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TOWN OF SAN FELIPE, TEXAS

AUDIT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2002

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Town of San Felipe, Texas
Audit Report
For The Year Ended September 30, 2002

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Independent Auditor's Report

**Unqualified Opinion on General Purpose Financial Statements Submitted
Together with Combining and Individual Fund Financial Statements
and Supporting Schedules as Supplementary Data**

Honorable Mayor and Members of the Town Council
Town of San Felipe, Texas

I have audited the accompanying general purpose financial statements of the Town of San Felipe, Texas, as of and for the year ended September 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of San Felipe's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of San Felipe, Texas as of September 30, 2002, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 7, 2003, on my consideration of the Town of San Felipe's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 my audit.

My audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Town of San Felipe, Texas, taken as a whole. The accompanying combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information, has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,


John R. Pechacek, CPA

May 8, 2003

General Purpose Financial Statements

TOWN OF SAN FELIPE, TEXAS
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 SEPTEMBER 30, 2002

EXHIBIT A-1

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	Governmental			Totals	
	Fund Types	Account Groups		(Memorandum Only)	
	General	General Fixed Assets	Gen. Long Term Debt	September 30, 2002	September 30, 2001
ASSETS					
Cash on Hand and in Bank	\$ 5,814.46	\$ -	\$ -	\$ 5,814.46	\$ 42,121.31
Temporary Investments	1,554,640.24	-	-	1,554,640.24	1,533,408.87
Due from Other Governments	14,774.77	-	-	14,774.77	13,084.20
Fixed Assets	-	710,173.18	-	710,173.18	672,013.73
To Be Provided	-	-	32,634.33	32,634.33	32,634.33
Total Assets	1,575,229.47	710,173.18	32,634.33	2,318,036.98	2,293,262.44
LIABILITIES					
Accounts Payable	3,947.78	-	-	3,947.78	2,500.05
Payroll Deductions Payable	2,226.01	-	-	2,226.01	2,763.61
State Fine Taxes Payable	2,953.40	-	-	2,953.40	2,543.06
Bank Loan Payable-					
Current Maturity	-	-	23,001.52	23,001.52	23,001.52
Long-Term Maturity	-	-	9,632.81	9,632.81	9,632.81
Capital Lease Payable-					
Current Maturity	-	-	-	-	-
Long-Term Maturity	-	-	-	-	-
Total Liabilities	9,127.19	-	32,634.33	41,761.52	40,441.05
FUND EQUITY					
Invested in General Fixed Assets	-	710,173.18	-	710,173.18	672,013.73
Unreserved Fund Balance	1,566,102.28	-	-	1,566,102.28	1,580,807.66
Total Fund Equity	1,566,102.28	710,173.18	-	2,276,275.46	2,252,821.39
Total Liabilities and Fund Equity	\$ 1,575,229.47	\$ 710,173.18	\$ 32,634.33	\$ 2,318,036.98	\$ 2,293,262.44

(The accompanying notes are an integral part of this financial statement.)

**TOWN OF SAN FELIPE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

EXHIBIT A-2
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	Governmental	Totals
	Fund Types	Memorandum Only)
	General	September 30, 2001
REVENUES:		
Sales Tax	\$ 159,823.05	\$ 148,950.02
Alcoholic Beverage Tax	901.14	782.03
Franchise Tax	39,335.70	42,148.71
Building Permits	900.00	440.00
Fines and Forfeitures	24,918.37	26,431.75
Interest Earnings	32,557.74	79,865.15
Grazing Fees	325.00	511.00
Garbage Bag Sales	7,016.83	6,572.55
SFPD Ed. (State LEOCE)	352.92	777.49
Sale of Land	5,860.00	4,000.00
Municipal Tech Fund	1,331.66	1,284.62
Security Fund (Court)	561.60	-
Miscellaneous	2,389.41	2,599.28
Total Revenues	276,273.42	314,362.80
EXPENDITURES:		
Administrative-		
Office Supplies	3,325.71	2,213.28
Postage	902.96	871.00
Maintenance and Repair-		
Building and Grounds	519.65	2,076.04
Office Equipment	1,212.98	550.00
Telephone	5,748.56	6,773.95
Electricity	10,941.08	10,770.77
Audit Fees	2,800.00	2,800.00
Legal Fees	5,168.50	1,593.33
Election Expense	588.17	602.61
Dues and Subscriptions	911.50	292.00
Advertising	2,852.24	832.40
Travel and Training	935.59	689.68
Entertainment	1,145.46	1,088.26
Bank Charges	67.91	-
Miscellaneous Expense	16,040.98	2,349.02
Capital Outlay		2,047.50
Total Administrative	53,181.29	35,549.84
Municipal Court-		
Legal and Professional Fees	200.00	200.00
Dues and Subscriptions	34.00	101.90
Travel and Training	-	7.00
Warrant Collection Fee	135.31	-
Miscellaneous	75.07	151.13
Capital Outlay		-
Total Municipal Court	\$ 444.38	\$ 460.03

STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE
 GENERAL FUND (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2002

