

**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, 2002**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the 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 3/5/03

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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 governmental 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, 2002. 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 auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 financial statements referred to above present fairly, in all material respects, the financial position of the Toledo Bend - Joint Operation as of August 31, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Sabine River Authority of Texas and Sabine River Authority, State of Louisiana adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," as of September 1, 2001. This results in a change in the format and content of the basic financial statements.

The budgetary comparison and management's discussion and analysis on page 9 and pages 3 and 4 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2002, 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Broussard, Roche, Lewis & Beauregard LLP

Lafayette, Louisiana
October 7, 2002

**SABINE RIVER AUTHORITY OF TEXAS AND SABINE RIVER AUTHORITY, STATE OF LOUISIANA
TOLEDO BEND - JOINT OPERATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Toledo Bend - Joint Operation (TBJO) annual financial report presents a discussion and analysis of TBJO's financial performance during the fiscal year that ended August 31, 2002. Please read this section in conjunction with TBJO's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

TBJO's net assets overall increased from \$42,913,846 to \$43,997,319 or 3% from August 31, 2001 to August 31, 2002. The overall reason for this change was the increase in intergovernmental transfers, which fluctuate depending on levels of the states operating appropriations.

TBJO's intergovernmental revenues increased from \$1,832,700 to \$3,921,057 or 114% from August 31, 2001 to August 31, 2002. The Operation's loss increased to \$2,837,581 from \$2,606,361 or 9% for the year ended August 31, 2002.

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 Operation as a whole, in a format designed to make the statement easier for the reader to understand. The statements in this section include the Statement of Net Assets and the Statement of Revenue, Expenses and Changes in Net Assets.

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

The Statement of Revenue, Expenses and Changes in Net Assets presents information showing how the Operation's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets 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 TBJO'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.

TBJO'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 government 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 TBJO are included in the Statement of Net Assets.

FINANCIAL ANALYSIS

Net Assets

TBJO's total net assets at August 31, 2002 increased by \$1,083,473, a 3% increase from August 31, 2001. Total assets increased 7% or \$2,809,958 and total liabilities increased 1,790% or \$1,726,485.

Changes in Net Assets

The change in net assets at August 31, 2002 is \$1,083,473 or 3% more than at August 31, 2001. TBJO's operating loss increased to \$2,837,581 or 9% more than at August 31, 2001. For the same period, transfers increased to \$3,921,057 or 114%. The expenses are detailed below.

TBJO's General Operating Expenses

	<u>2002</u>	<u>2001</u>
General operating expenses:		
Salaries and fees	\$1,460,721	\$1,168,119
Supplies	50,069	51,488
Maintenance	129,068	291,568
Sundry charges	117,177	118,974
Depreciation	1,179,540	1,198,777
Miscellaneous	251,251	187,548
Total	<u>\$3,187,826</u>	<u>\$3,016,474</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 TBJO's FINANCIAL MANAGEMENT

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

GENERAL PURPOSE FINANCIAL STATEMENTS
(COMBINED STATEMENTS - OVERVIEW)

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF NET ASSETS
August 31, 2002 and 2001

ASSETS	Business-Type Activities	
	2002	2001
Cash	\$ 459,124	\$ 221,536
Accounts receivable	1,821,057	-
Other assets	25	25
Property and equipment, net of depreciation	<u>43,540,016</u>	<u>42,788,703</u>
Total assets	<u>\$45,820,222</u>	<u>\$43,010,264</u>
LIABILITIES		
Accounts payable	<u>\$ 1,822,903</u>	<u>\$ 96,418</u>
Total liabilities	<u>\$ 1,822,903</u>	<u>\$ 96,418</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$43,540,016	\$42,788,704
Unrestricted	<u>457,303</u>	<u>125,142</u>
Total net assets	<u>\$43,997,319</u>	<u>\$42,913,846</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 Years Ended August 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
PRIMARY GOVERNMENT		
Business-type activities:		
Electric	\$(2,837,581)	\$(2,606,361)
Total business-type activities	<u>(2,837,581)</u>	<u>(2,606,361)</u>
General revenues:		
Transfers	<u>3,921,054</u>	<u>1,832,700</u>
Total transfers	<u>3,921,054</u>	<u>1,832,700</u>
Changes in net assets	1,083,473	(773,661)
Net assets, at beginning	<u>42,913,846</u>	<u>43,687,507</u>
Net assets, at ending	<u>\$43,997,319</u>	<u>\$42,913,846</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF CASH FLOWS
Years Ended August 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Paid to suppliers	\$(2,102,859)	\$(2,153,978)
Other receipts	<u>350,245</u>	<u>410,113</u>
Net cash used by operating activities	<u>(1,752,614)</u>	<u>(1,743,865)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	2,100,000	1,832,700
Purchases of fixed assets	<u>(109,798)</u>	<u>-</u>
Net cash provided by capital and related financing activities	<u>1,990,202</u>	<u>1,832,700</u>
Net increase in cash and cash equivalents	237,588	88,835
Balance, at beginning of year	<u>221,536</u>	<u>132,701</u>
Balance, at ending of year	<u>\$ 459,124</u>	<u>\$ 221,536</u>
Reconciliation of operating income to net cash used in operating activities:		
Operating income	\$(2,837,581)	\$(2,606,361)
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation expense	1,179,540	1,198,777
Changes in assets and liabilities:		
Accounts receivables	(1,821,057)	-
Accounts payables	<u>1,726,484</u>	<u>(336,281)</u>
Net cash used in operating activities	<u>\$(1,752,614)</u>	<u>\$(1,743,865)</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

