSETS	Governmental	Account	Totals	
	<u>Fund Type</u> Water Supply and Hydro- electric System	<u>Group</u> General Fixed Assets	<u>(Memorandum Only)</u>	
			August 31, 1996	August 31, 1995
Cash	\$ 189,367	\$ -	\$ 189,367	\$ 211,428
Other assets	3,525	-	3,525	3,525
Dam and spillway	-	18,659,332	18,659,332	18,659,332
Hydroelectric power plant	-	16,569,271	16,569,271	16,569,271
Reservoir and waterways	-	36,001,159	36,001,159	36,001,159
Buildings, structures and equipment	-	1,663,540	1,663,540	1,422,792
Total assets	<u>\$ 192,892</u>	<u>\$ 72,893,302</u>	<u>\$ 73,086,194</u>	<u>\$ 72,867,507</u>
LIABILITIES AND FUND EQUITY				
Accounts payable	\$ 17,537	\$ -0-	\$ 17,537	\$ 12,738
Fund Equity:				
Investment in General Fixed Assets - Sabine River Authority, Texas	-	36,446,651	36,446,651	36,326,277
Sabine River Authority, Louisiana	-	36,446,651	36,446,651	36,326,277
Fund balance	175,355	-	175,355	202,215
Total fund equity	<u>175,355</u>	<u>72,893,302</u>	<u>73,068,657</u>	<u>72,854,769</u>
Total liabilities and fund equity	<u>\$ 192,892</u>	<u>\$ 72,893,302</u>	<u>\$ 73,086,194</u>	<u>\$ 72,867,507</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - GOVERNMENTAL FUND TYPE
 Years Ended August 31, 1996 and 1995

	<u>Water Supply and Hydroelectric System</u>	
	<u>1996</u>	<u>1995</u>
Revenues:		
Intergovernmental	\$ 1,600,000	\$ 1,600,000
Miscellaneous	<u>161,339</u>	<u>183,580</u>
Total revenues	<u>1,761,339</u>	<u>1,783,580</u>
Expenditures:		
General government	<u>1,788,199</u>	<u>1,576,132</u>
Total expenditures	<u>1,788,199</u>	<u>1,576,132</u>
Excess (deficiency) of revenues over expenditures	(26,860)	207,448
Fund balance (deficit), beginning	<u>202,215</u>	<u>(5,233)</u>
Fund balance, ending	<u>\$ 175,355</u>	<u>\$ 202,215</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

STATEMENT OF REVENUES AND EXPENDITURES -
 BUDGET (GAAP BASIS) AND ACTUAL - GOVERNMENTAL FUND TYPE
 Year Ended August 31, 1996
 With Comparative Actual Amounts for Year Ended August 31, 1995

<u>Water Supply and Hydroelectric System Fund</u>				
<u>1996</u>				
	<u>Budget</u>	<u>Actual</u>	Variance - (Over) <u>Under</u>	<u>1995 Actual</u>
Revenues:				
Intergovernmental revenues -				
Contributions from:				
State of Texas	\$ 864,109	\$ 800,000	\$ 64,109	\$ 800,000
State of Louisiana	864,109	800,000	64,109	800,000
Miscellaneous	<u>201,500</u>	<u>161,339</u>	<u>40,161</u>	<u>183,580</u>
Total revenues	<u>1,929,718</u>	<u>1,761,339</u>	<u>168,379</u>	<u>1,783,580</u>
Expenditures:				
General government -				
Salaries and fees	1,047,518	1,033,273	14,245	1,049,055
Supplies	48,800	37,326	11,474	38,709
Maintenance -				
Structures	199,800	166,418	33,382	55,395
Equipment	44,300	41,749	2,551	36,820
Miscellaneous services	169,100	133,245	35,855	121,820
Sundry charges	118,000	115,899	2,101	115,879
Capital outlays	<u>302,200</u>	<u>260,289</u>	<u>41,911</u>	<u>158,454</u>
Total expenditures	<u>1,929,718</u>	<u>1,788,199</u>	<u>141,519</u>	<u>1,576,132</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -0-</u>	<u>\$ (26,860)</u>	<u>\$ 26,860</u>	<u>\$ 207,448</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 have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Operation's accounting policies are described below.

Reporting entity:

The Toledo Bend - 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 Authority. 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.

Fund accounting:

The Toledo Bend - Joint Operation uses one fund and one account group to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the fund because they do not directly affect net expendable available financial resources.

The Water Supply and Hydroelectric System Fund, a governmental fund type, is the general operating fund of the Operation. It is used to account for all the financial resources of the Operation.

Basis of accounting:

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

The two major sources of revenues are intergovernmental and miscellaneous. Both of these are susceptible to accrual.

Budgets:

Budgets are adopted on a basis consistent with generally accepted accounting principles. An annual budget is adopted for the Water Supply and Hydroelectric System Fund. The budget is prepared by the Toledo Bend Project Technical Board for formal approval by the Operating Board.

