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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, 1999**

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 FEB 16 2000

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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, 1999, 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 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. 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, 1999, 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, 1998, 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 28, 1999, on our consideration of the Toledo Bend - Joint Operation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts.

*Broussard, Roche, Lewis & Breault LLP*

Lafayette, Louisiana  
September 28, 1999

GENERAL PURPOSE FINANCIAL STATEMENTS  
(COMBINED STATEMENTS - OVERVIEW)

TOLEDO BEND - JOINT OPERATION

COMBINED BALANCE SHEET -  
GOVERNMENTAL FUND TYPE AND ACCOUNT GROUP  
August 31, 1999

	Governmental	Account	Totals	
	<u>Fund Type</u>	<u>Group</u>	<u>(Memorandum Only)</u>	
	Water Supply and Hydro- electric <u>System</u>	General <u>Fixed Assets</u>	August 31, <u>1999</u>	August 31, <u>1998</u>
<b>ASSETS</b>				
Cash	\$ 316,084	\$ -	\$ 316,084	\$ 168,570
Accounts receivable	-	-	-	2,275
Other assets	25	-	25	25
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	-	1,656,912	1,656,912	1,680,270
<b>Total assets</b>	<b><u>\$ 316,109</u></b>	<b><u>\$ 72,886,674</u></b>	<b><u>\$ 73,202,783</u></b>	<b><u>\$ 73,080,902</u></b>
<b>LIABILITIES AND FUND EQUITY</b>				
Accounts payable	<u>\$ 50,179</u>	<u>\$ -0-</u>	<u>\$ 50,179</u>	<u>\$ 14,998</u>
<b>Fund Equity:</b>				
Investment in General Fixed Assets -				
Sabine River Authority, Texas	-	36,443,337	36,443,337	36,455,016
Sabine River Authority, Louisiana	-	36,443,337	36,443,337	36,455,016
Fund balance	<u>265,930</u>	<u>-</u>	<u>265,930</u>	<u>155,872</u>
<b>Total fund equity</b>	<b><u>265,930</u></b>	<b><u>72,886,674</u></b>	<b><u>73,152,604</u></b>	<b><u>73,065,904</u></b>
<b>Total liabilities and fund equity</b>	<b><u>\$ 316,109</u></b>	<b><u>\$ 72,886,674</u></b>	<b><u>\$ 73,202,783</u></b>	<b><u>\$ 73,080,902</u></b>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE - GOVERNMENTAL FUND TYPE  
 Years Ended August 31, 1999 and 1998

	<u>Water Supply and Hydroelectric System</u>	
	<u>1999</u>	<u>1998</u>
Revenues:		
Intergovernmental	\$ 1,500,000	\$ 1,500,000
Miscellaneous	<u>425,876</u>	<u>417,717</u>
Total revenues	<u>1,925,876</u>	<u>1,917,717</u>
Expenditures:		
General government	<u>1,815,818</u>	<u>1,791,117</u>
Total expenditures	<u>1,815,818</u>	<u>1,791,117</u>
Excess (deficiency) of revenues over expenditures	110,058	126,600
Fund balance, beginning	<u>155,872</u>	<u>29,272</u>
Fund balance, ending	<u>\$ 265,930</u>	<u>\$ 155,872</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, 1999  
 With Comparative Actual Amounts for Year Ended August 31, 1998

	<u>Water Supply and Hydroelectric System Fund</u>			
	<u>1999</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance - (Over) Under</u>	<u>1998 Actual</u>
Revenues:				
Intergovernmental revenues -				
Contributions from:				
State of Texas	\$ 750,000	\$ 750,000	\$ -	\$ 800,000
State of Louisiana	750,000	750,000	-	800,000
Miscellaneous	<u>445,814</u>	<u>425,876</u>	<u>19,938</u>	<u>317,717</u>
Total revenues	<u>1,945,814</u>	<u>1,925,876</u>	<u>19,938</u>	<u>1,917,717</u>
Expenditures:				
General government -				
Salaries and fees	1,313,314	1,307,144	6,170	1,212,767
Supplies	57,200	44,432	12,768	39,443
Maintenance -				
Structures	157,800	81,048	76,752	151,935
Equipment	55,500	61,456	(5,956)	53,901
Miscellaneous services	162,600	135,619	26,981	119,189
Sundry charges	118,000	116,565	1,435	117,961
Capital outlays	<u>81,400</u>	<u>69,554</u>	<u>11,846</u>	<u>95,921</u>
Total expenditures	<u>1,945,814</u>	<u>1,815,818</u>	<u>129,996</u>	<u>1,791,117</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -0-</u>	<u>\$ 110,058</u>	<u>\$ 110,058</u>	<u>\$ 126,600</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.

