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BRUNNEN, PSCHKE, LEWIS & HERRAN
 CERTIFIED PUBLIC ACCOUNTANTS

111 West Congress
 P.O. Box 2021
 Lafayette, Louisiana
 70501-2021
 phone: (504) 982-9200
 fax: (504) 982-1277

**COMPLIANCE REPORT BASED ON AN AUDIT OF
 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
 WITH GOVERNMENT AUDITING STANDARDS**

Order Officer:

Gretna, LA
 (504) 733-6600

Shreveport, LA
 (504) 733-6600

Shreveport, LA
 (504) 733-6600

New Orleans, LA
 (504) 733-6600

Church Point, LA
 (504) 733-6600

Gretna, LA
 (504) 733-6600

Larry A. Brunnen, CPA

Lawrence S. Pschke, CPA

Gregory B. Herran, CPA

Donald R. Beck, CPA

Robert E. Lewis, CPA

Paul J. Payne, CPA

Scott A. Brunnen, CPA

W. Charles Miller, CPA

Richard D. Simpson, CPA

William H. Beck, CPA

Robert J. Beck, CPA

Paul J. Brunnen, CPA

Michael J. Beck, CPA

Gregory B. Herran, CPA

Donald R. Beck, CPA

Gregory B. Herran, CPA

W. Charles Miller, CPA

Scott A. Brunnen, CPA

By:

Larry A. Brunnen, CPA, CEO

Law S. Pschke, CPA, CEO

Gregory B. Herran, CPA, CEO

Paul J. Beck, CPA, CEO

Robert E. Lewis, CPA, CEO

Donald R. Beck, CPA, CEO

Richard D. Simpson, CPA, CEO

Members of the Committee of
 1500 Public Accountants
 Serving the American People
 Public Accountants

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, 1997, and have issued our report thereon dated September 10, 1997.

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 existing Government Auditing 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 Agency. However, this report is a matter of public record and its distribution is not limited.

Brunnen, Pschke, Lewis & Herran

SHREVEPORT, LOUISIANA
 SEPTEMBER 13, 1997

in planning and performing our audit of the above referenced financial statements of the Toledo Wood - Joint Operation, as of and for the year ended August 31, 1997, 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 Agency. However, this report is a matter of public record and its distribution is not limited.

Byronneal, Peltz, Lewis & Brantley

Lafayette, Louisiana
September 29, 1997

TOLEDO WARD - JOINT OPERATION

SCHEDULE OF INSURANCE IN FORCE

FOR THE FISCAL YEAR ENDING MARCH 31, 1991

(Policy Period June 30, 1987 Through June 30, 1991)

<u>NAME OF COMPANY</u>	<u>POLICY NO.</u>	<u>DESCRIPTION</u>	<u>LIMITS</u>
Northfield Insurance Company	02670887	General Liability	\$ 1,000,000 Each Occurrence \$ 2,000,000 Aggregate
ARGIS Insurance Services	000008197	Errors Liability	\$ 25,000,000
COOH Insurance Company	000707480007	Property/Boiler & Mechanical Business Interruption	\$150,000,000 P.P. \$ 2,000,000 B.C.
Fidelity & Casualty Co. of New York	08-91550	Contractor's equipment	\$60,792 Per scheduled Property
Fidelity & Casualty Co. of New York	8806095	Aircraft/Heli.	\$ 40,000 Per scheduled property
Fidelity & Casualty Co. of New York	8806096	Boathouse	\$ 40,000
Fidelity & Casualty Co. of New York	28-88987	Communications Equipment Radio/Tower	\$27,437 Per Schedule
CIBA	88083006	Auto Liability/ Medical	\$ 1,000,000 A/L Per Schedule
CIBA	00004437	Worker's Compensation - Texas and Louisiana	\$ 1,000,000/ Accident \$ 1,000,000/ Policy Limit \$ 1,000,000/ Employee

VOLEGA BOND - JOINT OPERATION
 WATER SUPPLY AND HYDROELECTRIC SYSTEM FUND

SCHEDULE OF EXPENDITURES ACCOMPLISHED
 YEAR ENDED August 31, 1967
 With Comparative Actual Results for Year Ended August 31, 1966