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EXPENDITURES (CONTINUED)	Governmental	Totals
	Fund Types	(Memorandum Only)
	General	September 30, 2001
Police Department-		
Ammunition	\$ -	\$ -
Maintenance and Repair-		
Motor Vehicles	1,508.87	2,698.70
Radios and Radar	1,760.00	433.97
Telephone	-	-
Motor Fuel and Lubricants	-	5,474.66
Wearing Apparel	438.87	846.70
Prisoner Care	125.00	125.00
Travel and Training	20.00	20.00
LEOCE Expenditures	-	-
Miscellaneous	170.95	315.48
Dues & Subscriptions	24.00	26.85
Photographic Supplies	-	-
Forensic Supplies	-	-
Lab Analysis	-	-
Capital Outlay	24,505.70	-
Debt Service - Loan Payments	6,600.00	18,826.17
Total Police Department	35,153.39	28,567.53
Streets and Drainage-		
Maintenance and Repair-		
Building and Grounds	-	-
Motor Vehicles	705.28	831.80
Equipment	3,221.50	3,482.68
Pasture Land and Fences	-	-
Telephone	-	-
Electricity	-	-
Street Lights	-	-
Garbage Bag Expenditures	3,486.72	1,328.06
Motor Fuel and Lubricants	5,308.58	4,458.49
Uniforms	472.29	713.22
Street Signs	61.95	-
Minor Tools	746.14	1,081.54
Equipment Rental	-	-
Streets and Blacktop	14,155.45	1,963.77
Drainage and Culverts	1,973.88	187.40
Ice	441.93	252.59
Solid Waste Disposal	11,007.86	10,308.51
Animal Control	391.15	531.34
Miscellaneous	1,880.32	1,685.64
Capital Outlay	18,652.75	-
Debt Service - Bank Loan	4,006.40	10,188.39
Total Streets and Drainage	\$ 66,512.20	\$ 37,013.43

TOWN OF SAN FELIPE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2001

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	<u>Governmental Fund Types</u>	<u>Totals (Memorandum Only) September 30, 2001</u>
	<u>General</u>	
EXPENDITURES (CONTINUED)		
Volunteer Fire Department-		
<i>Fire Marshall Services Contract</i>	\$ 600.00	\$ --
<i>Travel and Training</i>	--	--
<i>SF/Frydek VFD Contract</i>	--	--
<i>Total Fire Marshall</i>	<u>600.00</u>	<u>--</u>
Parks and Recreation-		
<i>Maintenance & Equipment</i>	--	--
Unallocated -		
<i>Property, Liability, and Worker Comp Ins.</i>	13,448.00	12,994.00
<i>Group Insurance</i>	17,189.40	20,566.30
<i>Temporary Help</i>	--	--
<i>Salaries and Labor</i>	135,195.02	146,050.85
<i>FICA Tax</i>	8,382.11	9,055.17
<i>Medicare Tax</i>	1,960.34	2,117.72
<i>State Unemployment Tax</i>	138.37	524.05
<i>Total Unallocated</i>	<u>176,313.24</u>	<u>191,308.09</u>
Total Expenditures	<u>332,184.50</u>	<u>292,898.92</u>
Excess (Deficit) of Revenues Over Expenditures	(55,911.08)	21,463.68
OTHER RESOURCES (USES)		
<i>Loan Proceeds</i>	<u>41,205.70</u>	<u>--</u>
Excess (Deficit) of Revenues And Other Resources Over Expenditures and Other Uses	(14,705.38)	21,463.68
FUND BALANCE, Beginning 10-1-01	<u>1,580,807.66</u>	<u>1,559,343.98</u>
FUND BALANCE, Ending 9-30-02	<u>\$ 1,566,102.28</u>	<u>\$ 1,580,807.66</u>

(The accompanying notes are an integral part of this financial statement.)

TOWN OF SAN FELIPE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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Year Ended September 30, 2002

	Budget	Actual	Variance- Favorable (Unfavorable)	Actual Sept. 30, 2001
REVENUES:				
Sales Tax	\$ 138,000	\$ 159,823.05	\$ 21,823.05	\$ 148,950.02
Alcoholic Beverage Tax	1,000	901.14	(98.86)	782.03
Franchise Tax	35,500	39,335.70	3,835.70	42,148.71
Building Permits	500	900.00	400.00	440.00
Fines and Forfeitures	28,000	24,918.37	(3,081.63)	26,431.75
Interest Earnings	80,050	32,557.74	(47,492.26)	79,865.15
Grazing Fees	500	325.00	(175.00)	511.00
Garbage Bag Sales	6,500	7,016.83	516.83	6,572.55
SFPD Ed. (State LEOCE)	500	352.92	(147.08)	777.49
Sale of Land	5,000	5,860.00	860.00	4,000.00
Sale of Equipment, etc.	500	--	(500.00)	--
Municipal Tech Fund	1,000	1,331.66	331.66	1,284.62
Miscellaneous	1,000	2,951.01	1,951.01	2,599.28
Total Revenues	298,050	276,273.42	(21,776.58)	314,362.60
EXPENDITURES:				
Administrative-				
Office Supplies	2,500	3,325.71	(825.71)	2,213.28
Postage	1,000	902.96	97.04	871.00
Maintenance and Repair-				
Building and Grounds	2,000	519.65	1,480.35	2,076.04
Office Equipment	1,000	1,212.98	(212.98)	550.00
Telephone	5,500	5,748.56	(248.56)	6,773.95
Electricity	11,000	10,941.08	58.92	10,770.77
Audit Fees	3,000	2,800.00	200.00	2,800.00
Legal Fees	5,000	5,168.50	(168.50)	1,593.33
Election Expense	600	588.17	11.83	602.61
Dues and Subscriptions	500	911.50	(411.50)	292.00
Advertising	600	2,852.24	(2,252.24)	832.40
Travel and Training	800	935.59	(135.59)	689.68
Entertainment	1,300	1,145.46	154.54	1,088.26
Bank Charges	--	67.91	(67.91)	--
Miscellaneous Expense	15,000	16,040.98	(1,040.98)	2,349.02
Capital Outlay	--	--	--	2,047.50
Total Administrative	49,800	53,161.29	(3,361.29)	35,549.84
Municipal Court-				
Legal and Professional Fees	1,200	200.00	1,000.00	200.00
Dues and Subscriptions	100	34.00	66.00	101.90
Travel and Training	400	--	400.00	7.00
Miscellaneous	200	75.07	124.93	151.13
Warrant Collection Fee	500	135.31	364.69	--
Total Municipal Court	\$ 2,400	\$ 444.38	\$ 1,955.62	\$ 460.03