Fixed assets:

General fixed assets are not capitalized in the fund used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in the governmental fund, and the related assets are reported in the general fixed assets account group. All fixed assets are valued at cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Assets in the general fixed assets account group are not depreciated.

Memorandum only - total columns:

The total column on the Combined Balance Sheet is captioned "memorandum only" to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

Comparative data:

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Operation's financial position and operations.

NOTES TO FINANCIAL STATEMENTS

Note 2. Changes in General Fixed Assets

The following is a summary of changes in the general fixed assets account group during the fiscal year:

	<u>Balance</u> <u>09/01/95</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>08/31/96</u>
Dam and spillway	\$18,659,332	\$ -	\$ -	\$18,659,332
Hydroelectric power plant	16,569,271	-	-	16,569,271
Reservoir and waterways	36,001,159	-	-	36,001,159
Buildings, structures and equipment	<u>1,422,792</u>	<u>258,089</u>	<u>(17,341)</u>	<u>1,663,540</u>
	<u>\$72,652,554</u>	<u>\$258,089</u>	<u>\$ (17,341)</u>	<u>\$72,893,302</u>

Note 3. 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. The license expires 50 years from October 1, 1963. 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, 1996 have been approved.

Note 4. Service Items

Service items represent the cost of expenditures 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.

Note 5. Power Sales Agreement

The Authorities entered into an amended power sales agreement with Gulf States Utilities Company, Louisiana Power and Light Company, and Central Louisiana Electric Company, Inc., effective April 4, 1991. This agreement provided for an electric rate of 2.0 cents per KWH for first five years of the contract. After the five year period, the rate increased to 2.1 cents per KWH generated. In addition, the obligation to repay the advance payments for power previously made to the Authorities will be forgiven by the Companies over a ten-year period assuming certain conditions are complied with.

NOTES TO FINANCIAL STATEMENTS

Note 6. Deposits

At year end, the carrying amount of the Operation's deposits were \$188,967 and the bank balance was \$237,546. Of the bank balances, \$230,731 was covered by federal depository insurance or pledged securities. The remaining balance of \$6,815 was uncollateralized.

TOLEDO BEND - JOINT OPERATION
WATER SUPPLY AND HYDROELECTRIC SYSTEM FUND

SCHEDULES OF EXPENDITURES
Year Ended August 31, 1996
With Comparative Actual Amounts for Year Ended August 31, 1995

	1996		Variance - (Over) Under	1995 Actual
	Budget	Actual		
Salaries and fees:				
Engineering services	\$ 40,000	\$ 28,579	\$ 11,421	\$ 19,977
Auditing	10,000	9,381	619	9,272
Other professional fees	40,000	40,795	(795)	78,305
Legal fees	3,000	-	3,000	75
Service items	<u>954,518</u>	<u>954,518</u>	<u>-</u>	<u>941,426</u>
	<u>1,047,518</u>	<u>1,033,273</u>	<u>14,245</u>	<u>1,049,055</u>
Supplies:				
Fuel	500	280	220	278
Motor vehicles	25,000	22,278	2,722	24,132
Heavy equipment	8,000	4,000	4,000	2,444
Floating equipment and boats	1,200	1,190	10	937
Minor tools and apparatus	3,000	2,045	955	2,910
Laundry and cleaning	5,000	4,240	760	3,260
Other	<u>6,100</u>	<u>3,293</u>	<u>2,807</u>	<u>4,748</u>
	<u>48,800</u>	<u>37,326</u>	<u>11,474</u>	<u>38,709</u>
Maintenance - structures:				
Building	2,500	3,579	(1,079)	2,440
Dam and spillways	95,000	89,697	5,303	1,993
Reservoir and adjacent lands	101,000	72,994	28,006	50,577
Other	<u>1,300</u>	<u>148</u>	<u>1,152</u>	<u>385</u>
	<u>199,800</u>	<u>166,418</u>	<u>33,382</u>	<u>55,395</u>

(continued)

TOLEDO BEND - JOINT OPERATION
WATER SUPPLY AND HYDROELECTRIC SYSTEM FUND

SCHEDULES OF EXPENDITURES (CONTINUED)