### Reclassifications:

As of August 31, 1999, reclassifications were made in the presentation of the financial statements for the prior year. These changes in the presentation did not affect fund equity as previously reported.

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>09/01/98</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>08/31/99</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>1,680,270</u>	<u>124,866</u>	<u>148,224</u>	<u>1,656,912</u>
	<u>\$72,910,032</u>	<u>\$ 124,866</u>	<u>\$ 148,224</u>	<u>\$72,886,674</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, 1999 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. Deposits

At year end, the carrying amount of the Operation's deposits were \$316,084 and the bank balance was \$383,379. Of the bank balance, \$200,000 were covered by federal depository insurance. The remaining \$183,379 was covered by collateral held by a third party bank in the Operation's name.

NOTES TO FINANCIAL STATEMENTS

Note 6. Litigation

The Operation is subject to various claims and lawsuits which may arise in the ordinary course of business. After consulting with counsel representing the Operation in connection with such claims and lawsuits, it is the opinion of management and counsel that the disposition or ultimate determination of such claims and lawsuits will not have a material effect on the financial position of the Operation.

Note 7. Year 2000 Issue

The Year 2000 issue is the result of shortcomings in many electric data processing systems and other electronic equipment that may adversely affect the operations of the Authority.

The Authority has worked diligently to have its system Year 2000 ready. However, because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully proven until the Year 2000 and thereafter. Therefore, management cannot unequivocally state that the Authority's remediation efforts will be successful in whole, or that parties with whom the Authority does business will be Year 2000 ready.

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TOLEDO BEND - JOINT OPERATION  
WATER SUPPLY AND HYDROELECTRIC SYSTEM FUND

SCHEDULE OF EXPENDITURES  
Year Ended August 31, 1999  
With Comparative Actual Amounts for Year Ended August 31, 1998

	1999		Variance - (Over) Under	1998 Actual
	Budget	Actual		
<b>Salaries and fees:</b>				
Engineering services	\$ 63,000	\$ 78,775	\$ (15,775)	\$ 111,376
Auditing	12,000	9,325	2,675	9,500
Other professional fees	115,000	73,730	41,270	50,771
Legal fees	3,000	25,000	(22,000)	-
Service items	<u>1,120,314</u>	<u>1,120,314</u>	<u>-</u>	<u>1,041,120</u>
	<u>1,313,314</u>	<u>1,307,144</u>	<u>6,170</u>	<u>1,212,767</u>
<b>Supplies:</b>				
Fuel	500	337	163	250
Motor vehicles	31,000	20,103	10,897	23,376
Heavy equipment	6,000	7,182	(1,182)	4,050
Floating equipment and boats	1,000	-	1,000	254
Minor tools and apparatus	6,000	5,538	462	2,094
Laundry and cleaning	5,000	3,578	1,422	3,118
Chemical and medical	500	127	373	5
Mechanical	700	870	(170)	730
Educational and instructional	4,000	4,665	(665)	2,909
Other	<u>2,500</u>	<u>2,032</u>	<u>468</u>	<u>2,657</u>
	<u>57,200</u>	<u>44,432</u>	<u>12,768</u>	<u>39,443</u>
<b>Maintenance - structures:</b>				
Building	3,500	3,646	(146)	4,575
Dam and spillways	52,000	45,959	6,041	131,976
Reservoir and adjacent lands	101,000	31,205	69,795	15,331
Other	<u>1,300</u>	<u>238</u>	<u>1,062</u>	<u>53</u>
	<u>157,800</u>	<u>81,048</u>	<u>76,752</u>	<u>151,935</u>

(continued)