TOWN OF SAN FELIPE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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Year Ended September 30, 2002

EXPENDITURES (CONTINUED)	Budget	Actual	Variance- Favorable (Unfavorable)	Actual Sept. 30, 2000
Police Department-				
<i>Ammunition</i>	\$ 50	\$ -	\$ 50.00	\$ -
<i>Maintenance and Repair-</i>				
<i>Motor Vehicles</i>	2,000	1,508.87	491.13	2,698.70
<i>Radios and Radar</i>	2,000	1,760.00	240.00	433.97
<i>Telephone</i>			-	-
<i>Motor Fuel and Lubricants</i>			-	5,474.66
<i>Wearing Apparel</i>	400	438.87	(38.87)	846.70
<i>Prisoner Care</i>	500	125.00	375.00	125.00
<i>Travel and Training</i>	300	20.00	280.00	20.00
<i>LEOCE Expenditures</i>	150	-	150.00	-
<i>Miscellaneous</i>	500	170.95	329.05	315.48
<i>Dues & Subscriptions</i>	50	24.00	26.00	26.85
<i>Photographic Supplies</i>	50	-	50.00	-
<i>Forensic Supplies</i>	50	-	50.00	-
<i>Lab Analysis</i>	50	-	50.00	-
<i>Capital Outlay</i>	-	24,505.70	(24,505.70)	-
<i>Debt Service - Loan Payments</i>	6,600	6,600.00	-	18,626.17
Total Police Department	12,700	35,153.39	(22,453.39)	28,567.53
Streets and Drainage-				
<i>Maintenance and Repair-</i>				
<i>Building and Grounds</i>	300	-	300.00	-
<i>Motor Vehicles</i>	1,000	705.28	294.72	831.80
<i>Heavy Equipment</i>	3,000	3,221.50	(221.50)	3,482.68
<i>Pasture Land and Fences</i>	500	-	500.00	-
<i>Telephone</i>	-	-	-	-
<i>Electricity</i>	-	-	-	-
<i>Street Lights</i>	-	-	-	-
<i>Garbage Bag Expenditures</i>	1,500	3,486.72	(1,986.72)	1,328.06
<i>Motor Fuel and Lubricants</i>	9,000	5,308.58	3,691.42	4,458.49
<i>Uniforms</i>	750	472.29	277.71	713.22
<i>Street Signs</i>	2,000	61.95	1,938.05	-
<i>Minor Tools</i>	800	746.14	53.86	1,081.54
<i>Equipment Rental</i>	800	-	800.00	-
<i>Streets and Blacktop</i>	14,000	14,155.45	(155.45)	1,963.77
<i>Drainage and Culverts</i>	1,000	1,973.88	(973.88)	187.40
<i>Ice</i>	750	441.93	303.07	252.59
<i>Solid Waste Disposal</i>	8,000	11,007.86	(3,007.86)	10,308.51
<i>Animal Control</i>	400	391.15	8.85	531.34
<i>Miscellaneous</i>	1,000	1,880.32	(880.32)	1,685.64
<i>Capital Outlay</i>	-	18,652.75	(18,652.75)	-
<i>Debt Service - Bank Loan</i>	6,000	4,006.40	1,993.60	10,188.39
Total Streets and Drainage	\$ 50,800	\$ 66,512.20	\$ (15,712.20)	\$ 37,013.43

TOWN OF SAN FELIPE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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Year Ended September 30, 2002

	Budget	Actual	Variance- Favorable (Unfavorable)	Actual Sept. 30, 2001
EXPENDITURES (CONTINUED)				
Volunteer Fire Department-				
<i>Fire Marshall Services Contract</i>	\$ 600	\$ 600.00	\$ --	\$ --
<i>Travel and Training</i>	200	--	200.00	--
<i>SF/Frydek VFD Contract</i>	--	--	--	--
Total Fire Marshall	<u>800</u>	<u>600.00</u>	<u>200.00</u>	<u>--</u>
Parks and Recreation-				
<i>Maintenance & Equipment</i>	2,500	--	2,500.00	--
Unallocated -				
<i>Property, Liability, and Worker Comp Ins.</i>	16,300	13,448.00	2,852.00	12,994.00
<i>Group Insurance</i>	20,500	17,189.40	3,310.60	20,566.30
<i>Temporary Help</i>	2,000	--	2,000.00	--
<i>Salaries and Labor</i>	160,000	135,195.02	24,804.98	146,050.85
<i>FICA Tax</i>	9,900	8,382.11	1,517.89	9,055.17
<i>Medicare Tax</i>	2,500	1,960.34	539.66	2,117.72
<i>State Unemployment Tax</i>	1,500	138.37	1,361.63	524.05
Total Unallocated	<u>212,700</u>	<u>176,313.24</u>	<u>36,386.76</u>	<u>191,308.09</u>
Total Expenditures	<u>331,700</u>	<u>332,184.50</u>	<u>(484.50)</u>	<u>292,898.92</u>
Excess (Deficit) of Revenues Over Expenditures	\$ <u>(33,650)</u>	<u>(55,911.08)</u>	\$ <u>(22,261.08)</u>	<u>21,463.68</u>
OTHER RESOURCES (USES)				
<i>Loan Proceeds</i>		41,205.70		--
Excess (Deficit) of Revenues And Other Resources Over Expenditures and Other Uses		<u>(14,705.38)</u>		<u>21,463.68</u>
FUND BALANCE, Beginning 10-1-01		<u>1,580,807.66</u>		<u>1,559,343.98</u>
FUND BALANCE, Ending 9-30-02		\$ <u>1,566,102.28</u>		\$ <u>1,580,807.66</u>