Year Ended August 31, 1996

With Comparative Actual Amounts for Year Ended August 31, 1995

	<u>1996</u>		Variance - (Over) Under	1995 Actual
	<u>Budget</u>	<u>Actual</u>		
Maintenance - equipment:				
Furniture, fixtures and furnishings	4,500	4,235	265	3,297
Machinery, tools and implements	2,000	1,702	298	584
Instruments and apparatus	13,400	8,122	5,278	4,759
Motor vehicles	7,000	9,189	(2,189)	11,077
Other vehicles	5,500	9,854	(4,354)	4,655
Floating equipment and boats	1,000	400	600	863
Radios and structures	8,400	7,529	871	7,310
Heating and cooling	2,000	718	1,282	4,275
Other	500	-	500	-
	<u>44,300</u>	<u>41,749</u>	<u>2,551</u>	<u>36,820</u>
Miscellaneous services:				
Insurance	70,000	51,592	18,408	50,792
Light and power	21,000	17,845	3,155	19,002
Special services	74,500	60,208	14,292	48,426
Other	3,600	3,600	-	3,600
	<u>169,100</u>	<u>133,245</u>	<u>35,855</u>	<u>121,820</u>
Sundry charges:				
Power plant operation	100,000	100,000	-	100,000
Trustee fees	18,000	15,899	2,101	15,879
	<u>118,000</u>	<u>115,899</u>	<u>2,101</u>	<u>115,879</u>
Capital outlays:				
Buildings	55,200	54,703	497	-
Furniture, fixtures and machinery	-	-	-	2,725
Radios and structures	-	-	-	19,566
Motor vehicles	29,000	29,948	(948)	87,679
Other vehicles	218,000	175,638	42,362	-
Dam and spillway	-	-	-	48,484
	<u>302,200</u>	<u>260,289</u>	<u>41,911</u>	<u>158,454</u>
 Total expenditures	 <u>\$1,929,718</u>	 <u>\$1,788,199</u>	 <u>\$ 141,519</u>	 <u>\$1,576,132</u>

TOLEDO BEND - JOINT OPERATION
 SCHEDULE OF INSURANCE IN FORCE
 FOR THE FISCAL YEAR ENDING AUGUST 31, 1996

<u>NAME OF COMPANY</u>	<u>POLICY NO.</u>	<u>POLICY PERIOD</u>	<u>DETAILS OF COVERAGE</u>	<u>LIABILITY LIMITS</u>
Northfield Insurance Company	KA950026	6/30/96-6/30/97	General Liab.	\$ 500,000/ occurrence \$ 2,000,000/ aggregate
AEGIS Insurance Services	J0330A1A95	6/30/96-6/30/97	Excess Liab.	\$ 25,000,000
CIGNA Insurance Company	EUTF0748386-7	6/30/94-6/30/97	Property/ Boiler & Machinery Business Interrupt.	\$100,000,000 \$ 3,000,000
Fidelity & Casualty Co. of New York	IM0915530	6/30/96-6/30/97	Contractor's Equipment	\$ 236,150
Fidelity & Casualty Co. of New York	HH066995	6/30/96-6/30/97	Watercraft Hull	\$ 41,625
Fidelity & Casualty Co. of New York	HH066994	6/30/96-6/30/97	Boat House	\$ 40,000
Fidelity & Casualty Co. of New York	IMH909607	6/30/96-6/30/97	Radio/Tower Equipment	\$ 288,867
American Protection Insurance Company	F3R00172200	6/30/96-6/30/97	Automobile Fleet Liab.	\$ 250,000
Lumberman's Mutual Casualty Co.	3BA01152200	6/30/96-6/30/97	Worker's Comp/ Texas	\$ 100,000/ accident \$ 500,000/ pol. limit \$ 100,000/ employee
Louisiana Worker's Compensation Corp.	26161	7/1/95-6/30/97	Worker's Comp/ Louisiana	\$ 100,000/ accident \$ 500,000/ pol. limit \$ 100,000/ employee

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

We have audited the financial statements 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, 1996, and have issued our report thereon dated September 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States and the Louisiana Governmental Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Joint Operation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the above referenced financial statements of the Toledo Bend - Joint Operation, as of and for the year ended August 31, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information of management, the Joint Operation Operating Board and State Audit Agencies. However, this report is a matter of public record and its distribution is not limited.

Broussard, Poche, Lewis & Breaux

Lafayette, Louisiana
September 26, 1996



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Frank A. Stagno, CPA*

Scott J. Broussard, CPA*

L. Charles Abshire, CPA*

Kenneth B. Dugas, CPA*

P. John Blanchet III, CPA*

Stephen L. Lambousy, CPA*

Craig C. Babincaux, CPA*

Peter C. Burrello, CPA*

Michael P. Crochet, CPA*

George J. Trappey III, CPA*

David E. Gilder, CPA*

Gregory B. Milton, CPA*

S. Scott Soileau, CPA*

Karl G. Guidry, CPA*

Retired:

Sidney L. Broussard, CPA 1980

Leon K. Poche, CPA 1984

James H. Breaux, CPA 1987

Erma R. Walton, CPA 1988

George A. Lewis, CPA* 1992

Geraldine J. Wimberley, CPA* 1995

Rodney L. Savoy, CPA* 1996

Members of American Institute of
Certified Public Accountants
Society of Louisiana Certified
Public Accountants

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

We have audited the financial statements 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, 1996, and have issued our report thereon dated September 26, 1996.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States and the Louisiana Governmental Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, and contracts applicable to Toledo Bend - Joint Operation is the responsibility of Joint Operation's management. As part of obtaining reasonable assurance about whether the aforementioned financial statements are free of material misstatement, we performed tests of the Toledo Bend - Joint Operation's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management, the Operating Board, and the State Audit Agencies. However, this report is a matter of public record and its distribution is not limited.

Broussard, Poche, Lewis & Breaux

Lafayette, Louisiana
September 26, 1996