BALANCE SHEETS
August 31, 2002 and 2001

ASSETS	<u>Business-Type Activities</u>	
	<u>Enterprise Fund</u>	
	<u>2002</u>	<u>2001</u>
CURRENT ASSETS:		
Cash	\$ 459,124	\$ 221,536
Accounts receivable	1,821,057	-
Other assets	25	25
Total current assets	<u>2,280,206</u>	<u>221,561</u>
NONCURRENT ASSETS:		
Capital assets -		
Dam and spillway	18,659,332	18,659,332
Hydroelectric power plant	17,001,972	17,001,972
Reservoir and waterways	36,001,159	36,001,159
Buildings, structures and equipment	1,901,742	1,791,946
Construction in progress	1,821,057	-
Accumulated depreciation	<u>(31,845,246)</u>	<u>(30,665,706)</u>
Total noncurrent assets	<u>43,540,016</u>	<u>42,788,703</u>
Total assets	<u>\$ 45,820,222</u>	<u>\$ 43,010,264</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,822,903	\$ 96,418
Total current liabilities	<u>1,822,903</u>	<u>96,418</u>
Total liabilities	<u>1,822,903</u>	<u>96,418</u>
NET ASSETS:		
Invested in capital assets, net of related debt	43,540,016	42,788,704
Unrestricted	<u>457,303</u>	<u>125,142</u>
Total net assets	<u>43,997,319</u>	<u>42,913,846</u>
Total liabilities and net assets	<u>\$ 45,820,222</u>	<u>\$ 43,010,264</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

STATEMENTS OF INCOME
 Years Ended August 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
OPERATING REVENUES		
Other revenues	\$ 350,245	\$ 410,113
Total revenues	<u>350,245</u>	<u>410,113</u>
OPERATING EXPENSES		
Salaries and fees	1,460,721	1,168,119
Supplies	50,069	51,488
Maintenance:		
Structures	83,856	161,090
Equipment	45,212	130,478
Sundry charges	117,177	118,974
Miscellaneous	251,251	187,548
Depreciation	<u>1,179,540</u>	<u>1,198,777</u>
Total operating expenses	<u>3,187,826</u>	<u>3,016,474</u>
Operating income (loss)	(2,837,581)	(2,606,361)
Transfers in	<u>3,921,054</u>	<u>1,832,700</u>
Change in net assets:		
Net income (loss)	1,083,473	(773,661)
Total net assets, at beginning	<u>42,913,846</u>	<u>43,687,507</u>
Total net assets, at ending	<u>\$43,997,319</u>	<u>\$42,913,846</u>

See Notes to Financial Statements.

TOLEDO BEND - JOINT OPERATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of presentation:

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.

This financial report has been prepared in conformity with GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*," issued in June 1999.

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.

Funds:

The Toledo Bend - Joint Operation uses one business type enterprise fund 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.

The Water Supply and Hydroelectric System Fund, a proprietary fund type, is the general operating fund of the Operation. Proprietary funds account for activities similar to those found in the private sector where determination of net income is necessary or useful to sound financial administration.

Measurement focus/basis of accounting:

Government-wide financial statements (GWFS):

The Statement of Net Assets and the Statement of Activities display information about the reporting government as a whole. These statements include all the financial activities of the Operation.

NOTES TO FINANCIAL STATEMENTS

The GWFS 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). Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions."

Fund 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 operations 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.