(The accompanying notes are an integral part of this financial statement.)

**TOWN OF SAN FELIPE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

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A. Reporting Entity

The Town Council, a six member group comprised of the Mayor and five aldermen, has governance responsibilities as permitted by the general laws of the State of Texas over all municipal activities within the legal boundaries of the Town of San Felipe, Texas. The Town Council also exercises certain governance responsibilities as permitted by the general laws of the State of Texas over the area surrounding the Town generally known as the "extra territorial jurisdiction". Because members of the Town Council are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters; the Town is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

Since the Town receives funding from local and, at times, state and federal sources, it must comply with the requirements of the entities providing those funds.

B. Summary of Significant Accounting Policies

The accounting policies of the Town of San Felipe, Texas conform to generally accepted accounting principles applicable to state and local governmental units. Following is a summary of the more significant policies:

1) Accounting Year

The Town operates on a fiscal year beginning October 1, and ending on September 30.

2) Fund Accounting

The accounts of the Town are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report, into one broad fund category and two generic account groups as follows:

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

ACCOUNT GROUPS

General Fixed Asset Account Group - The General Fixed Asset Account Group is used to account for fixed assets used in the general operation of the Town. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, and lighting systems are not capitalized as are other general fixed assets. No depreciation has been provided on general fixed assets. Fixed assets are recorded at historical cost or estimated market value at the date acquired by the Town.

TOWN OF SAN FELIPE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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B. Summary of Significant Accounting Policies (Continued)

2) Fund Accounting (continued)

ACCOUNTS GROUPS (Continued)

General Long Term Debt Account Group - The General Long Term Debt Account Group is used to account for liabilities expected to be financed from governmental funds. Net debt liability (debt less reserves for debt retirement) is offset by a provision for future income to be provided.

3) Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The accounting and reporting treatment applied to the fixed assets and long term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (assets minus liabilities) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financial resources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during an accounting period.

All Governmental Funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reduction of revenue when they are measurable and their validity seem certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which is recognized when due.

4) Fixed Assets and Long-Term Liabilities

Fixed assets used in governmental fund type operation (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized as are other general fixed assets. No depreciation has been provided on general fixed assets.

TOWN OF SAN FELIPE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

B. Summary of Significant Accounting Policies (Continued)

4) Fixed Assets and Long-Term Liabilities (continued) -

All fixed assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

The account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the General Long-Term Debt Account Group.

5) Investments

Investments are stated at cost.

6) Budgets and Budgetary Accounting

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

a) Budgets for all funds are prepared by the Town's administrative staff, reviewed and legally adopted by the Town Council after appropriate public hearings as required by State law. The budget was not amended during the year to reflect changes in operating conditions.

b) Budgets are utilized as an overall guide to expenditures, but budgetary limitations are not strictly enforced. Routine monthly budget to actual comparison statements are prepared and presented to the Town Council.

c) The combined and individual Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual for the governmental fund types present comparisons of legally adopted budgets with actual data on a budgetary basis.

d) Unused appropriations, if any, for governmental fund types which are budgeted annually, lapse at the end of the fiscal year.

7) Inventory

The Town follows the practice of charging to the appropriate expenditure accounts the cost of goods and services when received.

TOWN OF SAN FELIPE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

15

B. Summary of Significant Accounting Policies (Continued)

8) Memorandum Totals

Totals captioned "Memorandum Only" are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

C. Ad Valorem Property Taxes

The Town is permitted by State statute to levy taxes up to \$1.50 per \$100 of assessed value for general governmental services other than for the payment of general obligation principal and interest on debt issues approved by the electorate of the Town.

During the year ended September 30, 2002, the Town did not levy any ad valorem property tax and had no unpaid ad valorem property tax outstanding as of September 30, 2002.

D. Cash and Investments

During the year under audit, the Town had demand cash deposits with one commercial financial institution. The Town's deposits at this financial institution were properly secured by FDIC insurance at all times during the year ended and at September 30, 2002.

In addition, the following information is disclosed regarding coverage of combined balances on the date of the highest deposit:

- 1) Name of Bank First State Bank of Texas
Bellville, Texas
- 2) Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ -0-.
- 3) Largest cash, savings and time deposit combined account balance amounted to \$52,741.73 and occurred during the month of October, 2001.
- 4) Total amount of FDIC coverage at the time of largest combined balance was \$52,741.73.

Cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Deposits which are insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 - Deposits which are not collateralized.

Based on these three levels of risk, all of the Town's cash deposits are classified at category 1.

TOWN OF SAN FELIPE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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D. Cash and Investments (Continued)

Temporary Investments

The Town is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar - weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and, (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the Town adhered to the requirements of the Act. Additionally, investment practices of the Town were in accordance with local policies.

Statutes authorize the Town to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The Town's investments are categorized to give an indication of the level of risk assumed by the Town at year end. These custodial risk categories are as follows:

- Category 1 - Investments that are insured, registered or held by the Town or by its agent in the Town's name.
- Category 2 - Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the Town's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the Town's name.

The Town's investments at September 30, 2002, are shown below. Those investments which are evidenced by securities that exist in physical or book entry form are categorized by the custodial risk categories described above.

<u>Category</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Public Pools		
Texpool	\$ 1,528,673	\$ 1,528,673
Total Investments	<u>\$ 1,528,673</u>	<u>\$ 1,528,673</u>

E. Interfund Receivables and Payables

The Town had no interfund receivables or payables at September 30, 2002.

(17)

**TOWN OF SAN FELIPE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

F. Loans

During the year ended the Town issued two bank notes for the acquisition of a police car and a truck for the street department. The police car note bears interest at the rate of 5.50% with twelve monthly payments of \$600 with the final payoff due on November 23, 2002 in the amount of \$18,804.53. The truck note bears interest at the rate of 7.00% with 47 monthly installments of \$400.64 and a final installment of \$400.60.

As of September 30, 2002, the Town had the following future debt service requirements:

Year Ending Sept. 30	Principal	Interest	Total
2003	\$ 23,002	\$ 1,059	\$ 24,061
2004	4,261	546	4,808
2005	4,574	234	4,808
Thereafter	798	7	805
Total	\$ 32,634	\$ 1,847	\$ 34,481

G. Changes in Long Term Debt

	Balance 10-1-01	Issued	Retired	Balance 9-30-02
Loans	\$ -	\$ 41,206	\$ 8,571	\$ 32,634

H. Restricted Cash and Investments

The Town had no restricted cash or investments at September 30, 2002.

I. Receivable From Other Governments

Amounts due from other governments at September 30, 2002, and 2001, include the following:

	Sept. 30, 2002	Sept. 30, 2001
State of Texas, Comptroller of Public Accounts -		
City Sales Tax	\$ 14,578	\$ 12,888
Alcoholic Beverage Tax	197	196
	\$ 14,775	\$ 13,084

J. Litigation

The Town was not involved in litigation at September 30, 2002.

**TOWN OF SAN FELIPE, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2002**

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K. Contingent Liabilities

Our audit did not reveal the existence of unrecorded contingent liabilities as of September 30, 2002.

L. Changes in General Fixed Assets

During the year ended September 30, 2002, the following changes occurred in the Town's general fixed asset account group:

	Balance 10-01-01	Additions	Deletions	Balance 09-30-02
Land & Improvement	\$ 21,405	-	-	\$ 21,405
Buildings	265,480	-	-	265,480
Other Improvements	111,116	-	-	111,116
Furniture & Equipment	274,012	43,158	4,999	312,171
Total	\$ 672,014	\$ 43,158	\$ -	\$ 710,173

M. Accumulated Unpaid Vacation and Sick Leave Benefits

The Town had no material unbudgeted liability for accumulated unpaid vacation and sick leave benefits at September 30, 2002.

N. Pension Plan

The Town did not provide a pension plan to its employees during the year ended September 30, 2002.

O. Health Insurance

During the year ended September 30, 2002, employees of the Town were covered by a health insurance plan (The Plan). The Town paid the monthly premium for employees and, at their option, authorized payroll withholdings to pay premiums for dependent coverage. All premiums were paid to a licensed insurer. The plan was authorized by Article 3.51-2 of the Texas Insurance Code and the terms of coverage and premium costs are included in the contractual provisions.

The contract between the Town of San Felipe, Texas, and Humana Health Care was renewable October 1, 2002. The organization's financial statements are filed with the Texas State Board of Insurance, Austin, Texas and are public records.

Individual Fund Financial Statements

**TOWN OF SAN FELIPE, TEXAS
BALANCE SHEET - GENERAL FUND
SEPTEMBER 30, 2002**

EXHIBIT B-1

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	<u>September 30, 2002</u>	<u>September 30, 2001</u>
<u>ASSETS</u>		
Cash on Hand	\$ 100.00	\$ 100.00
Cash in Bank	5,714.46	42,021.31
Temporary Investments	1,554,640.24	1,533,408.87
Taxes Receivable	14,774.77	13,084.20
	<hr/>	<hr/>
Total Assets	1,575,229.47	1,588,614.38
<u>LIABILITIES</u>		
Accounts Payable	3,947.78	2,500.05
Payroll Deductions Payable	2,226.01	2,763.61
State Fine Taxes Payable	2,953.40	2,543.06
	<hr/>	<hr/>
Total Liabilities	9,127.19	7,806.72
<u>FUND EQUITY</u>		
Unreserved Fund Balance	1,566,102.28	1,580,807.66
	<hr/>	<hr/>
Total Liabilities and Fund Equity	\$ 1,575,229.47	\$ 1,588,614.38

(The accompanying notes are an integral part of this financial statement.)