	1967		Variance - (Over) Under	1966 Actual
	Budget	Actual		
Maintenance - equipment:				
Furniture, fixtures and furnishings	4,000	3,418	383	4,000
machinery, tools and implements	2,000	909	1,091	2,700
Instruments and apparatus	8,000	12,898	(4,898)	8,400
Motor vehicles	7,000	7,738	(738)	9,100
other vehicles	4,000	4,804	2,178	3,800
Flooting equipment and boats	800	118	682	400
Bridges and structures	4,000	8,998	(4,998)	7,500
Heating and cooling	2,000	-	2,000	700
Other	500	-	500	-
	<u>38,300</u>	<u>58,363</u>	<u>(21,063)</u>	<u>61,000</u>
Miscellaneous services:				
insurance	75,500	81,488	(5,988)	51,500
light and power	81,800	58,818	2,482	77,800
special services	88,800	48,311	14,489	88,000
Other	2,800	1,880	1,880	2,800
	<u>248,700</u>	<u>190,505</u>	<u>48,195</u>	<u>220,100</u>
undry charges:				
Power plant operation	108,000	108,000	-	108,000
Travels fees	18,000	14,000	3,000	18,000
	<u>126,000</u>	<u>122,000</u>	<u>3,000</u>	<u>126,000</u>
capital outlays:				
Buildings	-	-	-	24,700
Motor vehicles	20,800	21,900	1,800	20,800
other vehicles	-	-	-	135,500
	<u>20,800</u>	<u>21,900</u>	<u>1,800</u>	<u>281,000</u>
total expenditures	<u>64,450,874</u>	<u>63,488,878</u>	<u>1,000,506</u>	<u>63,188,200</u>

TOLSON BARR - JUNE OPERATION
NITRO SUPPLY AND HYDROELECTRIC SYSTEM FUND

SCHEDULE OF EXPENDITURES
Year Ended August 31, 1949
with comparative Actual amounts for Year Ended August 31, 1948

	1949			
	Budget	Actual	Variance - (Over)	1948 Actual
Salaries and Fees:				
Engineering services	\$ 28,800	\$ 28,800	\$ 42,208	\$ 28,175
Auditing	10,800	8,247	883	8,283
Other professional fees	49,800	59,596	1,894	49,550
Legal fees	10,800	6,850	3,950	-
Service items	<u>2,000,004</u>	<u>2,000,004</u>	<u>-</u>	<u>200,518</u>
	<u>1,128,474</u>	<u>1,098,794</u>	<u>27,680</u>	<u>1,038,273</u>
Supplies:				
Fuel	500	313	187	880
Motor vehicles	18,000	24,300	11,300	22,270
Heavy equipment	8,000	2,800	5,200	4,000
Floating equipment and boats	1,000	-	1,000	1,200
Minor tools and apparatus	3,000	3,000	1,951	2,800
Laundry and cleaning	5,000	3,321	1,679	4,200
Other	<u>1,300</u>	<u>2,328</u>	<u>2,284</u>	<u>2,224</u>
	<u>48,200</u>	<u>37,332</u>	<u>10,868</u>	<u>37,320</u>
Maintenance - structures:				
Building	5,000	2,700	230	3,800
Dam and spillways	15,000	5,300	19,704	49,450
Concrete and adjacent lands	100,000	25,000	73,000	73,000
Other	<u>1,300</u>	<u>227</u>	<u>1,073</u>	<u>289</u>
	<u>121,300</u>	<u>33,227</u>	<u>88,073</u>	<u>126,539</u>

Continued

NOTES TO FINANCIAL STATEMENTS

Note 4. Deposits

At year end, the carrying amount of the Operation's deposits were \$27,983 and the bank balance was \$41,813. Of the bank balances, all funds were covered by Federal Depositary Insurance.

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:

	Balance —09/30/59	Additions	Retirements	Balance —09/30/60
Dam and appurtenances	\$18,898,332	\$ -	\$ -	\$18,898,332
Hydroelectric power plant	14,868,271	-	-	14,868,271
Mechanical and electrical	26,890,159	-	-	26,890,159
Buildings, structures and equipment	1,842,828	22,928	48,652	1,817,104
	<u>\$42,499,590</u>	<u>\$ 22,928</u>	<u>\$ 48,652</u>	<u>\$42,473,866</u>

NOTE 3. Damaged Liabilities

Public Law 86-571 directed the Federal Energy Regulatory Commission (FERC) to advise 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 54 years from October 1, 1943. The matter is pending before FERC. Determining that the power from the project is sold to the public without profit. All applications applied for through August 31, 1957 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 Study Fund.

NOTE 5. Power Sales Agreement

The Authorities entered into an assumed power sales agreement with Gulf States Utilities Company, Louisiana Power and Light Company, and Central Louisiana Electric Company, Inc., effective April 4, 1951. This agreement provided for an electric rate of 3.5 cents per kWh for five years of the contract. After the five year period, the rate increased to 3.3 cents per kWh generated. In addition, the obligation to repay the advance payment 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

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 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 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 Water 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 acquisitions 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 column:

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.

TOLEDO BEED - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

NOTE 3. Summary of Significant Accounting Policies

The financial statements of the Toledo Beed - 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 Beed - Joint Operation is a joint operation between the Lower 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 Beed - 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 governmental 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.