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

Capital assets:

Capital assets, which include the dam, spillway, hydroelectric power plant, reservoir, waterways, buildings, structures and equipment are reported in the GWFS and the fund financial statements at historical cost. Depreciation expense is recorded in the GWFS as well as the fund financial statements. 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
Reservoir and waterways	67
Buildings, structures and equipment	5 - 50

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 Capital Assets

The following is a summary of changes in capital assets:

	Balance <u>09/01/01</u>	Additions	Deletions	Balance <u>08/31/02</u>
Dam and spillway	\$18,659,332	\$ -	\$ -	\$18,659,332
Hydroelectric power plant	17,001,972	-	-	17,001,972
Reservoir and waterways	36,001,159	-	-	36,001,159
Buildings, structures and equipment	1,791,946	245,965	136,169	1,901,742
Construction in progress	-	<u>1,821,057</u>	-	<u>1,821,057</u>
	<u>73,454,409</u>	<u>2,067,022</u>	<u>136,169</u>	<u>75,385,262</u>
Less accumulated depreciation for:				
Dam and spillway	7,645,244	278,984	-	7,924,228
Hydroelectric power plant	7,378,490	255,006	-	7,633,496
Reservoir and waterways	14,447,056	542,702	-	14,989,758
Buildings, structures and equipment	<u>1,194,916</u>	<u>102,848</u>	-	<u>1,297,764</u>
	<u>30,665,706</u>	<u>1,179,540</u>	<u>-0-</u>	<u>31,845,246</u>
Capital assets, net	<u>\$42,788,703</u>	<u>\$ 887,482</u>	<u>\$ 136,169</u>	<u>\$43,540,016</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, 2002 have been approved.

Note 4. Service Items

Service items included in the categories salaries and fees 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 expense was \$1,059,350 and \$813,376 as of August 31, 2002 and 2001, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 5. Deposits

At year end, the carrying amount of the Operation's deposits were \$458,725 and the bank balance was \$569,112. Of the bank balance, \$200,000 was covered by federal depository insurance. The remaining \$369,112 was covered by collateral held by a third party bank in the Operation's name.

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 can not be estimated at this time and could have a material effect on the financial position of the Operation.

TOLEDO BEND - JOINT OPERATION

SCHEDULE OF INSURANCE IN FORCE

FOR THE FISCAL YEAR ENDING AUGUST 31, 2002

(Policy Period June 30, 2002 Through June 30, 2003)

<u>NAME OF COMPANY</u>	<u>POLICY NO.</u>	<u>DESCRIPTION</u>	<u>LIMITS</u>
Chubb Custom Insurance Company	7952-33-50	Commercial General Liability	\$1,000,000 Each Occurrence
AEGIS Insurance Services	J0330A1A02	Excess Liability	\$35,000,000
Hartford Steam Boiler Inspection & Insurance Co.	STA 410 2164 (25%)	Property/Boiler and Machinery	\$100,000,000 P.D.
Liberty International Underwriters, Inc.	DA 106680001012 (25%)		
Zurich American Insurance Company	MCP 45500222 (25%)		
Commonwealth Insurance Company	OGP 2570 (25%)		
* (included in prop./boiler and machinery)		*Bus. Interruption * Contractor's Equipment * Watercraft Hull * Communications Equipment and Radio/Tower	\$3,000,000 B.I. (Per Schedule) (Per Schedule) (Per Schedule)
Liberty Mutual Insurance Company	AS1-641-004494-012	Auto Liability/ Physical Damage - Texas and Louisiana	\$1,000,000 Bodily Injury/Prop. Damage
Liberty Mutual Insurance Company	WC1-641-004494-022	Worker's Compensation - Texas and Louisiana	\$1,000,000/Accident \$1,000,000/Pol. 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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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, 2002, and have issued our report thereon dated October 7, 2002. 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.

Compliance

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 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 Toledo Bend - Joint Operation'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.

A material weakness is a condition in which the design or operations 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operations 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.

Broussard, Poche, Lewis & Breaux LLP

Lafayette, Louisiana
October 7, 2002

TOLEDO BEND - JOINT OPERATION
WATER SUPPLY AND HYDROELECTRIC SYSTEM FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended August 31, 2002

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, 2002, and have issued our report thereon dated October 7, 2002. 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, 2002 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

There are no financial statement findings.

Section III - Federal Award Findings and Questioned Costs

There are no findings related to major federal award programs for the year ended August 31, 2002.

TOLEDO BEND - JOINT OPERATION
WATER SUPPLY AND HYDROELECTRIC SYSTEM FUND

SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended August 31, 2002

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.