TOWN OF SAN FELIPE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2002

EXHIBIT B-2
Page 1 of 3

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Year Ended September 30, 2002

	Budget	Actual	Variance- Favorable (Unfavorable)	Actual Sept 30, 2001
REVENUES:				
Sales Tax	\$ 138,000	\$ 159,823.05	\$ 21,823.05	\$ 148,950.02
Alcoholic Beverage Tax	1,000	901.14	(98.86)	782.03
Franchise Tax	35,500	39,335.70	3,835.70	42,148.71
Building Permits	500	900.00	400.00	440.00
Fines and Forfeitures	28,000	24,918.37	(3,081.63)	26,431.75
Interest Earnings	80,050	32,557.74	(47,492.26)	79,865.15
Grazing Fees	500	325.00	(175.00)	511.00
Garbage Bag Sales	6,500	7,016.83	516.83	6,572.55
SFPD Ed. (State LEOCE)	500	352.92	(147.08)	777.49
Sale of Land	5,000	5,860.00	860.00	4,000.00
Sale of Equipment, etc.	500	-	(500.00)	-
Municipal Tech Fund	1,000	1,331.66	331.66	1,284.62
Miscellaneous	1,000	2,951.01	1,951.01	2,599.28
Total Revenues	298,050	276,273.42	(21,776.58)	314,362.60
EXPENDITURES:				
Administrative-				
Office Supplies	2,500	3,325.71	(825.71)	2,213.28
Postage	1,000	902.96	97.04	871.00
Maintenance and Repair-				
Building and Grounds	2,000	519.65	1,480.35	2,076.04
Office Equipment	1,000	1,212.98	(212.98)	550.00
Telephone	5,500	5,748.56	(248.56)	6,773.95
Electricity	11,000	10,941.08	58.92	10,770.77
Audit Fees	3,000	2,800.00	200.00	2,800.00
Legal Fees	5,000	5,168.50	(168.50)	1,593.33
Election Expense	600	588.17	11.83	602.61
Dues and Subscriptions	500	911.50	(411.50)	292.00
Advertising	600	2,852.24	(2,252.24)	832.40
Travel and Training	800	935.59	(135.59)	689.68
Entertainment	1,300	1,145.46	154.54	1,088.26
Bank Charges	-	67.91	(67.91)	-
Miscellaneous Expense	15,000	16,040.98	(1,040.98)	2,349.02
Capital Outlay	-	-	-	2,047.50
Total Administrative	49,800	53,161.29	(3,361.29)	35,549.84
Municipal Court-				
Legal and Professional Fees	1,200	200.00	1,000.00	200.00
Dues and Subscriptions	100	34.00	66.00	101.90
Travel and Training	400	-	400.00	7.00
Miscellaneous	200	75.07	124.93	151.13
Warrant Collection Fee	500	135.31	364.69	-
Total Municipal Court	\$ 2,400	\$ 444.38	\$ 1,955.62	\$ 460.03

TOWN OF SAN FELIPE, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
 GENERAL FUND (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2002

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EXPENDITURES (CONTINUED)	Year Ended September 30, 2002			
	Budget	Actual	Variance-Favorable (Unfavorable)	Actual Sept. 30, 2000
Police Department-				
Ammunition	\$ 50	\$ —	\$ 50.00	\$ —
Maintenance and Repair-				
Motor Vehicles	2,000	1,508.87	491.13	2,698.70
Radios and Radar	2,000	1,760.00	240.00	433.97
Telephone				
Motor Fuel and Lubricants				
Wearing Apparel	400	438.87	(38.87)	5,474.66
Prisoner Care	500	125.00	375.00	846.70
Travel and Training	300	20.00	280.00	125.00
LEOCE Expenditures	150	—	150.00	20.00
Miscellaneous	500	170.95	329.05	—
Dues & Subscriptions	50	24.00	26.00	315.48
Photographic Supplies	50	—	50.00	26.85
Forensic Supplies	50	—	50.00	—
Lab Analysis	50	—	50.00	—
Capital Outlay	—	24,505.70	(24,505.70)	—
Debt Service - Loan Payments	6,600	6,600.00	—	18,626.17
Total Police Department	12,700	35,153.39	(22,453.39)	28,567.53
Streets and Drainage-				
Maintenance and Repair-				
Building and Grounds	300	—	300.00	—
Motor Vehicles	1,000	705.28	294.72	831.80
Heavy Equipment	3,000	3,221.50	(221.50)	3,482.68
Pasture Land and Fences	500	—	500.00	—
Telephone	—	—	—	—
Electricity	—	—	—	—
Street Lights	—	—	—	—
Garbage Bag Expenditures	1,500	3,486.72	(1,986.72)	1,328.06
Motor Fuel and Lubricants	9,000	5,308.58	3,691.42	4,458.49
Uniforms	750	472.29	277.71	713.22
Street Signs	2,000	61.95	1,938.05	—
Minor Tools	800	746.14	53.86	1,081.54
Equipment Rental	800	—	800.00	—
Streets and Blacktop	14,000	14,155.45	(155.45)	1,963.77
Drainage and Culverts	1,000	1,973.88	(973.88)	187.40
Ice	750	441.93	308.07	252.59
Solid Waste Disposal	8,000	11,007.86	(3,007.86)	10,308.51
Animal Control	400	391.15	8.85	531.34
Miscellaneous	1,000	1,880.32	(880.32)	1,685.64
Capital Outlay	—	18,652.75	(18,652.75)	—
Debt Service - Bank Loan	6,000	4,006.40	1,993.60	10,188.39
Total Streets and Drainage	\$ 50,800	\$ 66,512.20	\$ (15,712.20)	\$ 37,013.43