TRUCKEE RIVER - JOINT OPERATION

STATEMENT OF REVENUES AND EXPENDITURES -
 BUDGET (BASED BASIS) AND ACTUAL - GOVERNMENTAL FUND TYPE
 Year Ended August 31, 1991

With Comparative Actual Amounts for Year Ended August 31, 1990

	Water Supply and Hydroelectric System Fund			
	1991		Variance - (Over)	1990
	Budget	Actual		
Revenues:				
Intergovernmental revenues -				
Contributions from:				
State of Texas	\$ 738,483	\$ 688,080	\$ 188,483	\$ 688,080
State of Louisiana	738,483	688,080	188,483	688,080
Miscellaneous	135,380	268,323	(132,943)	168,323
Total revenues	<u>1,612,346</u>	<u>1,644,483</u>	<u>248,623</u>	<u>1,564,483</u>
Expenditures:				
General government -				
Salaries and fees	2,138,474	2,088,784	47,490	2,033,270
Supplies	48,200	27,357	21,843	27,320
Miscellaneous -				
Structures	138,380	38,483	84,837	188,428
Equipment	38,380	38,583	12,783	41,780
Miscellaneous services	188,750	188,893	48,755	183,380
Sundry charges	188,880	138,894	3,185	133,870
Capital outlays	28,880	25,320	3,880	28,880
Total expenditures	<u>3,432,824</u>	<u>3,428,320</u>	<u>128,388</u>	<u>3,388,320</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 179,522</u>	<u>\$ 216,163</u>	<u>\$ 120,235</u>	<u>\$ 176,163</u>

See Notes to Financial Statements.

TOLSON FUND - JOINT OPERATION

STATEMENT OF REVENUE, EXPENDITURE AND CHANGE IN
 FUND BALANCE - GOVERNMENTAL FUND TYPE
 YEARS ENDED August 31, 1997 and 1998

	Water supply and Sewerage/Clean Water	
	1997	1998
Revenues:		
Intergovernmental	\$ 1,408,088	\$ 1,408,088
Miscellaneous	228,132	162,132
Total revenues	<u>1,636,220</u>	<u>1,570,220</u>
Expenditures:		
General government	1,484,278	1,388,138
Total expenditures	<u>1,484,278</u>	<u>1,388,138</u>
Excess (deficiency) of revenues over expenditures	151,942	182,082
Fund balance, beginning	271,338	282,246
Fund balance, ending	<u>\$ 423,880</u>	<u>\$ 464,328</u>

See Notes to Financial Statements.

TOLSON BOND - JOINT OPERATION

CONDENSED BALANCE SHEET -
GOVERNMENTAL FUND TYPE AND ACCOUNT GROUP
August 31, 1997

ASSETS	Governmental	ACCOUNT	Totals	
	Fund Type Water Supply and Hydro- electric System	Group	Compendium Only	
		General	August 31, 1997	August 31, 1996
		Funds Available		
CASH	\$ 18,248	\$ -	\$ 18,248	\$ 189,357
OTHER ASSETS	1,085	-	1,085	3,507
Sam and Spillway	-	18,489,330	18,489,330	18,489,330
Hydroelectric power plant	-	18,569,371	18,569,371	18,569,371
Generators and miscelane- ous buildings, structures and equipment	-	18,081,209	18,081,209	18,081,209
		<u>1,642,889</u>	<u>1,642,889</u>	<u>1,642,889</u>
TOTAL ASSETS	<u>\$ 21,223</u>	<u>\$ 37,819,939</u>	<u>\$ 37,819,939</u>	<u>\$ 37,819,939</u>
LIABILITIES AND FUND EQUITY				
Accounts payable	\$ 11,381	\$ -	\$ 11,381	\$ 17,617
Fund Equity:				
Investment in General				
Fixed Assets -				
Sam and Spillway				
Authority, Texas	-	18,489,330	18,489,330	18,489,330
Sam and Spillway				
Authority, Louisiana	-	18,436,385	18,436,385	18,436,385
Fund balance	<u>20,273</u>	<u>-</u>	<u>20,273</u>	<u>178,333</u>
Total fund equity	<u>20,273</u>	<u>36,925,715</u>	<u>36,925,715</u>	<u>36,925,715</u>
Total liabilities and fund equity	<u>\$ 21,223</u>	<u>\$ 37,819,939</u>	<u>\$ 37,819,939</u>	<u>\$ 37,819,939</u>

SEE NOTES TO FINANCIAL STATEMENTS.

GENERAL PURPOSE FINANCIAL STATEMENTS
(COMBINED STATEMENTS - OVERVIEW)

The financial information for the preceding 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 Seed - Joint Operation, an OJ and for the year ended August 31, 1996, 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 23, 1997, on our consideration of the Toledo Seed - Joint Operation's internal control structure and a report dated September 23, 1997, on its compliance with laws and regulations.

Broussard, Roubi, Lewis & Brinson

LAKEVIEW, LOUISIANA
September 23, 1997