TOLEDO BEND - JOINT OPERATION  
WATER SUPPLY AND HYDROELECTRIC SYSTEM FUND

SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended August 31, 1999

With Comparative Actual Amounts for Year Ended August 31, 1998

	<u>1999</u>		Variance - (Over) Under	<u>1998</u> Actual
	<u>Budget</u>	<u>Actual</u>		
Maintenance - equipment:				
Furniture, fixtures and furnishings	4,500	4,967	(467)	6,856
Machinery, tools and implements	7,000	7,880	(880)	1,919
Instruments and apparatus	9,000	10,437	(1,437)	6,345
Motor vehicles	11,000	12,522	(1,522)	13,273
Other vehicles	15,000	15,476	(476)	14,707
Floating equipment and boats	500	395	105	447
Radios and structures	5,000	6,844	(1,844)	4,649
Heating and cooling	3,000	2,635	365	5,705
Other	500	300	200	-
	<u>55,500</u>	<u>61,456</u>	<u>(5,956)</u>	<u>53,901</u>
Miscellaneous services:				
Insurance	74,000	53,110	20,890	51,881
Light and power	21,000	19,425	1,575	19,455
Special services	64,000	59,484	4,516	44,253
Other	3,600	3,600	-	3,600
	<u>162,600</u>	<u>135,619</u>	<u>26,981</u>	<u>119,189</u>
Sundry charges:				
Power plant operation	100,000	100,000	-	100,000
Trustee fees	18,000	16,565	1,435	17,961
	<u>118,000</u>	<u>116,565</u>	<u>1,435</u>	<u>117,961</u>
Capital outlays:				
Buildings	-	-	-	16,677
Motor vehicles	62,400	52,834	9,566	66,222
Other vehicles	19,000	16,720	2,280	13,022
	<u>81,400</u>	<u>69,554</u>	<u>11,846</u>	<u>95,921</u>
 Total expenditures	 <u>\$1,945,814</u>	 <u>\$1,815,818</u>	 <u>\$ 129,996</u>	 <u>\$1,791,117</u>

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF INSURANCE IN FORCE

FOR THE FISCAL YEAR ENDING AUGUST 31, 1999

(Policy Period June 30, 1999 Through June 30, 2000)

<u>NAME OF COMPANY</u>	<u>POLICY NO.</u>	<u>DESCRIPTION</u>	<u>LIMITS</u>
Northfield Insurance Company	KA980077	General Liability	\$1,000,000 Each Occurrence \$2,000,000 Aggregate
AEGIS Insurance Services	J0330A1A98	Excess Liability	\$35,000,000
CIGNA Insurance Company	EUTF10790827	Property/Boiler & Machinery Business Interruption	\$147,000,000 P.D. \$3,000,000 B.I.
Continental Insurance Company	IM-915530	Contractor's Equipment	\$480,381 Per Scheduled Property
Continental Insurance Company	-	Watercraft Hull	\$40,800 Per Scheduled Property
Continental Insurance Company	IM-909607	Communications Equipment Radio/Tower	\$329,107 Per Schedule
Oak Brook Country Mutual	CALH07071966	Auto Liability/Physical Damage - Texas	\$1,000,000 A/L Per Schedule
CIGNA Insurance Company	H06835065	Auto Liability/Physical Damage - Louisiana	\$500,000 A/L Per Schedule
CIGNA Insurance Company	C42522223	Worker's Compensation - Texas and Louisiana	\$1,000,000/ Accident \$1,000,000/ Policy Limit \$1,000,000/ Employee





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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Society of Louisiana Certified  
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, 1999, and have issued our report thereon dated September 28, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts 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 that are required to be reported under Government Auditing Standards.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which

the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting and its operation that we consider to be material weaknesses.

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

*Bronson, Pote, Lewis & Bream LLP*

Lafayette, Louisiana  
September 28, 1999

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended August 31, 1999

We have audited the 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, 1999, and have issued our report thereon dated September 28, 1999. We conducted our audit in accordance with generally accepted auditing standards 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, 1999 resulted in an unqualified opinion.

Section I - Summary of Auditors' Reports

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

Internal Control

Material Weaknesses    \_\_\_ Yes    X No  
Reportable Conditions   \_\_\_ Yes    X None Reported

Compliance

Compliance Material to Financial Statements   \_\_\_ Yes    X No

Section II - Financial Statement Findings

No matters were reported.