TOWN OF SAN FELIPE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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	Year Ended September 30, 2002			
	Budget	Actual	Variance- Favorable (Unfavorable)	Actual Sept 30, 2001
EXPENDITURES (CONTINUED)				
Volunteer Fire Department-				
Fire Marshall Services Contract	\$ 600	\$ 600.00	\$ -	\$ -
Travel and Training	200	-	200.00	-
SF/Frydek VFD Contract	-	-	-	-
Total Fire Marshall	<u>800</u>	<u>600.00</u>	<u>200.00</u>	<u>-</u>
Parks and Recreation-				
Maintenance & Equipment	2,500	-	2,500.00	-
Unallocated -				
Property, Liability, and Worker Comp Ins.	16,300	13,448.00	2,852.00	12,994.00
Group Insurance	20,500	17,189.40	3,310.60	20,566.30
Temporary Help	2,000	-	2,000.00	-
Salaries and Labor	160,000	135,195.02	24,804.98	146,050.85
FICA Tax	9,900	8,382.11	1,517.89	9,055.17
Medicare Tax	2,500	1,960.34	539.66	2,117.72
State Unemployment Tax	1,500	138.37	1,361.63	524.05
Total Unallocated	<u>212,700</u>	<u>176,313.24</u>	<u>36,386.76</u>	<u>191,308.09</u>
Total Expenditures	<u>331,700</u>	<u>332,184.50</u>	<u>(484.50)</u>	<u>292,898.92</u>
Excess (Deficit) of Revenues Over Expenditures	<u>\$ (33,650)</u>	<u>(55,911.08)</u>	<u>\$ (22,261.08)</u>	<u>21,463.68</u>
OTHER RESOURCES (USES)				
Loan Proceeds		41,205.70		-
Excess (Deficit) of Revenues And Other Resources Over Expenditures and Other Uses		<u>(14,705.38)</u>		<u>21,463.68</u>
FUND BALANCE, Beginning 10-1-01		1,580,807.66		1,559,343.98
FUND BALANCE, Ending 9-30-02		<u>\$ 1,566,102.28</u>		<u>\$ 1,580,807.66</u>

(The accompanying notes are an integral part of this financial statement.)

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Additional Information

JOHN R. PECHACEK
Certified Public Accountant
P.O. Box 549 - Bellville, Texas - 77418-0549
979-865-3169

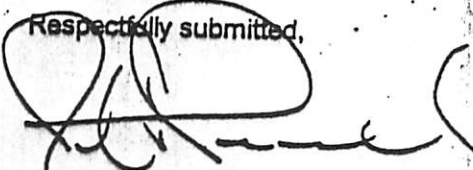
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Independent Auditor's Report
On Additional Information

Honorable Mayor and Members of the Town Council
Town of San Felipe, Texas

My report on my audit of the basic financial statements of the Town of San Felipe, Texas appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information shown on the Table of Contents as "Additional Information" is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,



John R. Pechacek, CPA

May 6, 2003

TOWN OF SAN FELIPE, TEXAS
SCHEDULE OF LOANS
FOR THE YEAR ENDED SEPTEMBER 30, 2002

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Date of Issue	Purpose And Payable To	Interest Rate	(Terms) Maturity Schedule	Amount of Original Loan	Amount Outstanding 10-1-01	Current Year Transactions	
						Issued	Retired
11-01-01	Bank Loan- Truck (Street) Wells Fargo Bank	7.00%	47 Months @\$400.64 1 Month @\$400.60	\$ 16,700.00	\$ -	\$ 16,700.00	\$ 3,096.94
10-24-01	Bank Loan- Police Car Wells Fargo Bank	5.50%	12 Months @\$600 1 Month @18,604.53	24,505.70	-	24,505.70	5,474.43
				<u>\$ 41,205.70</u>	<u>\$ -</u>	<u>\$ 41,205.70</u>	<u>\$ 8,571.37</u>

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Amount Outstanding 09-30-02	Interest Paid-Current Year	Annual Requirements				Interest 10-01-04 To Maturity
		Year Ending 9-30-03		Year Ending 9-30-04		
		Principal	Interest	Principal	Interest	
\$ 13,603.06	\$ 909.46	\$ 3,970.25	\$ 837.43	\$ 4,261.30	\$ 546.38	\$ 241.09
<u>19,031.27</u>	<u>1,125.57</u>	<u>19,031.27</u>	<u>222.00</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 32,634.33</u>	<u>\$ 2,035.03</u>	<u>\$ 23,001.52</u>	<u>\$ 1,059.43</u>	<u>\$ 4,261.30</u>	<u>\$ 546.38</u>	<u>\$ 241.09</u>

**TOWN OF SAN FELIPE, TEXAS
ANALYSIS OF CHANGES IN GENERAL FIXED ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

EXHIBIT C-2

(28)

	Balance October 1, 2001	Additions	Deletions	Balance September 30, 2002
General Fixed Assets:				
Land and Improvements	\$ 21,405.00	\$ -	\$ -	\$ 21,405.00
Buildings	265,480.33	-	-	265,480.33
Other Improvements	111,116.48	-	-	111,116.48
Furniture, Fixtures and Equipment	274,011.92	43,158.45	4,999.00	312,171.37
Total General Fixed Assets	672,013.73	43,158.45	4,999.00	710,173.18
Investment in General Fixed Assets From:				
General Fund Revenues	607,244.30	43,158.45	4,999.00	645,403.75
Private Gifts	7,815.67	-	-	7,815.67
Federal Grants	32,703.76	-	-	32,703.76
State Grants	24,250.00	-	-	24,250.00
Total Investment in General Fixed Assets	672,013.73	43,158.45	4,999.00	710,173.18

**TOWN OF SAN FELIPE, TEXAS
SCHEDULE OF INSURANCE COVERAGE
SEPTEMBER 30, 2002**

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<u>Type of Coverage</u>	<u>Policy Dates</u>	
	<u>From</u>	<u>To</u>
General Liability - Limits of Liability Sudden Events Involving Pollution	10-01-01	10-01-02
Automobile Liability - Limits of Liability Auto Medical Payment	10-01-01	10-01-02
Errors and Omissions Liability - Limits of Liability	10-01-01	10-01-02
Law Enforcement Liability Limits of Liability	10-01-01	10-01-02
Fire, Lightning and Extended Coverage- Real and Personal Property	10-01-01	10-01-02
Auto Physical Damage	10-01-01	10-01-02
Mobile Equipment	10-01-01	10-01-02
Boiler & Machinery	10-01-01	10-01-02
Other- Worker's Compensation	10-01-01	10-01-02
Public Employee Dishonesty	10-01-01	10-01-02

<u>Amount of Coverage</u>	<u>Name</u>	<u>Type of Corporation</u>	<u>Policy Clause Co-Insurance</u>
\$1,000,000 Each Occurrence \$1,000,000 Each Occurrence \$2,000,000 Annual Aggregate/No Deductible	Texas Municipal League	Risk Pool	No
\$1,000,000 Each Occurrence / No Deductible \$25,000 Each Person	Texas Municipal League	Risk Pool	No
\$500,000 Each Wrongful Act \$1,000,000 Annual Aggregate / \$1,000 Deductible	Texas Municipal League	Risk Pool	No
\$1,000,000 Each Occurrence \$2,000,000 Annual Aggregate/\$1,000 Deductible	Texas Municipal League	Risk Pool	No
\$745,805 / \$1,000 Deductible	Texas Municipal League	Risk Pool	No
ACV / \$1,000 Deductible Per Vehicle	Texas Municipal League	Risk Pool	No
\$99,974 / \$1,000 Deductible	Texas Municipal League	Risk Pool	No
\$100,000 Per Accident Limit \$1,000 Deductible	Texas Municipal League	Risk Pool	No
Statutory	Texas Municipal League	Risk Pool	No
\$50,000 Each Occurrence/No Deductible	Texas Municipal League	Risk Pool	No

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Overall Compliance and Internal Controls Section

JOHN R. PECHACEK
Certified Public Accountant
P.O. Box 549 - Bellville, Texas - 77418-0549
979-865-3169

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Independent Auditor's Report

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Mayor and Members of the Town Council
Town of San Felipe, Texas

I have audited the financial statements of the Town of San Felipe, Texas as of and for the year ended September 30, 2002, and have issued my report thereon dated May 6, 2003. I conducted my 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 Town of San Felipe, Texas' financial statements are free of material misstatement, I performed tests of the Town of San Felipe, Texas' compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 02-01.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of San Felipe, Texas' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My 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. I noted no matters involving the internal control over financial reporting and its operation that I considered to be material weaknesses.

This report is intended for the information of the Mayor and Council, management, and appropriate state and federal agencies and is not intended to be and should not be used by anyone other than those specified parties.

Respectfully submitted,


John R. Pechacek, CPA

May 6, 2003

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**TOWN OF SAN FELIX, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

A. Summary of Auditor's Results

An unqualified opinion was issued on the general purpose financial statements.
The audit disclosed no non-compliance which is material to the general purpose financial statements.
The Town did not meet the criteria to be considered a "Single Audit" auditee in the context of OMB Circular A-13

B. Findings relating to the Financial Statements which are required to be reported in accordance with Generally Accepted Governmental Auditing Standards

<u>Reference #</u>	<u>Findings / Noncompliance</u>	<u>Questioned Cost</u>
02-01	Unfavorable Budget Variances	\$ -

C. Statement of Corrective Action Planned - Current Year Disclosures

Overexpenditure of budgeted amounts in the Police and Street departments were due to the acquisition of vehicles with loan proceeds and the application of appropriate accounting treatments for loan transactions. The Town only budgeted for the principal and interest necessary for current year obligations. Accounting guidelines require the recording of the entire asset cost during the year of acquisition for those assets purchased through loan or lease agreements. Town personnel will take this into consideration when budgeting in future periods.

D. Statement of Corrective Action Taken - Prior Year Disclosures

The Town did not have any prior year disclosures.

**TOWN OF SAN FELIPE, TEXAS
ELECTED AND ADMINISTRATIVE OFFICIALS
FOR THE YEAR ENDED SEPTEMBER 30, 2002**

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TOWN COUNCIL:

Bobby Byars
Curtis Brenner
Robert Bradshaw
David Ellis
Alfred Hall
David Melton

Mayor
Mayor Pro Tem
Alderman
Alderman
Alderman
Alderman

ADMINISTRATIVE OFFICIALS:

Sue Foley
Joe Burttschelle
Malcom Carter

Town Secretary / Court Clerk
Municipal Court Judge
Chief of Police